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Development of SME in ASEAN with Reference to Indonesia and Thailand

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Abstract

This paper aims to examine the recent development of small and medium enterprises (SMEs), their experiences during the 1997/98 Asian financial crisis, and their main constraints in member countries of the Association of Southeast Asian Nations (ASEAN) with special reference to Indonesia and Thailand. Although information/data on SMEs in some member countries are limited, the paper concludes with three important findings. First, SMEs are of overwhelming importance in ASEAN countries, especially for employment or income generation. Second, although the SMEs experiences during the 1997/98 crisis were different between countries, the assumption that the SMEs in general weather a crisis as in 1997/98 better than their larger counterparts cannot be verified. Third, the situation for SMEs with respect to the main constraints is more or less similar between countries, namely, they lack technical and managerial capabilities, access to greater markets, access to finance, skilled workers, and lack of access to information which is vital to business.

Keywords: SMEs, ASEAN, Indonesia, Thailand, Economic Crisis

1. Introduction

1.1 Background

From a worldwide perspective, it has been recognized that Small and Medium Enterprises (SMEs) play a vital role in economic development, as they have been the primary source of job/employment creation and output growth, not only in developing but also in developed countries. In Piper's (1997) dissertation, for instance, it states that 12 million or about 63.2% of the total labor force in the United States work in 350,000 firms employing less than 500 employees, which are considered as SMEs. According to Aharoni (1994), SMEs make up more than 99% of all business entities and employ more than 80% of the total workforce in this country. These enterprises, often called foundation enterprises, are the core of the US industrial base (Piper, 1997). SMEs are also important in many European countries. For example, in the Netherlands, they account for 95% or more of total business establishments (Bijmolt and Zwart, 1994). As in the US, also in other industrialized/OECD countries such as Japan, Australia, Germany, French and Canada, SMEs are an important engine of economic growth and technological progress (Thornburg, 1993).

In developing countries, SMEs also have a crucial role to play because of their potential contribution to improvement of income distribution, employment creation, poverty reduction, export growth and the development of entrepreneurship, industry and the rural economy. According to Levy et al. (1999), there is no doubt that the performance of SMEs is extremely important for the economic development of most less-developed countries. For this reason, the governments in these countries have been supporting SMEs extensively through many programs, with subsidized credit schemes as the most important component. International institutes such as the World Bank (WB) and the United Nation Industry and Development Organization (UNIDO) and many donor countries through bilateral co-operations have also done a great deal financially as well as technically, in empowering SMEs in developing countries.

In developing Asia (including ASEAN), SMEs have made significant contributions over the years measured in terms of their share in: (a) number of enterprises; (b) employment; (c) production and value added; (d) GDP; (e) enterprises set up by women entrepreneurs; and (f) regional dispersal of industry, among others. The contribution of SMEs is vital in as much as they, by and large: (a) make up 80-90% of all enterprises; (b) provide over 60% of the private sector jobs; (c) generate 50-80% of total employment; (d) contribute about 50% of sales or value added; (e) share about 30% of direct total exports (Narain, 2003).

1.2 Definition

The definition and concept of SMEs vary among member countries. There is no common agreement on what distinguishes a microenterprise (MIE) from a small enterprise (SE), a SE from a medium enterprise (ME), and a ME from a large enterprise (LE). In general, however, a MIE employs less than five full-time equivalent employees; a SE is a firm with 5 to 19 workers in Indonesia and more than that in many other member countries; and a ME may range from 20 to 50 employees or more. Moreover, definitions and concepts used for statistical purposes can vary from those used for policy or program purposes (for example, to determine eligibility for special assistance). All but a few member countries have a definition for SMEs for statistical purposes. Many member countries also have definitions for policy purposes, and to complicate matters further, these definitions often differ from the definition used for statistical purposes, and differ by industry and policy programs.

As shown in Table 1, the number of employees is the most common measure to distinguish between small, medium and large-sized enterprises. However, many member countries also use a monetary measure such as initial investment, including or excluding land and building, annual sales or turnover, or production capacity to define SMEs.[1] Even with the number employed, there is considerable diversity between member countries.

Table 1 Main Elements of SMEs' Definitions in the ASEAN Member Countries

Country/Economy	Employee[1)]	Capital	Fixed assets	Sales	Production capacity
Brunei Darussalam	99	-	-	-	-
Indonesia	100	-	+[2)]	+	-
Malaysia	150	-	-	+	-
Philippines	199	-	-	+	-
Singapore	199	-	+	-	-
Thailand	200	+	+	-	-
Viet Nam	200	+	-	-	-
Myanmar	<200[4)]	+	-	-	+[3)]
Cambodia	<200	-	-	-	-
Lao PDR	99	-	+	-	-

Note: 1) Figures indicate the maximum number of employees in a firm defined as a MSME; 2) "+"as an element of the definition; 3) production value; 4) depends on sector.

Source: APEC (2003); except Myanmar, Cambodia, and Lao PDR: UNESCAP (2004).

[1] It would be a relatively simple matter to compile information on SMEs in a standard format and definition, since data on SMEs have usually been collected in a way that permits this. However, official reports on SMEs in a majority of member countries have failed to put a high priority on doing so.

What constitutes an SME also varies widely between member countries. SMEs may range from a part-time business with no hired workers or a non-employing unincorporated business, often called self-employed units, such as traditional business units making and selling handicrafts in rural Java in Indonesia, to a small-scale semiconductor manufacturers employing more than 10 people in Singapore. They may range from fast growing firms, to private family firms that have not changed much for decades or remain stagnated. They range from enterprises, which are independent businesses, to those, which are inextricably part of a large company, such as those, which are part of an international subcontracting network. The only true common characteristic of SMEs is that they are "not-large"; that is, whether a firm is really a SME or not is relative.

Most enterprises that form this SME category are actually very small and about 70% to 80% of them employ less than five people. There are only a very small percentage of firms, typically ranging from about 1% to 4%, which have more than 100 employees. Unfortunately, there is no consistent definition of a MIE among countries.

As presented in Table 2, some member countries have definitions on MIEs, and most of these use five employees as a cut off. In practice, most MIEs are likely to be non-employing in that they do not actually employ anyone, however, they do create jobs and income, even if only part-time jobs, for entrepreneurs. These MIEs make up the great majority of enterprises, usually comprising around 60% to 80% of all business establishments. Their contribution to employment is usually disproportionately small, and they typically contribute only about 10% to 40% of available jobs. However, as stated in the report, the role of MIEs in creating jobs tends to be greater in the future in some countries, whereby they provide a higher proportion of jobs, or where they create job opportunities that would not otherwise be available.

