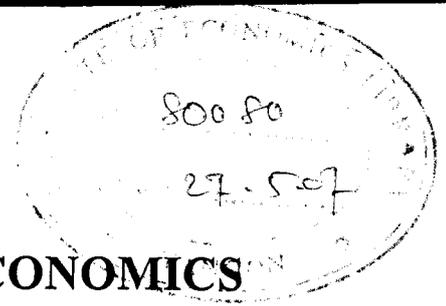


**YANGON INSTITUTE OF ECONOMICS  
Ph.D PROGRAMME**

**POLICIES AND PRACTICES  
OF  
SMEs IN MYANMAR**

**MA OHNMAR THEIN  
FEBRUARY, 2007**



**YANGON INSTITUTE OF ECONOMICS**

**Ph. D Programme**

**Policies and Practices of SMEs in Myanmar**

**Ma Ohnmar Thein**

**FEBRUARY, 2007**

# **Policies and Practices of SMEs in Myanmar**

**Partial Fulfillment of the Requirements for  
the Degree of Ph.D of the Department of Commerce,  
Yangon Institute of Economics,  
Myanmar**

**Submitted by:  
Ma Ohnmar Thein  
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## CERTIFICATION

I hereby certify that content of this paper is purely from the writer and appropriate citations are acknowledged. Information from sources is referenced with comments and ideas from the writer herself.

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# YANGON INSTITUTE OF ECONOMICS

This is to certify that Thesis titled "Policies and Practices of SMEs in Myanmar" submitted to Yangon Institute of Economics in partial fulfillment of the requirements for the degree of Doctor of Philosophy has been accepted by the Board of Examiners.



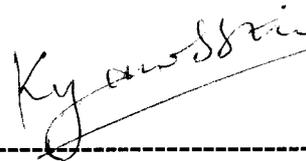
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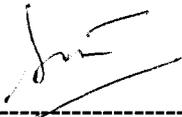
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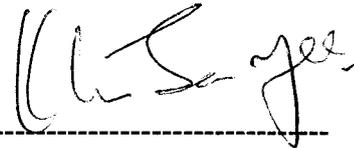
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### *Abstract*

## *Policies and Practices of SMEs in Myanmar*

*Ma Ohnmar Thein*

*Modern economic growth requires continuous accumulation of capital, skill development of labor force and technology progress. SMEs can become effective instruments for growth by organizing production in a way to cut costs and maximize profits. It has been long recognized that SMEs require appropriate policies and business environment to contribute in an economy. SMEs can provide competitive advantages and they are flexible enough to respond quickly to market changes and technological development. However, SMEs have weaknesses compared to large enterprises, such as lack of financial sources, inability to exploit economies of scale and less capital intensive technology. Thus, the long-term viability of SMEs depends on sound policies.*

*In every country, the role of SMEs is crucial for the economic development and industrialization. In Japan, South Korea, ASEAN etc., SMEs are looked to as major job sources due to the labor-intensive nature of their work. There has been rapid industrialization and export oriented systems attached to SMEs in the ASEAN countries since the 1980s. Although SMEs can generate employment for the work force, majority of them have limitations. Especially the SMEs have the intention for receiving international exposures and participating in the modern industrial economy. This can be achieved only through the sound policies for the development of SMEs in the respective countries.*

*This study examines the policies and practices for the development of SMEs. It discovers that the supporting policies are influence on the growth of SMEs. Therefore, the supporting policies are found to be one of the most important determinants for the development of SMEs. Since Myanmar being the member of ASEAN and participating in AFTA process, it is vital to have sound policies that support the SMEs for their business success.*

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Special thanks to my parents and sisters for their patient, moral and other supports. It is my great honor to dedicate this dissertation to my mother for her love and encouragement.

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Ohnmar Thein

Ph.D Za-5

October, 2006

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# Chapter One

## Introduction

SMEs (Small and Medium Enterprises) are the driving force of every national economy even in the advanced countries like United States, European Countries, Japan and South Korea in Asia. Recognizing this significant role of SMEs, ASEAN countries as well as APEC countries are taking serious actions to develop the SMEs in the regions.

Among the SMEs, most of the development activities are directed at the industrial manufacturing sector as the SMEs in this sector account for nearly 90 percent or more of the manufacturing establishments. However, more than their numerical predominance is the significant role which SMEs play in the overall economic development in ASEAN countries including Myanmar.

