



## **Economic Community**

### **Global Competitiveness**

#### **How can ASEAN enhance the global competitiveness of micro, small and medium enterprises (MSMEs)?**

##### **Welcome Note**

A warm welcome to S. Rajaratnam Endowment-Youth Model ASEAN Conference 2017.

We are your Committee Chairs for the issue on how ASEAN can enhance global competitiveness of micro, small and medium enterprises, which are also known as MSMEs.

As your committee chairs, we will do our best to ensure orderly discussions during the conference and to make your experience with SRE-YMAC a fruitful one. We will also assist you in understanding the protocols for the conference.

We hope that you will be able to research more on the issue after reading this info sheet written by us.

Lastly, we hope that all of you will have an enjoyable time learning new things and befriending the other delegates.

Yours sincerely,  
Bryan and Jasmine

##### **1. Introduction**

With the establishment of ASEAN Economic Community 2015 (AEC 2015), ASEAN has seen great interest and desire in the prospects and opportunities for Micro, Small and Medium enterprises (MSMEs) to grow in competitiveness in the region, and beyond. MSMEs are already key drivers and contributors to the GDP of ASEAN economies, accounting for 95-99% of all businesses in existence, employing about 51-97% of the workforce in many ASEAN Member States (AMS), and contribute about 23-58% to ASEAN's overall GDP and 10-30% to exports within the region (ASEAN SME Service Centre, 2015).

MSMEs are crucial in ASEAN as they provide employment opportunities and enhance the flow of goods and services. As of 2016, 44% of MSMEs have been exporting to markets outside of ASEAN (Association of Chartered Certified Accountants

(ACCA), 2016), making ASEAN the fourth-largest world economy.

However, there is immense room for MSMEs to increase their share of the world market as their exports contribute just 7.6% to world trade in goods (ASEAN Secretariat, 2016a).

MSMEs also assist in sustaining ASEAN's growth in living standards, which alleviates the development gap among AMS (ASEAN Secretariat, 2016b). Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand are generally more developed than Cambodia, Laos PDR, Myanmar, and Vietnam, in terms of advancement in technology and economy sizes. (ASEAN Secretariat, 2015). Therefore, MSMEs also help to narrow the development gap among AMS.

As ASEAN's varied populace grows and matures, they will desire improved living standards. In order for MSMEs in ASEAN to support this aspiration and continue contributing to ASEAN's employment, GDP, and export growth, they need to link up with enterprises, traders, suppliers, manufacturers and consumers within AMS and with trade partners regionally, and worldwide. By enhancing market access regionally and globally, MSMEs can tap on more trade and investment opportunities in ASEAN (ASEAN Secretariat, 2015).

## 2. Definitions

### **2.1 Micro, Small and Medium Enterprises (MSMEs)**

MSMEs are small start-up companies that are run within a country. Each MSME is usually defined by the number of employees or the size of their financial sales or assets. (ASEAN Secretariat, 2015)

The number of employees for micro enterprises is generally less than 10. The number of employees for small and medium enterprises range from 15 to 299 employees and 30 to 599 respectively (Bank Indonesia, 2015).

However, the definition of MSMEs differ in and within each AMS due to the varying concentrations of workers in different industries and sectors. The agricultural, manufacturing and service sectors are some of the common sectors that AMS are strong in. (ASEAN Secretariat, 2015)

### **2.2 Global Competitiveness**

From a business perspective, competitiveness is defined as the ability for a company to provide products and/or services more effectively and efficiently than relevant competitors. Firm profitability, global market shares, and comparison of cost & quality of goods are some ways that businesses may use to measure their competitiveness level. (TCI Network, n.d.)

To industries worldwide, measurement of global competitiveness may include

the overall profitability of the nation's firms in the industry, the balance of outbound and inbound foreign direct investment, and the direct measures of cost and quality. These provide companies with better indicators of their economic status as they differentiate factors which may be working or can be improved. It is important to note that the competitiveness of a single firm does not necessarily imply the competitiveness of the industry. (TCI Network, n.d.)