Table 2 Full Definitions of SME in ASEAN Member Countries

Member country	Employee	Annual Sales/turnover	Fixed assets	Invested Capital[a]
Brunei Darussalam [1]				
MIE	0-5			
SE	6-50			
ME	51-100			
Indonesia [2]				
a) MIE -manufacturing, trade & service	0-4			
SE - -„-	5-19			
ME - -„-	20-99	<US$5m	< US$ 1m	
b) SE - -„-		<US$100,000	<US$200,000 [(3)]	
ME - -„-	100	US$100,000-US$5m.	US$200,000-US$1m.	
Malaysia [3]				
MIE -manufacturing & its related services	<5	≤ RM250,000		
SE - -„-	5-50	RM 250,000 - <RM 10 m.		
ME - -„-	51-500	RM 10 m.-RM 25 m.		
MIE - service, incl. ICT, & primary agriculture	<5	≤ RM 200,000		
SE - -„-	5-19	RM 200,000 -< RM1m		
ME - -„-	20-50	RM 1m – RM 5m		
Philippines[5]				
MIE - manufacturing	≤9		≤3m	
SE - -„-	10-99		above P3m. – P15 m.	
ME - -„-	100-199		above P15m. – P100 m.	
Singapore				
SME -manufacturing			<S$15m.	
-services	199		-„-	
Thailand[4]				
MIE - manufacturing	≤4			<500,000 bath
SE - manufacturing & services	≤50		≤50 m. bath	<20m. bath
- trading: - wholesaling	≤25		-„-	1-9m. bath
- retailing	≤15		≤30 m. bath	-„-
ME - manufacturing & services	51-200		50-200 m. bath	20-100m. bath
- trading: - wholesaling	26-50		50-100m. bath	1-9m. bath
- retailing	16-30		30-60m. bath	-„-
Vietnam				
SE	≤30			<D 1 bill.
ME	30-300			D 1 – D 10 bill.
Myanmar[6]				
SMEs	<200/100[e)]	<10m kyat[d]		<5m kyat[c]
MIEs	<9[b]	-„-		-„-
Cambodia[6]				
SMEs	<200[f]			
Lao PDR[6]				
SMEs	5-99		1,200 m kip	

Note: a) not including fixed assets; b) not limits for handicrafts; c) capital outlay; d) production value; e) depends on sector; f) industrial sector.

Source: 1) ASEAN-EU Partenariat'97 (http://aeup.brel. com); (2) BPS = Central Bureau of Statistics (a) and the State Ministry of Cooperative and SMEs (b); 3) SMIDEC (2006); 4) ACTETSME. ORG (Website), except for MIE is from Allal (1999); 5) Sibayan (2005); 6): UNESCAP (2004); others: APEC (2003), Hall (1995), and Harvie and Lee (2002a).

1.3 Aim

The main aim of this paper is to discuss recent development of SMEs in ASEAN countries. This paper addresses three issues: country's contributions to the economy, their experiences with the Asian 1997/98 economic crisis, and their main constraints. Unfortunately, not all of the member countries have comprehensive data and English written literature on SMEs, so this study focuses on two main countries, Indonesia and Thailand.

2. The Role of SMEs in the Economy

It is widely suggested in the literature that the importance of SMEs in developing countries is because of their characteristics, which include the following:[2]

1) Their number in unit is huge, and especially small enterprises (SEs) and microenterprises (MIEs) are scattered widely throughout rural areas, therefore they may have a special "local" significance for the rural economy.

2) In being populated largely by firms that have considerable growth potential of employment, their development or growth can be included as an important element in policy in order to create employment and to generate income. This awareness may also explain the growing emphasis on the role of these enterprises in rural development in developing countries. The agricultural sector has shown that it is not able to absorb the increasing population in rural areas. As a result, rural migration increased dramatically, causing high unemployment rates and related socio-economic problems in urban areas. Therefore, non-farming activities in rural areas, especially since rural industries are potentially a dynamic part of the rural economy, have often been looked at through their potential to create rural employment, therefore, SMEs can play an important role.

3) The majority of SMEs in developing countries are located in rural areas, and they are also mainly agriculturally based activities. Therefore, in addition, government efforts to support SMEs are an indirect way in which to support development in agriculture.

4) SMEs use technologies that are in a general sense more "appropriate" as compared to modern technologies used by large enterprises (LEs) in order to factor proportions and local conditions in developing countries, i.e. many raw materials are available locally, but capital, which includes human capital, is very limited.

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[2] For more discussion on this, see: Tambunan (1994), Liedholm and Mead (1999), and Berry *et al.* (2001).

5) Many SMEs may expand significantly, while the great majority of micro enterprises[3] tend to grow little and hence do not graduate from that size of category. Therefore, SMEs are regarded as enterprises having the "seedbed LEs" function.

6) Although in general, people in rural areas are poor, existing evidence shows the ability of poor villagers to save a small amount of capital and invest it; and they are willing to take risks by doing so. In this respect, SMEs provide a good starting point for the mobilization of both villagers' talents as entrepreneurs and capital; while, at the same time, rural SMEs can function as an important sector providing an avenue for the testing and development of entrepreneurial ability.

7) SEs and MIEs finance their operations overwhelmingly through personal savings of the owners, supplemented by gifts or loans from relatives or from local informal moneylenders, traders, input suppliers and payments in advance from consumers. Therefore these enterprises can play another important role, namely as a means to allocate rural savings that otherwise would be used for unproductive purposes. In other words, if productive activities are not available locally (in rural areas), rural or farming households have money surpluses that allow them to keep or save their money (without any interest) inside their home because in most rural areas there is a lack of banking systems. Or, they use their wealth to buy lands, cars, motorcycles or houses and other unnecessary luxury consumption goods. These types of items are often considered by the villagers as a matter of prestige.

8) Although many goods produced by SMEs are also bought by consumers from middle and high-income groups, it is generally evident that the primary market for SMEs' products is overwhelmingly simple consumer goods, such as clothing, furniture and other articles from wood, leather products, including footwear, household items made from bamboo and rattan, and metal products. These goods cater to the needs of local, low income consumers. SMEs are also important for securing the basic needs goods for this group in the population. However, there are also many SMEs engaged in the production of simple tools, equipments, and machines for the demands of farmers and producers in the industrial, trade, construction, and transport sectors.

9) As part of their dynamism, SMEs often achieve rising productivity over time through both investment and technological change; although different countries within the group of developing countries may have different experiences with this, depending on various factors. The factors may include the level of economic

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[3] MIEs are the smallest size categories of firms, mainly self-employment units, and they are most traditional within the group of SMEs. This is why the literature and official reports on MIEs are discussed/presented separately, but are not included in defining SMEs.

development in general and that of related sectors in particular; accessibility to main important determinant factors of productivity, particularly capital, technology and skilled manpower; and government policies that support development of production linkages between SMEs and LEs as well as with foreign direct investment (FDI).[4]

10) As often stated in the literature, one advantage of SMEs is their flexibility, relative to their larger competitors. In Berry et al. (2001), enterprises are construed as being especially important in industries or economies that face rapidly changing market conditions, such as the sharp macroeconomic downturns that have bedeviled many developing countries over the past few years.