SMEs provide productive outlets for the talents and energies of enterprising, independent people, many of whom would not find employment opportunities elsewhere. SMEs often flourish by serving limited or specialized markets and provide a seedbed for entrepreneurial talents and a testing ground for new industries. They supply dynamism and enhance competition within the economy. They promote community stability and do less harm to physical environment than large enterprises do, stimulate personal savings, promote agro-industrial linkages, improve rural welfare and generally raise the level of popular participation in the economy. In several countries, SMEs also contribute to exports by producing parts and components for large enterprises.

As SMEs remain the largest source of domestic employment in most developed countries and of non-agricultural employment in virtually all developing economies, government policies concerning the development and integration of SMEs mainly support to increase social and economic returns particularly in terms of higher income growth, fuller employment of domestic resources, more gainful integration through global and regional trade and investment, and greater equity in access, distribution and development. Moreover, the policies for SMEs embody conviction of many in the appealing and enduring values of entrepreneurial drive and private enterprise. SMEs can be leveraged into competitive, inter-

linked and innovative business— all in combination with judicious oversight from government and a propitious environment of external development and co-operation.<sup>1</sup>

SMEs are required to practice their businesses in accordance with legal framework and local requirements and other pertinent business ethics or customs. In this respect, good supporting practice, good management practice, good marketing practice etc. are vital. It is generally understood in every developing country that the SMEs which can adopt best practices are more successful than others.

Because of the key role that SMEs could play in the diversification of economic activity and in the creation of better employment opportunities, some governments in developing countries have pursued active policies in the development of the SMEs. Government action in support of SMEs includes the establishment of specialized financial institutions and the development of infrastructure which consist of the establishment of industrial estates in urban and rural areas, marketing services including export market facilities, technical development, extensive training and concessions in power supply. In addition to infrastructure facilities, financial incentives provided include exemption from excise duty, quantitative restrictions on the output of large scale firms which is an implicit subsidy to the SMEs and reservation in product lines.<sup>2</sup>

## **1.1 Rationale of the Study**

In Asia, Small and Medium Enterprises (SMEs) constitute a very important segment of national economies because of their significant contribution to the process of industrialization and the development of exports. In particular; these generate value addition, create higher employment avenues than large scale industries, accelerate rural development programmes, and utilize local raw materials as waste products. SMEs also provide opportunities for stimulating entrepreneurship. Further, they help in mobilizing private savings and harnessing them for productive purposes and are of less capital intensity. Another characteristic of SMEs is their virtue in enhancing flexibility of production and rapid market response. They also act

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1 Choompon, Kanchana, and Chuangcham, (2003), A proposed policy blueprint for the ASEAN SMEs development DECADE 2002-2012, pp.1, 167.

2 Little Ian M.D and Mazumdar , Dipak and Page (Jr), John M. Small Manufacturing Enterprises ,Oxford University Press , Washington , 1987 , p.88.

as suppliers of parts and components of large scale industries. There is also growing recognition of the role of SMEs in expansion of exports.

In Myanmar and other ASEAN countries, hopes are high for the economic and industrial role of SMEs. In those countries, SMEs are considered to be as major sources of job opportunities due to the labor-intensive nature of their work. Since 1980 there has been rapid industrialization and export-led growth in the ASEAN countries. Although SMEs in the ASEAN's economies were the largest employers and comprise the majority of business entities, they have limited their activities to produce rather low value commodities mainly for local market. The SME has intended to have little international exposure and have generally participated in the modern industrial economy.

SMEs play an important role in Myanmar and it dominates most of Myanmar's economic sectors, accounting for 90 per cent of the industrial sector and 99 per cent of the manufacturing sector. In the past four years, an average annual industrial development rate indicates about 24 per cent. The target has been set to achieve 27.5 per cent in the final year of the current Five-Year Plan. In 2004-2005 fiscal year, the industrial sector contributed 10.7 per cent towards the GDP, the agricultural sector 40.7 per cent, and the meat and fish sector 9.2 per cent. Therefore, compared to the agricultural sector, the GDP contribution of the manufacturing sector is expected to rise to a level nearly the same as the agricultural sector.<sup>3</sup>

The industrial sector has a promising future for the development according to its prospects and the targets set. In the process, emphasis is to be placed on further development of the private enterprise that is the majority of the nation's industrial sector in quality and production volume. The entire private sector will make progress in parallel with the development of the private small and medium enterprises.