### **2.3 Multi-National Corporations**

Multi-National Corporations (MNCs) are corporations which have assets and or facilities in one or more foreign countries. Such companies usually have a central head office which controls and coordinates the global management system. (Investopedia, n.d.) Being international, MNCs taps on Global Value & Supply Chains to meet the demands of its customers and/or consumers.

### **2.4 Global Value Chains**

A global value chain (GVC) is the production of goods and services provided by several countries. GVCs are processes which involve more than one country to provide a specific role, such as the production of parts or assembling of parts, to meet a common objective. ASEAN is placing a great amount of emphasis on recognising that GVCs are one of the big drivers of growth for the region, as they provide opportunities for MSMEs

to participate in the global market. (OECD, 2016)

### **2.5 Global Supply Chains**

A global supply chain (GSC) is the distribution of post sales activities among several countries. GSCs refer to the network created among different worldwide companies to handle and distribute goods and or services. (Invest in ASEAN, n.d.) Such networks strongly boost partnerships between countries as they promote the idea of free trade agreements, which help to reduce barriers in the exchange goods and services. With the deduction of tariffs, quotas or regulations helps to enhance the flow of goods and services, MSMEs can integrate into GSCs with more ease. (Rosellon and Medalla, 2012).

## **3. History**

### **1995: ASEAN Small and Medium Enterprises Agencies Working Group (ASEAN SMEWG)**

The ASEAN SMEWG was established to kick-start cooperation on SME development in ASEAN, as it became a key area of focus in 1995. It serves to formulate policies, programmes and spearheads the implementation of initiatives, as well as acts as a consultative and coordination forum to ensure the development of SMEs under the on-going process of ASEAN integration.

### **2011: ASEAN SME Advisory Board**

The ASEAN SME Advisory Board

serves to provide strategic policy inputs on SME development to the Ministers and guidance on high-priority matters to the ASEAN SMEWG. Board members comprise the Head of SME Agencies from all ASEAN member states, and at least one representative of prominent SME leader from the private sector.

**2014: ASEAN SME Policy Index**

The ASEAN SME Policy Index is a tool that tracks policy development and identifies gaps in both policy elaboration and implementation at for SMEs in ASEAN.

**2014: Strategic Action Plan for SME Development 2016-2025 (SAP SMED 2025)**

The Action Plan builds on a previous version (2010-2015) that encapsulates proposed measures to drive SME growth. Building on the vision of “Globally Competitive and Innovative SMEs”, *SAP SMED 2025* aims to (i) promote productivity, technology and innovation (ii) increase access to finance (iii) enhance market access and internationalization (iv) enhance policy and regulatory environment and (v) promote entrepreneurship and human capital development.

**2016: ASEAN SME Online Academy**

The Academy offers courses and business information for MSME accessible through computers, smart phones, and tablets. The course cover important subjects like

finance/accounting, management, marketing, operation, technology and trade/logistics. Other information housed by the Academy assists MSMEs to find networking opportunities and gain access to region-specific information to further grow and upgrade their businesses.

**4. Recent Developments**

ASEAN SMEs have been making consistent efforts to export beyond ASEAN as the percentage of Extra-ASEAN exports slowly rises from 2007 to 2015 (see Fig. 1). However, intra-ASEAN trade still counts for a significant portion of the regional economy, and some measures are planned to enhance the trade of goods between the AMS.



Source: ASEAN Secretariat.

**Figure 1: Intra- and Extra- ASEAN Trade in Goods**

(ASEAN Secretariat 2016, Table 3.3, page 15)

**4.1 ASEAN Single Window**

The ASEAN Single Window (ASW) is a regional initiative that was established in 2006 (Protocol To Establish And Implement The ASEAN Single Window, 2006) to connect the National Single Windows of AMS by encouraging the coordination of

exports, electronic border documents and strengthen trading relationships within AMS. So far, the ASW has achieved better platforms for sharing regional data among AMS, trading frameworks, and technical methods of sharing data securely (ASEAN Single Window Portal, n.d.). As the ASW consistently evolves its approach in implementing these policies in ASEAN, it keeps opportunities open for MSMEs to integrate into the regional and global market smoothly.