3. SMEs in ASEAN

3.1 Performance

ASEAN countries have touted SMEs as the engine of economic growth and development, the backbone of national economies, the highest employment-generating sector, and a potential tool of poverty alleviation by creating self-employment avenues. Notwithstanding various definitional issues and data problems by combining all sources which are available, there is a (rough) estimated total of some 21 million non-agricultural SME in ASEAN, or about more than 90% of all non-agriculture firms in the region (Table 3). These enterprises play a strategic role in private sector development, especially in the aftermath of the 1997/98 Asian Financial Crisis. In some member countries, as their economies modernize or industrialize, SME provide the much-needed inter-firm linkages required to support LEs to ensure that they remain competitive in the world markets. SMEs generally account for between 20-40% of total domestic output and they employ an overwhelming proportion (mostly in the 75-90% range) of the domestic workforce, especially adult persons and women.[5]

On the other hand, in spite of the significance of these indicators, the SMEs' value added (VA) contribution to the economy for most ASEAN countries has yet to commensurate with the sector's size and socioeconomic potential.

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[4] In developing countries, LEs achieve productivity increases in a great part by borrowing from the shelf of technologies available in the world. Processes such as foreign direct investment (FDI), technology licensing, joint ventures, and access to engineering and other advances provide productivity increases for LEs. This is not evident for the majority of SMEs (Berry, et al., 2001).

[5] A study conducted by the Asia-Pacific Economic Cooperation (APEC) shows that women entrepreneurs own and operate up to 30% of SMEs in Indonesia, the Philippines and the Republic of Korea (APEC, 1999).

Wattanapruttipaisan's (2004) calculation shows that SME in ASEAN contribute a disproportionately limited share of 20% to 40% to gross sales value or manufacturing VA.[6]; For example, in Singapore, the VA of SME is only 34.7% of the economy's total VA, while productivity is half that of LEs. Malaysian SME contributed only about 26% to manufacturing VA. In Thailand, commonly cited as a successful model for SME development in ASEAN, the SME contribution is only 47% of total VA. Comparatively, SMEs in developed nations contribute about 50% of total VA in the European Union (EU), or, individually, for example, SMEs in Germany are responsible

Table 3 Non-agricultural SMEs in ASEAN and Selected Countries in East Asia

Country	No. of non-agricultural SME in 2002 or later or best quess ('000)	Percentage of GDP, or VA or output value	SMEs as a % of	
			All Firms	Workforce
Brunei Darussalam	30[2]	-	98	92
Cambodia	26	-	99	45
Indonesia	21,895.996[3]	57 (total VA)	99.9	99.6
Lao PDR	22[4]	-	-	-
Malaysia	205	15 (total gross output) 47.3 (total VA) 26 (manufacturing VA)	99.2	65.1 32.5[8]
Myanmar	34[4]	-	96	78
Singapore	60-72[5]	41 (manufacturing output) 34.7 (total VA)	97.8	58
Thailand	1,640	47 (total VA)	99.8	76[8]
Philippines	68[6]	32 (total VA)	99.6	99
Viet Nam	2,700[7]	42 (total VA)	96	85
East Asia[1]				
China	8,000	60 (industrial output)	99	78.8
Chinese Taipei	1,050	-	98.1	78.4
Hong Kong, China	292	-	99.3	60.7
Japan	6,140	52 (manufacturing output) 55.3 (total VA)	99.7	77.6
South Korea	2,700	47.5 (total gross output) 50 (total VA)	99.8	86.7

Notes: 1: best guess for 2000; 2: est. active (2004); 3: includes MIEs (2006); 4: 1998/9; 5: estimated active; 6: excludes 744,000 MIEs (2001); 7: excludes 10 million MIEs; 8: manufacturing industry only.

Sources: APEC (2002), RAM Consultancy Services (2005), UNCTAD (2003), Hall (2002), Myint (2000), Regnier (2000), Ministry of Industry, Mines and Energy of the Kingdom of Cambodia, BPS (Indonesia), Census 2005 (Malaysia), JASME Annual Report 2004-2005 (Japan); SMEA (White Paper on SMEs in Taiwan 2005), OSMEP (White Paper on SMEs in Thailand, 2002), National SME Development Agenda 2000/2001 (Philippines).

[6] For further details, see: Hall (2002), Harvie and Lee (2002a,b, 2005), Lee and Tan (2002), Richards et al. (2002), Tecson (2001), Régnier (2000) and Tambunan (2000, 2006).

for approximately 57% of the country's Gross National Product (GNP); between 40% and 50% of manufacturing output in Japan, Republic of Korea and Taipei, China; and in the United States (US) it is about 30% of total sales value.

With respect to exports, Table 4 reveals that, in general, ASEAN SMEs are not yet as strong in exports as their counterparts in countries such as China, India, Chinese Taipei (Taiwan) or South Korea; although the export intensity of ASEAN SMEs is different by country. For instance, in Indonesia the SMEs' contribution to the country's total export of non-oil and gas by the end of 1990s was only 11%, compared to Vietnam at 20%, or almost 27% in Thailand in 2003. Featuring prominently in SME exports from Indonesia, Philippines, Thailand and Vietnam are food products, textiles and garments, leather and plastic goods (including toys), furniture items, handicrafts, jewelry and, to a less extent, mature-technological automotive and consumer electronics parts.[7] However, Wattanapruttipaisan (2005) argues that direct export of ASEAN SMEs might be low, however, if indirect contributions are taken into account, then their overall share in export earnings is certainly much larger because SMEs feature prominently as subcontractors to export-oriented local LEs and multinational companies (MNCs).[8]

Table 4 Share of SME Exports in Selected Asian Countries, The 1990s

Country	Share (%)
China	40-60[1)]
India	38[1)]
Chinese Taipei	56
South Korea	40[1)]
Vietnam	20[1)]
Singapore	16[1)]
Malaysia	15[1)]
Indonesia	11[1)]
Thailand	10[1)] (38.22%)[2)](26.5%)[3)]

Source: 1) UNCTAD (2003); 2) Mephokee (2004): 38.22% in 2002 and 45.5% in 2003 of the country's total export for industrial products; 3) White Paper on SMEs 2004 (Government of Thailand, website)

[7] For further details, see Hill (1995, 2001, 2002), Rodriguez and Berry (2002), Steer and Taussig (2002); Regnier (2000), Tambunan (2000, 2006) and Tecson (2001).

[8] See also Rodriguez and Berry (2002); Wattanapruttipaisan (2002a,b); Regnier (2000); Tambunan (2000, 2006), and Levy et al. (1999).

Indonesian SMEs

SMEs have historically been the main player in the Indonesian economy, especially as a large provider of employment opportunities, and hence a generator of primary or secondary sources of income for many households (Tambunan, 2006). Typically, Indonesian SMEs account for more than 90% of all firms (Table 5), and thus they are the biggest source of employment, providing livelihood for over 90% of the country's workforce, especially women and the young. The majority of SMEs, especially the smallest units, i.e. MIEs are scattered widely throughout rural areas and therefore may play an important role as a starting point for development of villagers' talents as entrepreneurs, especially those of women. MIEs are dominated by self-employment enterprises without hired paid workers. They are the most traditional enterprises, generally with low levels of productivity, poor quality products, and serve small, localized markets. There is little or no technological dynamism in this group. The majority of these enterprises are comprised of subsistence activities. Some of them are economically viable over the long-term, but a large portion is not. Many MIEs face closure or very difficult upgrading especially with import liberalization, changing technology and the growing demand for higher quality modern products. However, the existence or growth of this type of enterprise can be seen as an early phase of entrepreneurship development.