As the private small and medium enterprises play a fundamental role in the industrial sector, supporting policies for SMEs development is essential. With regard to the development of the industries, a total of 11,895 industries have been established during the 10 years from 1995 to 2005. Value of the production amounted to K 31,843.46 million in 2001-2002, and K 285,736.45 million and US\$ 556.38 million on 31 March 2005. Therefore,

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<sup>3</sup> The New Light of Myanmar, 25 April 25 2005

the industrial sector increased production by K 253,892.99 million and US\$ 556.38 million. Similarly, there were 152,754 employees working in the industrial sector and the number increased 82,323 more in the year<sup>4</sup>.

Myanmar industries are not only growing in number but are also producing a greater variety of high-quality products. Today there are more than 80,000 private industries in the country, and the future looks promising. Although the development of SMEs is taking place appreciably it needs more assistance and recognition from the government. The long-term viability of SMEs depends on supporting policies of government.

According to the figures from the Ministry of Industry (1) in November 2005, 77.7 percent of Myanmar enterprises were classified as small, 14.7 percent as medium and 7.6 percent as large<sup>5</sup>. About 7 percent of SMEs are estimated to fail every year but new SMEs are established showing an overall increase in number.

It is important that small and medium-sized private enterprises are further developed because they make up the majority of the nation's industrial sector. Developing SMEs has become especially important since Myanmar, now fully integrated into the Association of Southeast Asian Nations, has declared its national policy and intention to modernize and reach the same levels of industrialization as other ASEAN member nations by 2006.

Small and medium enterprises of Myanmar need to develop specialized industrial products to raise the country's level of industrialization so that it can coexist with the other ASEAN member countries. As globalization is taking, Myanmar will have to its best to compete with other ASEAN countries in the international market.

If Myanmar does not become competitive on an international level, it will have to import industrial products and parts from developed ASEAN members like Singapore, Malaysia, Thailand and Indonesia.

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<sup>4</sup> The New Light of Myanmar, April 25, 2005.

<sup>5</sup> The Myanmar Times. August 28-September 3, 2006

## **1.2 The objectives of the Study**

Although SMEs represent a very important share of economic activity in the nation and also are a significant employer of the labor force, it should be noticed that failure to boost Myanmar's SME sector will result in greater dependence on imports of industrial products from other Southeast Asian countries. There are some specific problems related to SMEs development in Myanmar: lack of healthy competitive business environments, lack of skills among workers to use technology to their advantage, access to capital, government red tape and the need to promote transparency, and the unpredictability of the economic environment, among others. Therefore, the policy and practices of Japan, South Korea and ASEAN countries will be studied as examples of how to develop the SMEs sector of Myanmar.

## **1.3 Hypotheses**

- (1) Most of the Myanmar SMEs are doing business as family business without any consideration of policy and other relevant issues.
- (2) There is a positive relationship between government's supporting policies and the survival of SMEs.

## **1.4 Design and Scope of the Study**

The process to study policies and practices of SMEs have two steps. The first step is to examine the policies of SMEs in some selected countries which are successful in supporting the development of SMEs. The second step is the awareness of practices of SMEs within the policy framework in Myanmar by conducting field research studies.

A descriptive methodology was used to study the policy and practices of SMEs for economic development. The secondary data and information are mainly collected from various sources including Yangon Institute of Economics Library, University Central Library, UMFCCI and other organizations. Personal in-depth interviews with some Myanmar economists are also conducted. In the case of other countries, the secondary data are mainly collected from online sources.

Regarding the field based research, data were collected by conducting site visits and interviews with SMEs firm owners in Yangon and Meikhtila. The selection was made of the small industries considering the range and type, so that the analysis would present various aspects of practices of the SMEs policies. Data collection on site visits was done during October-November 2006. In this survey, 68 numbers of SMEs firms in Yangon and Meikhtila were selected for the survey with Simple Random Sampling Method using a structured questionnaire, followed by in-depth interviews with SMEs' firm owners.

The policy and practice of SMEs development is focused on private sector Small and Medium enterprise (SMEs) and state owned Small scale enterprises are excluded. For literature review, policy and practices of SMEs development in Japan, Korea and some ASEAN countries are studied. The field-based research was conducted in Yangon and Meikhtilar only.