#### **4.2 ASEAN Economic Community Blueprint 2025**

The ASEAN Economic Community (AEC) Blueprint for 2025 is a continuation of the 2015 blueprint to continue developing ASEAN's economy. The AEC Blueprint for 2015 has helped to liberalise trade among AMS, narrow the development gap among AMS, and strengthen ASEAN's relationship with external parties. With this foundation, the blueprint for 2025 will continue the implementation of these measures and focus more on the development and integration of MSMEs in ASEAN. Therefore, MSMEs have more opportunities to improve on their infrastructure, and attract investments or partnerships with larger enterprises globally. (ASEAN Secretariat, 2015)

## **5. Problems and Scope**

### **5.1 Lack of access to finance**

MSMEs are perceived to have short business lifespans because of their poor access to capital markets, absence of dependable credit and poor financial disclosure. The lack of financial literacy among MSMEs results in poor financial handling. Therefore, larger enterprises are reluctant to collaborate with MSMEs through GVCs and GSCs, especially when MSMEs carry a high risk of bad debt recovery. (Bank Indonesia, 2015).

### **5.2 The lack of adequate benchmarks**

There are policies and regulations being implemented through the AEC and the Strategic Plans for the development of MSMEs from 2010 to 2015 and 2015 to 2025. They help to standardise the quality of goods and services. However, not all AMS are using key performance indicators (KPIs) to keep track on the development of MSMEs. KPIs help AMS to provide insights on the effectiveness of the plan that would assist AMS in making future decisions during the second half of the plans. However, not all sets of KPIs are being used by AMS to help them achieve each of the five strategic goals outlined in the plan. Therefore, there is a lack of credible evidence to prove that MSMEs provide a standard of goods and services that is recognised on a regional and global scale. (ASEAN Secretariat, 2015)

In conclusion, these problems hinder MSMEs from gaining entrepreneurship opportunities from regional and global markets. With the rise of e-commerce, a relatively new market, there is a crucial need to be integrated into the global market. In ASEAN, e-commerce accounts for less than 1% of total retail sales in ASEAN, compared to 6% to 8% in Europe, China, and the United States (Lifting The Barriers To E-Commerce in ASEAN, 2015). However, larger enterprises lack trust in MSMEs because they do not know if MSMEs are financially literate enough to handle projects with big budgets. The lack of evidence to show how MSMEs manufacture products and deliver services also deters MNCs from investing in them.

## 6. Potential Solutions

### 6.1 Having a proper financial database

A greater awareness for MSMEs is needed so that more of them can participate in Global Supply Chains (ASEAN Secretariat, 2015). Not having a proper financial database for MSMEs to disclose their transaction activity hinders them from achieving desirable profits from their businesses.

### 6.2 Methods to monitor the progress of MSMEs

There are some initiatives to support the development of MSMEs as part of the AEC. The ASEAN SME Policy Index was published in 2014 by the ASEAN SME Working Group (SMEWG). This index aims to

simultaneously track the implementation of policies across all AMS so that it is easier to identify the gaps between AMS. Therefore, it would be easier for ASEAN to collectively narrow the development gap among AMS and identify opportunities for MSMEs to collaborate with larger enterprises. (ASEAN SME Policy 2014, 2014).

## 7. Guiding Questions

- How can e-commerce contribute towards growing MSMEs in ASEAN and beyond?
- Should MSMEs in ASEAN focus on the expanding in the region before reaching out to the global market?
- How can the AEC's provisions help MSMEs to grow into stable businesses globally?
- How could ASEAN as a whole further enhance MSME's global competitiveness?

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