Table 5 Total Units of Enterprises by Size Category: 1997-2006 (In thousand)

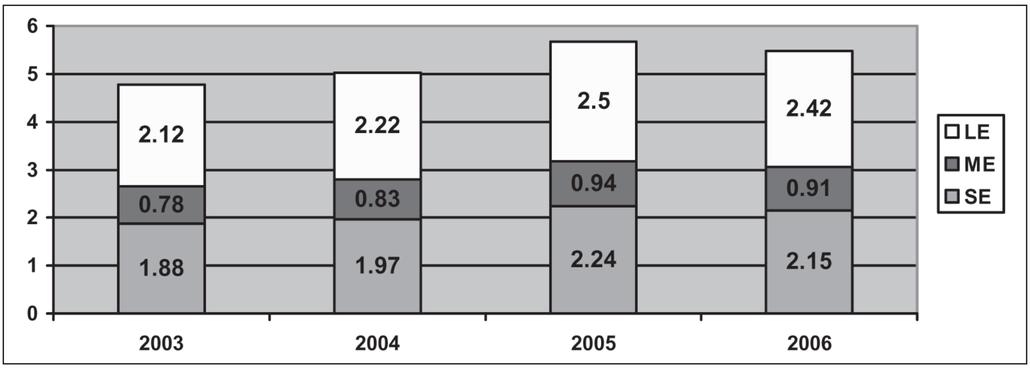
Size Category	1997	1998	1999	2000	2001	2003	2004	2005	2006
SEs	39,704.7	36,761.7	37,804.5	39705.2	39,883.1	43,372.9	44,684.4	47,006.9	48,822.9
MEs	60.5	51.9	51.8	78.8	80.97	87.4	93.04	95.9	106.7
LEs	2.1	1.8	1.8	5.7	5.9	6.5	6.7	6.8	7.2
Total	39,767.3	36,815.4	37,858.1	39789.7	39,969.995	43,466.8	44,784.14	47,109.6	48,936.8

Source: Menegkop & UKM (various issues)

The output structure by size of enterprises and sectors shows that agriculture has always been the key sector for SEs, as they produce around 86% to 87% of total output in the sector. The second important sector for this group of enterprises is trade, and hotels and restaurants with their annual share ranging from 74% to 76%. MEs, on the other hand, have the largest output contribution in finance, rents & services at around 46% to 47%, followed by transportation and communication with a share ranging from the lowest 23.47% in 2006 to the highest 26.22% in 2001. In manufacturing industries, both SEs and MEs are traditionally not as strong when compared to LEs. In the manufacturing industry, SMEs are involved mainly in simple traditional manufacturing activities such as wood products, including furniture, textiles, garments, footwear, and food and beverages. Only a small portion of total SMEs are engaged in the production of machinery, production tools and automotive components. This is generally carried out through subcontracting systems with several multinational car companies such as Toyota and Honda. This structure of industry reflects the current technological capability of Indonesian SMEs, which are not yet as strong in producing sophisticated technology-embodied products as their counterparts in other countries such as South Korea, Japan, and Taiwan.[9]

With respect to output growth, the performance of SMEs is relatively good as compared to that of LEs. The output growth of SEs and MEs was 3.96% and 4.59% in 2001 and increased to 5.38% and 5.44%, respectively in 2006, compared to LEs with a growth rate of 3.04% and 5.60%. Thus, SMEs' contribution to the annual GDP growth is higher than that of LEs (Figure 1). The higher growth rates in SMEs are not because their productivity in general is higher than that in LEs, but mainly because their number is huge and the increase of total workers in these enterprises are always higher than that in LEs, as the latter in general have more capital (or less labor) intensive enterprises compared to SMEs.

Figure 1 GDP Growth Contribution by Size of Firms in Indonesia, 2003-2006 (Percentage)



Source: National Agency for Statistics (BPS)

[9] Although the Indonesian government has been taking many initiatives to support capacity building, especially in technology and human resource development, SMEs, range from training in production technique, general management (MS/MUK), management quality systems ISO-9000, and entrepreneurship; providing total quality control advice; promoting and supporting subcontracting arrangements between SMEs and LEs (including FDI-based companies) as well as linkages between SMEs and R&D institutions and universities; and establishments of Small Business Consultancy Clinics (KKB), and common service facilities, including labs. (UPT) in clusters.

Thai SMEs[10]

SMEs constitute a large portion of the Thai national economy as they account for the majority of the number of units and employment and about 47% of the country's total VA. In 2003, there were 2,006,528 enterprises in Thailand. Within this, the number of SMEs were totaled at 1,995,929, making up 99.5% of total enterprises, and therefore are the driving force behind the expanding economy as they provide output and generate employment. This number has grown from 1,639,427 in 2001 and has undergone a dramatic increase from only 779,033 units in 1997. The number of SMEs in Thailand continues to increase every year. In 2004, there were 2,161,577, or about 99.8% of the total number of enterprises, and in 2006, there were 2,274,525 SMEs, but the employment share declined from 79% in 2001 to 76.7% in 2006 (Table 6).

Table 6 Thai SME' Employment Share, 2001-2006

	2001	2005	2006
No of SMEs Employment (share)	1,639,427 6,605,300 (79%)	2,239,280 8,896,164 (75,4%)	2,274,525 8,863,334 (76.7%)

Source: OSMEP (2002, 2004, 2005, 2006, 2007).

SMEs cover business related to the manufacturing industry, wholesale, retail and services. Among the 1,995,929 SMEs in Thailand in 2003, 31.8% were in the retail sector, 5.5% in the wholesale sector, and 32.5% in the service sector. In the latter sector in 2003, there were 629,290 SMEs, mostly in tourism, hotels and restaurants which consisted of 189,899, or about 30.2% of SMEs under this sector. Next important service subsectors for SMEs consist of additional services which total (27.2%),

[10] The literature on the role of SMEs in developing countries, including Indonesia, is very rich. But, in Thailand, as the government neglected the role of SMEs in economic development, researchers were not paying much attention to these enterprises. There were only a few studies of SMEs in Thailand until halfway through the 1990s when they were dealing mainly with SMEs in the manufacturing industry. The interest in SMEs increased in the 1990s as SMEs became an important source of semi-finished products for big industry, mainly through subcontracting production linkages. Extensive research of SMEs was ordered by the Ministry of Industry (MI) in 1996. At the end of the 1990s, numerous research institutions developed research programs in order to find effective ways of promoting SMEs (Bakiewicz, 2005). For existing studies on Thai SMEs see: Wiboonchutikula (1989, 1990, 2000, 2001), Chirathivat and Chantrasawang (2000), Bakiewicz (2005), Allal (1999), Akrasanee et al. (1986), Berry and Mazumdar (1991), Chiemprapha (1993), ILO (1993), Kittiprapas and McCann (1999), Muller (1993), Wattanapruttipaisan (2002a,b), Tambunlertchai et al. (1986), TDRI (1990), OSMEP (2002), and Kecharananta and Kecharananta (2007).