## **1.5 Organization of the Study**

The present paper consists of five chapters. *Chapter One* provides rationale and objectives of the study and *Chapter Two* describes the literature reviews of SMEs development. Based on literature review, the conceptual framework for SMEs development had been developed. The policies and practices of Japan, South Korea and ASEAN countries are presented in *Chapter Three*. This chapter focuses on the support of respective governments, non-profit institutions, and private sector to SMEs. *Chapter Four*, will provide an overview of the situation of Myanmar's SMEs. This chapter reviews the past and present situation of SMEs development in Myanmar. It also provides an investigation into the support mechanisms for SMEs. The major support channels have been reviewed and analyzed. In the first channel, technical, financial and marketing supports are considered as the major types of SME supports and they have also been discussed in this study. Private support through subcontracting relations, the second channel is also an important source that provides much of the support to the development of SMEs. Then, the experiences of Japan, South Korea and ASEAN countries were taken as guides to the development of SMEs in Myanmar. Finally, *Chapter Five* conclude with the overall picture of how Myanmar SMEs will appear in the near future with the change in the policies and practices of SMEs as expected in the study.

## **1.6 Limitations of the Study**

The main limitation to this study is the difficulty in getting the necessary data from the original sources including the state and private sectors. The second limitation is the collection of data. Efforts, however, have been made to overcome these limitation utilizing all the available resources and guidance of the knowledgeable persons concerned.

## Chapter Two

### Literature Review on SMEs Development

There are two objectives of literature review on SMEs development. The first objective is to identify the field of research related to SMEs development and the second objective is to develop the conceptual frame work of SMEs development.

There are some studies being done by Myanmar economists as well as other economists on Myanmar industry. As the Small and Medium Enterprises (SMEs) play a critical role in the country's industrialization programme, the studies of SMEs have been focused not only on SMEs development strategy but also on industry development strategy. Although economists have already made studies on industrial development and SMEs development, there is no research paper on the comparison of the policy and practices of SMEs development in Myanmar with those in other countries such as Japan, Korea and ASEAN countries. Therefore, the policy and practices of SMEs development in Japan, Korea and ASEAN countries should be studied based on literature review. By studying their policies and best practices of SMEs development in selected countries, some lessons may be learnt for SMEs development of Myanmar.

There are two main agents that have been identified as support facilitators for SMEs: governments and non-profit institutions, and the private sector<sup>6</sup>. In the private sector, SMEs are founded, owned and operated by individual entrepreneurs without support from public and non-public resources. However, the role of Government in creating a healthy, competitive business environments, Government support, responsible body for SMEs policy, basic law enactment, Government support for startup, financial support, technological support, marketing support and industrial linkage development is crucial for the survival and growth of SMEs in the future.

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<sup>6</sup> Mecardo Tansamo, The Ways for Promoting SMEs, (Manila: International Conference, August 1998), p 21

## 2.1 Role of Government in Development of Healthy, Competitive Business Environments

Masaaki Suzuki pointed out that since institutional capacity and policy objectives vary with the stage of industrialization, contents and focuses of promotion policies also change. The governments of countries at the initial industrialization stage generally have only low institutional capacity with limited resource<sup>7</sup>.

World Bank emphasizes that the government should match its role to its institutional capacity and concentrates on "minimal functions" until its institutional capacity is improved<sup>8</sup>. It seems that this idea also applies to SME promotion.

"Minimal functions" concerning industrialization include; development of environments, which is a prerequisite for markets to function, such as development/improvement of physical infrastructure and the legal/accounting system, securing the private property right, and macro economic stabilization; relaxation and abolition of restrictions which are obstacles of business operations such as simplification of import and export procedure, reduction of export items dominated by the government.

These measures, aiming at establishing the business environment where private firms can operate without uncertainty, are the main "SMEs promotion policy" at the initial industrialization stage. Although improving the environment does not necessarily lead to grow of firms, the effect of promotion policies is greatly reduced without it. Therefore Governments can play a very important role in fostering a healthy, competitive business environment. The government can also support SMEs through improving infrastructure and business oriented institutions. In this regard, the role of government in regulating the competitive process should be highlighted.

Mr. Yoshiaki pointed to the very important role of government in fostering a healthy, competitive business environment. He sees government as an "intermediary" in the establishment of an "investment and trade promotion center." For a government to be able

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<sup>7</sup> Suzuki, Masaaki "Policy Proposals on Small and Medium-sized Industry Promotion in Southeast Asian Countries" [www.mof.go.jp](http://www.mof.go.jp)

<sup>8</sup> World bank (1997) - World Development Report: The State in a Changing World. Oxford University Press. [www.imf.org](http://www.imf.org)

to respond quickly to the demands and problems of foreign companies, he argues that a permanent official institution be set up to act as an "intermediary."<sup>9</sup>

Mr. Toshihiro Kudo also points out that the only way to instill private sector confidence in its policies is for the government to steadily promote concrete economic reforms toward a free and fair market economy.<sup>10</sup>

Chit So also suggests that the quickest way to achieve industrialization will be to create a "favorable environment for attracting foreign direct investment (FDI)"<sup>11</sup>.