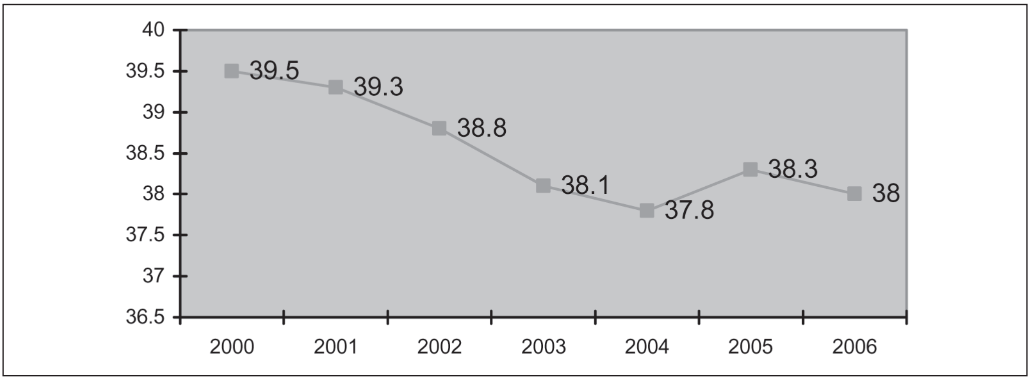
transportation (15.9%), business management (11.1%) and financial securities (10.9%) respectively (OSMEP, 2004).

Within the context of manufacturing enterprises in Thailand, SMEs constitute about 98% of the total number of industrial enterprises, with 76% of total employment and 4.7% of total VA in the sector. Among SMEs in the sector, 27.6% were in the food and beverages industry and 15.0% in the clothing industry. About 17% of total SMEs in the manufacturing industry are scattered in both the Bangkok Metropolitan area and regional areas. Manufacturing SMEs in Thailand are involved in a variety of products which include metal, steel, food, shoes, leather products, wood products, furniture, plastic, rubber, chemicals, agricultural machinery, car parts, textile and garments. However, the industrial focus of SMEs is different between SEs and MEs. Based on data at 3 digit level, the share of SEs in employment is the highest in production of the following goods: food, garments, shoes, wood products, furniture, and metal products.[11]. ME firms have the highest share in textiles, leather products, chemicals, agricultural machinery, car parts and chemical products. On the other hand, LEs employ the largest number of people in the production of canned food, drinks, paper industry, iron and steel, rubber, crude oil products, electronics, electric and motor vehicles. Overall, as in Indonesia, the share of Thai manufacturing SMEs is the highest in the production of traditional goods and lowest in capital intensive and technology advanced new export oriented industries.

During the period 2000-2006, the GDP share of SMEs has experienced a decline, although it increased slightly in 2005 before falling again in 2006. In 2000, these enterprises contributed to 39.5% of GDP and it dropped slightly with a total output value generated at 1,945,801 million in 2001. In 2002, the GDP contribution became less than 39%, while the highest major GDP shares came from the service sector (13%), followed by the wholesale and retail sector (12%), and the manufacturing sector (10%). In the same year, SMEs employed around 5 million people or 69% of the 7.2 million people employed under all types of enterprises. In 2003, SMEs of all sectors have generated products worth THB 2,263,574 million (USD 58,040 million) out of the total of value of GDP with THB 5,939,062 million (USD 152,284 million) or 38.1% (compared to 38.8% in 2002). The sector with the highest GDP was the service sector with 10.8% out of the total GDP. Following this was the wholesale and retail sector at (13.0%) and the manufacturing industry at (10.2%). After it reached 38.3% in 2005, the SMEs' GDP share started to decline again in 2006 (Figure 2).

[11] This does not include electrical devices.

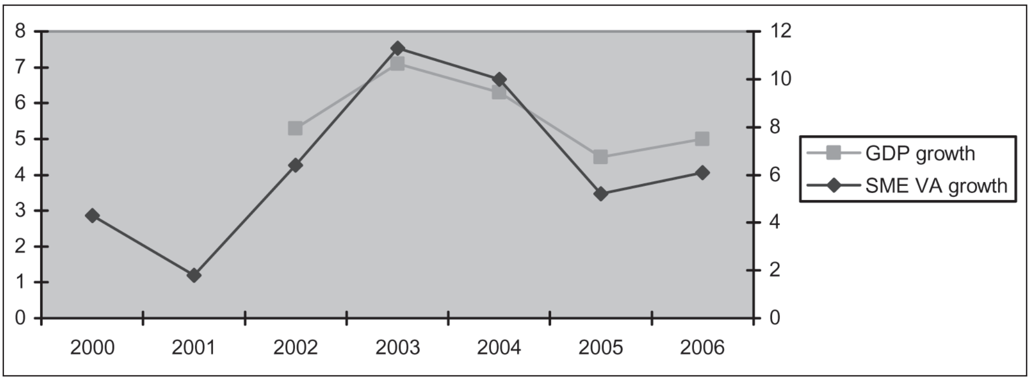
Figure 2 Trends in Thai SME GDP Share, 2000-2006 (Percentage)



Source: OSMEP (2002, 2004, 2005, 2006, 2007)

However, more interesting is that during the same period, the annual growth rates of SMEs' VA are not so different than the country's GDP growth rates. Even in specific years, the growth rates of SMEs were higher than GDP growth rates. Since 2005, a positive gap, in favor of SMEs continues (Figure 3).

Figure 3 Thai SME VA Growth and GDP Growth Rates, 2000-2006 (Percentage)



Source: OSMEP (2002, 2004, 2005, 2006, 2007)

As in Indonesia, Thai SMEs' contribution to manufacturing VA is also relatively low. As shown in Table 7, on average per year, the share of SMEs in total manufacturing VA has always been lower than their VA share in trade and services. Since 1999, and especially in trade, the VA contribution of SMEs has undergone a significant increase.

Table 7 Sectoral VA Shares of Thai SMEs, 1994, 1999, 2006 (Percentage)

Sector	1994	1999	2004	2006
Manufacturing industry	23	25	30	34
Trade	24	24	37	..
Services	53	51	34	..

Source: OSMEP (2004, 2005, 2006, 2007)

In terms of the number of enterprises, as in Indonesia, Thai SMEs are dominated by MIEs. Entrepreneurs in this group are mainly individuals or groups of laid-off workers, or a portion of the unemployed local population, who have their own ideas about income generation. They have approached various agencies for financial support in order to establish enterprises. A majority of them already have the skills needed to operate their business, acquired either through previous employment or training. However, most of them do not have experience in marketing or financial management. In general, they are individuals with education at the elementary, high school or vocational school level. Production operations in this group are generally relatively simple, labor-intensive and use traditional technology. Given that most entrepreneurs' skills lie in the production or operational part of the business, this should be the strongest characteristic of enterprises.

However, enterprises are found to be complacent about production operations and the use of technology. They do not seem to look for better methods, improved effectiveness or enhanced efficiency. Sales are usually made in the area close to the business premise with customers coming to the enterprise in order to make purchases. Occasionally these enterprises are called upon to join trade fairs organized by government agencies in order to assist in marketing. Significant sales are made at these fairs and some enterprises even rely on these fairs for a good proportion of their income (Finnegan, 1999).

3.2 The 1997/98 Economic Crisis and Its Impacts on ASEAN SMEs

It is usually believed that SMEs' one comparative advantage is their flexibility relative to larger competitors. These enterprises work as shock-absorber in the business cycle. This conviction is based upon two assumptions. First, SMEs will employ more relatives and friends in order to enable them to generate some income. They would then lay these same people off last so that the number of employees in the sector would not fall as fast as in LEs. Second, the unemployed will try to start their own business in order to gain income and in turn, this causes the number of SMEs to rise.

The Asian 1997/98 financial/economic crisis provides an opportunity by which to examine the resilience of these enterprises. For Example, the World Bank (2000) tried to investigate the relative impact of the crisis by the size of enterprises by examining the effects on capacity utilization and employment. Theoretically, it is expected that in a sharp macroeconomic downturn, many enterprises will, if not die out, reduce their production volumes and hence their employment, and thus the capacity utilization and employment rates in these enterprises will decline. Table 8 summarizes the results in the four crisis-afflicted ASEAN countries towards the end of 1998. It shows that in these countries, LEs tended to have higher rates of capacity utilization after the crisis than SMEs, but the share of SMEs with fewer workers, by and large, matched the share of LEs.[12]

Table 8 Impact of the Asian 1997/98 Financial Crisis on Firms by Size in Some ASEAN Countries

Country	Size of enterprises	Capacity-utilization level after the crisis (%)	Share of enterprises with fewer workers after the crisis (%)
Indonesia	SME	51	54
	LE	63	45
Malysia	SME	64	29
	LE	73	40
Philippines	SME	76	50
	LE	79	50
Thailand	SME	57	56
	LE	67	45

Note: SMEs are defined as enterprises with less than 150 workers

Source: World Bank (2000)

By using national data on SEs and MIEs, Thee's (2000) study shows that the crisis had an adverse impact on these enterprises. In 1998, the number of SEs and MIEs and the number of both male as well as female workers employed declined substantially, as compared to 1996. Although it is widely believed that many of these enterprise categories, particularly those engaged in resource-based or export-oriented activities, weathered the crisis well, the data in Table 9 indicates that at least, in regards to the number of SEs and MIEs and the number of people employed in these enterprises, the crisis did have a significant adverse effect. Thee argues that the reductions in the number of SEs and MIEs and number of workers during that period undoubtedly reflect reductions in output brought by the economic crisis. According to Thee, the crisis affected these enterprises in two ways: First, by sharply reducing

12 As a comparison, in South Korea, another crisis-afflicted non-ASEAN member and also known for its well developed SMEs, capacity-utilization levels and shares of enterprises with less workers after the crisis in SMEs and LEs are respectively 71% vs. 77%, and 61% vs. 80% (World Bank, 2000).

domestic demand for their products, and second, by major disruptions in the banking sector, which affected the cost and availability of credit to the enterprises.

Table 9 Growth Rates of SEs and MIEs, 1996-98

	1996	1998	Growth rates (%) $
No of Units	2,867,241	2,196,899	-23.4
No of workers employed	6,613,848	5,303,204	-19.8
- Male	3,669,881	2,946,175	-19.7
- Female	2,943,967	2,357,029	-19.9

Source: Adopted from Table XI in Thee (2000) (data from BPS, Indonesia)

However, as Thee argued, although overall domestic demand may have shrunk in 1998, a number of SEs and MIEs may have benefited by consumers shifting their demand from more expensive imported products to cheaper products produced by them. He also observed that within this category of enterprises, export-oriented SMEs appear to have benefits from the sharp rupiah depreciation during that crisis period as compared to domestic or local market oriented enterprises. Many of these enterprises turned to exports due to the favorable exchange rate. In total, official data shows that SME exports in Indonesia grew by 3.6% in 1998 and 5.8% in 1999. In contrast, exports by larger exporters declined by 0.8% in 1998 and by 7.5% in 1999.[13]

According to studies in some ASEAN countries, Berry et al. (2001) concludes that in Indonesia, SMEs weathered the crisis well, better than LEs, because their greater flexibility allowed them to adjust production processes during a difficult period; although many of them were hit hard. Many have argued that being less reliant on formal markets and formal credit, SMEs are able to respond more quickly and flexibly than LEs to sudden shocks. However, in Thailand, they find that the overall share of SMEs in total employment fell from 60% to 52% although it later picked up to 65% in 2000. The share of the smallest firms (with fewer than 10 workers) declined from 12% to 6%.

Also, ILO estimated data indicate that in Thailand two million workers lost their jobs as a result of the crisis in 1998 only (ILO, 1998). The majority of them were laid off from SMEs (55% of SMEs and 45% LEs reduced a staff of employees). The Thai government does not have comprehensive data on the death rate of SMEs and

[13] While recovery has been faster among SMEs, it could have been higher if the constraints inhibiting their development had been addressed (Berry, et al., 2001). BPS data show that SMEs in Indonesia had higher export growth than LEs between 1996 and 2000, and the share of total exports doubled. However, their contribution to exports continues to be modest, i.e. 2.8% in 1996 and up to 4.1% in 2000.

different national agencies provided different estimated figures on the dynamic of SMEs during the crisis period. For example, the Ministry of Industry has only been able to document a slowdown in the establishment of new manufacturing SMEs from 6,093 in 1996, 5,022 in 1997 and 3,130 in 1998. The number of SMEs apparently continued to expand at an average rate of 6.1% per year for that period. According to the Bank of Thailands (BOT) Southern Regional Branch Office, in 1997 and 1998 there were respectively 509 and 773 bankruptcies among SMEs, compared to only 290 and 358 in 1995 and 1996, respectively. The number of new SMEs also slowed down from 3019 in 1996 to 1689 in 1998. The Industrial Finance Corporation of Thailand (IFCT) has declared that there were 3,391 and 2,544 closed SMEs, respectively during the last quarter of 1998 and the first quarter of 1999 (Régnier, 2000).[14]

Perhaps the most comprehensive literature, which is available so far that can give some clue about the effects of the crisis on Thai SMEs is from Régnier (2000, 2005). Régnier analyzed secondary data from various sources and also conducted a survey on SMEs, both export and domestic market oriented, in order to assess views on the impact of the crisis on businesses (or Thai SMEs in general). The crisis had three immediate implications for the Thai economy: (i) a sharp decline in domestic demand, combined with a credit crunch; (ii) a strong rise in input costs, mainly derived from currency depreciation; and (iii) the surge of interest rates. Important findings concerning the implications of the crisis on SMEs include the following: First, the collapse of domestic demand had been the most immediately felt by SMEs. Almost all interviewed SME entrepreneurs identify this factor as a main concern and as the main cause of production disruption or bankruptcy among many SME in the country. Second, a lack of credit access and banking support badly affected a majority of SMEs. The assumption that the devaluation of the bath would favor SME exporters has not been verified. Many SME exporters did not benefit from the crisis due to rising input costs and loss of international competitiveness.

Additional research on Thai SMEs during the crisis comes from Brimble, et al. (2002). According to them, the crisis had numerous devastating effects on Thai SMEs whereby they identified four different effects. First, and perhaps the most substantial

[14] Of course, tracing bankruptcies, especially among SMEs in developing countries, is not an easy task. In Thailand, as well as in Indonesia and many other developing countries, many or even most of SMEs are not registered. As stated in Régnier (2000), new bankruptcy regulations have been recently adopted, but are hardly implemented even in the case of LEs. Many SME owners stop or change their business but they do not de-register previous firms, while registration can remain on the books of the Ministry of Commerce for at least three consecutive years.

effect was the severe credit crunch for SMEs and LEs alike. With SMEs accounting for up to 90% of non-performing loans (NPLs), they were designated as high-risk loans and banks and finance companies became reluctant to extend additional credit lines. The second effect was their vulnerability to foreign acquisitions. Being unable to finance their debt meant that SMEs were ripe for outright foreign takeovers. Hence, many SMEs either went bankrupt or were consolidated by foreign firms. The third effect was increased foreign competition stemming from the liberalization measures required under the International Monetary Fund (IMF) and WB loan packages, forcing local SMEs to fully compete with foreign-owned firms even at the small supplier level. The fourth effect was cost-cutting pressures imposed by LEs in which they pressured smaller supply firms to reduce costs.

In the case of Malaysia, the official estimated figures and studies on the collapse of SMEs during the crisis are very scarce. As reported in Mustafa and Mansor (1999), the only estimated data came from the Ministry of International Trade and Industry which shows that at least 10% of existing SMEs disappeared during the crisis period. However, it is not clear whether these disappeared SMEs had something to do with the crisis or were just a normal part of the business cycle phenomenon, especially by the fact that the Malaysian economy was much less affected by the crisis than Thailand, Indonesia and the Philippines. Whereas, in Abdullah (2002), it is stated that during the economic crisis the most affected businesses were domestic market-oriented SMEs. Also, many SMEs that relied on imported inputs were also seriously affected as they faced substantial upward pressures on production costs. In some manufacturing subsectors, many SMEs that operated as major suppliers to multinational companies (MNCs) were also substantially affected by resultant low order levels and even order cancellations. Abdullah also reported a case study conducted by Moha Asri (1999) on SMEs in the Northern Region of Peninsular Malaysia in late 1999 which estimated that the profit margin of SMEs fell by more than 89%, with more than 78% having declining orders and 76% of the surveyed SMEs reducing their purchases of raw materials.

In the Philippines case, Rodriguez and Berry (2002) discuss the findings of a 1998 World Bank survey of 385 firms in five industries: food, textiles, clothing, chemical and rubber products. About half of the respondents were SMEs (under 150 workers in 1996) with an average of 67 workers. Most of these SMEs were more likely to have some foreign ownership than were LEs (54% compared to only one-fifth of LEs), and they were also more likely to export than their larger counterparts (74% compared to only one-third of LEs). The response to the crisis of these export-oriented, foreign owned SMEs was on average, better than that of LEs. First, according to capacity utilization estimates, LEs were hit the hardest. Their capacity utilization declined more (from 77% to 66%) between 1996 and 1998 than was the case for SMEs (from 77% to 72%). Second, 42% of LEs reduced their activities on hours while only 37% of SMEs did the same. Also, LEs were more likely to use a compressed work week and forced vacation than SMEs.

In overall, two main conclusions can be derived from the above studies. First, in an economic crisis, through being export oriented and by having strong connections with foreign companies, SMEs will suffer less when compared to those SMEs which are mainly domestic market-oriented and weakly connected with foreign companies. Second, it is not always the case that SME exports will automatically increase as national currency depreciates. For example, there are two main reasons for this in the Thai case: First, many SMEs were not capable of using market opportunity because they were not able to enter new markets and credit shortages left them without financial resources, and second, SMEs that use imported materials or inputs to produce for domestic market (as opposite to LEs that usually import to export) lost on devaluation.[15]

3.3 Constraints

The development of viable and efficient SMEs, particularly non-farm enterprises, is hampered by several constraints. The constraints may differ from region to region, between rural and urban, between sectors, or between individual enterprises within a sector. However, there are a number of constraints common to all SMEs. The common constraints faced by SMEs consist of a lack of capital, difficulties in procuring raw materials, lack of access to relevant business information, difficulties in marketing and distribution; low technological capabilities, high transportation costs; communication problems; problems caused by cumbersome and costly bureaucratic procedures, especially in getting the required licenses; and policies and regulations that generate market distortions.

A RAM Consultancy Services' (2005) report states that various impediments prevent SME in ASEAN from developing to their full potential. One of the constraints faced by these enterprises is the lack of access to formal credit in order to finance

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[15] In sum, the majority of SMEs suffered from the crisis, because the majority of them worked for local markets, wherein the drop of demand was as large as 20% (Régnier, 2000).

needed working capital.[16] With limited working capital, it is hard for them to expand production and hence to increase shares in total output. However, the main constraints and the degree of importance of each constraint faced by ASEAN SMEs vary by member country, depending upon the differences in many aspects, including the level of SME development, the nature and degree of economic development, public policies and facilities, and of course the nature and intensity of government intervention towards SMEs.

In Indonesia, for instance, in 2003, BPS published the results of its survey on SMEs in the manufacturing industry with questions dealing with the main constraints facing enterprises. As presented in Table 10, it reveals that not all of the producers surveyed see lack of capital as a serious business constraint. For those who face capital constraint are mainly MIEs located in rural/backward areas and they never received any credit from banks or from various existing government sponsored SME credit schemes. They depended fully upon their own savings, money from relatives and credit from informal lenders for financing daily business operations.

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[16] The RAM Consultancy Services' report (2005) shows that around 75-90% of ASEAN SMEs rely on internal savings, retained earnings and borrowing from family, friends and money lenders (collectively known as the 'informal sector') as opposed to the 3-18% which have access to formal sector finance (banks, capital markets, venture capitalists etc). For start-up companies, the rate of funding from the formal banking sector is even lower. For example, only 12% of SMEs in Indonesia had access to bank financing while in Singapore, from various information sources used, the estimation is between a minimum of 20% and a maximum of 49%. In Malaysia, 47.3% of SME had access to bank funds compared to 32.4% that relied on internal funds and 11% from family and friends. Wattanapruttipaisan (2004) provides a more comprehensive analysis of the patterns and characteristics of SME financing in ASEAN. Like their counterparts in other developing countries, SMEs in ASEAN generally have not been successful in tapping funds from the formal financial sector. If they did, it is usually at a relatively high cost.

Table 10 Main Problems faced by SEs and MIEs in Manufacturing Industry, 2003

	SEs	MIEs	Total SEs and MIEs
Have no problem	46,485 (19.48)*	627,650 (25.21)	674,135 (24.71)
Have problem	192,097 (80.52)	1,862,468 (74.79)	2,054,565 (75.29)
-Raw material	20,362 (10.60)	400,915 (21.53)	421,277 (20.50)
-Marketing	77,175 (40.18)	552,231 (29.65)	629,406 (30.63)
-Capital	71,001 (39.96)	643,628 (34.56)	714,629 (34.78)
-Transportation/Distribution	5,027 (2.62)	49,918 (2.68)	54,945 (2.67)
-Energy	40,605 (2.4)	50,815 (2.73)	55,420 (2.7)
-Labor cost	2,335 (1.22)	14,315 (0.77)	16,650 (0.81)
-Others	11,592 (6.04)	150,646 (8.09)	162,238 (7.90)
Total SEs & MIEs	238,582 (100.00)	2,490,118 (100.00)	2,728,700 (100.00)

Note: * = %

Source: BPS

Another main constraint is difficulty in marketing. SMEs facing this problem are those which usually do not have the resources in which to explore their own markets. Instead, they depend heavily on trading partners for the marketing of products, either within the framework of local production networks and subcontracting relationships or orders from customers.

Other problems include cumbersome and onerous business regulations and restrictions. Basically, the problems which hamper business activities in Indonesia reflect poor governance in Indonesia. One of the most egregious restrictive regulations which hampered bona fide business in Indonesia, including SMEs, was the policy-generated barriers to domestic competition and trade. These policy-generated barriers included the barriers to inter-regional and inter-island trade and proliferation of several state and private monopolies which proliferated during the late New Order- era. The policy-generated barriers to domestic competition and trade included barriers to entry in certain economic activities, officially sanctioned cartels and monopolies, price controls, the dominance of state-owned enterprises in certain sectors and preferential treatment for selected favored LEs.

In Thailand, the situation for SMEs with respect to the main constraints is more or less similar to the Indonesian case described above (or to other developing countries in general). In 1997, the Department of Industrial Promotion (DIP) commissioned a comprehensive survey on manufacturing SMEs from a consulting company. Based on the findings of this survey, the problems facing Thai SMEs in the manufacturing industry have been adequately summarized by the Director-General of the DIP by the following: (i) lack of technical and managerial capabilities; (ii) lack of access to greater market; (iii) lack of access to finance; (iv) lack of skilled workers; (v) and lack of access to information vital to business (Finnegan, 1999).

Wiboonchutikula (2001), reveals a rather different structure of problems faced by the Thai SMEs. About 65% of enterprises of all sizes admitted having problems in the areas of availability or prices of raw materials, labor, capital, demand, and government policies. The most frequent complaints were insufficient capital (high interest rates) and labor shortages (increased real wage rates), followed by marketing problems, uncertain government policies, and raw material shortages. SEs (including MIEs) complained the most about the problem of insufficient capital. The next most important problems included labor shortages and marketing. MEs ranked insufficient capital and labor shortages as their first and second most important problems just as SEs did. However, they chose uncertain government policies as the third most important problem. LEs mentioned labor shortages (high wages) as the most important problem, followed by uncertain government policies, and raw material shortages. The problems of insufficient capital and marketing were found to be less important when compared with SMEs.

In other words, the problems of insufficient capital and marketing decreased with size. Problems of raw material shortages and adverse effects of government policies increased with size. However, the problem of labor shortages seemed to be considered as the first or the second most important by firms of all sizes. This means that before Thailand's financial crisis, the problem of increased real wages (labor shortages) seemed to be a concern for firms of all industries and sizes. The problems of the unavailability of capital and marketing were more serious in SMEs than in LEs. LEs were able to raise funds from commercial banks, financial institutions, and other sources more easily than SMEs. However, LEs faced problems of raw material prices (likely due to tariffs on intermediate products) and government policies and measures.

Finally, according to the Office of SME Promotion (OSMEP) from the Thai Ministry of Industry, which produces the annual White Paper on Thailand SMEs, the main problems faced by SMEs are comprised of the following: First, declining competitiveness: since the Thai government is focused on a export-led growth strategy, then the development direction of Thai SMEs is geared to compete in the world market. Unfortunately, Thai SMEs have a number of problems. In terms of production costs, especially labor costs, Thai SMEs cannot compete with competitors that have lower labor costs such as China, Indonesia, and Vietnam. In terms of product quality and technological advances, Thai SMEs cannot compete with the SMEs in more developed economies such as Italy, Japan, and Taiwan. Thai SMEs are producing by using labor-intensive and old-fashion technology in order to produce products at the same quality as products from China and Vietnam with higher production costs. Therefore, Thai SMEs are facing a problem of competitiveness in decline. Second, limited access to capital: several SMEs have not been able to increase capital via stock markets because of a lack of know-how. Meanwhile, borrowing from commercial banks is very costly and hard to get approved. Third, lack of entrepreneurship: most Thai SMEs are family-run businesses handed down from father to son which rely on their own limited experience. This traditional style of business may work well for a local market but may be far below the acceptable standards for an international market. Fourth, poor state management in SME promotion: this weakness falls on the Thai government. SME promotion has been under government consideration for many years. However, government agencies are not ready to play an effective role in promoting SMEs (OSMEP, 2002).

4. Concluding Remarks and Future Research

This study concludes with three important findings. First, SMEs are of overwhelming importance in ASEAN countries, especially for employment or income generation. However, their contributions to GDP or VA and export are much lower than their share in employment. Thus, this suggests that SMEs in ASEAN in general are facing two main problems, namely low productivity and inferior quality of their products. This is no surprise, since the majority of SMEs in ASEAN are SEs and MIEs which are traditional enterprises using manual production techniques with a low degree of mechanization and the production of simple consumption goods for local or domestic markets. Second, although the SMEs experiences during the 1997/98 crisis were different between countries, the assumption that SMEs in general weather a crisis as in 1997/98 better than their larger counterparts cannot be verified. Third, the situation for SMEs with respect to the main constraints mentioned previously is more or less similar between countries, namely, they lack technical and managerial capabilities, access to greater markets, access to finance, skilled workers, and lack of access to information which is vital to business.

However, some questions remain unanswered in this study, and therefore, future research is needed. First, is the annual increase in the number of SMEs, especially SEs and MIEs, a sign of entrepreneurship development or a reflection of unemployment or poverty problems? Second, how important is the development of SMEs for female entrepreneur development? Is there any evidence on the innovation in SMEs? Do foreign or multinational companies play an important role in the development of local SMEs through the transfer of technology?

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