## **2.2 Need of Government support for SMEs development**

Mr. Yoshiaki, U Myat Thein and Mr. Kudo addressed the role of government in SMEs development. Mr Yoshiaki pointed to the very important role of government in fostering a healthy, competitive business environment<sup>12</sup>. U Myat Thein also mentioned that it is very important for the State to make the right kind of intervention and it should be stressed that industrial development will be greatly facilitated if the State can make the right kind of intervention which will conserve capital and save foreign exchange<sup>13</sup>. Mr. Kudo pointed out that state-owned enterprises are still more favorably treated than most private enterprises in terms of access to such inputs as raw materials, electricity and petroleum, finance, and foreign exchange. He also mentioned that the only way to instill private sector confidence in its policies is for the government to steadily promote concrete economic reforms toward a free and fair market economy.<sup>14</sup>

Improved legal system is crucial for development of healthy, competitive business environment for SMEs. Government of Japan, South Korea and Thailand therefore issued the

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9 Ueda, Yoshiaki "Direct Investment in Asia by Japanese Corporations: A Message from Vietnam to Myanmar". Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999. pp 174-175

10 Kudo, Toshihiro. 'Stunted and Distorted Industrialization in Myanmar' [http://www.ide.go.jp/English/Publish/Dp/pdf/038\\_kudo.pdf](http://www.ide.go.jp/English/Publish/Dp/pdf/038_kudo.pdf)

11 Chit So. "Industrial Development and Reforms in Myanmar" Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999. p 154

12 Ueda, Yoshiaki (1999). p 174

13 Myat Thein "Dual Technology in Industrial Development: The Role of the State" Industrial Development in Myanmar. IDE, Bangkok, 2001. p 292

14 Kudo, Toshihiro. "Industrial Policy in Myanmar: Lessons from the Past". Industrial Development in Myanmar. IDE, Bangkok, 2001. p. 42

law for the promotion of SMEs. Dr Kyaw Htin pointed out that although over 98 per cent of the business enterprises belong to the SMEs, at the moment there is no law for the promotion of SMEs in Myanmar as in Japan, South Korea and Thailand.<sup>15</sup>

In general, the supporting mechanisms for SMEs aim to promote their activities and enhance their competitiveness in the market as well. In fact, the typical types of support that the government often focuses on are<sup>16</sup>: technical support (managerial skills, technical training, technological transfers, quality test systems); financial support (preferential loans, credit guarantees, access to credit); and marketing support (market information, access to exports).

According to Paul Cook (2000), the government provides support for SMEs through some principal ways: through direct measures aimed at influencing enterprise behavior, through indirect mechanisms to improve the environment for SMEs, and through support given to intermediary agencies (both state and private) that assist in the promotion of SMEs development<sup>17</sup>.

Direct programs of support operate through a variety of incentive schemes using tax and subsidies, preferential credit, procurement policies, and the relaxation of regulatory requirements. Tax incentives have been used in Malaysia to encourage subcontracting activities between multinational firms and local SMEs<sup>18</sup>. Subsidies can be used to provide direct support to SMEs in terms of R & D, and training in marketing and finance. Subsidies have also been used to permit SMEs to participate in trade fairs. In Brazil, SEBRAE pays half of the exhibition costs for small enterprises. Procurement policies through national and state governments have been used to support SMEs in a number of countries, as for example in India and Brazil<sup>19</sup>.

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15 Kyaw Htin "Myanmar's Industrialization focusing on the Current Situation and Future Prospects of Myanmar's Industrialization Programme" [www.ibiblio.net/obl/reg.burma/archives/199912/msg00618.html](http://www.ibiblio.net/obl/reg.burma/archives/199912/msg00618.html)

16 Little, Ian M.D., Dipak Mazumdar and John M. Page Jr. , *Small Manufacturing Enterprises*, (Oxford University Press for The World Bank, 1987); Motoshige Itoh and Shujiro Urata, *SMEs Support Policies in Japan*, (World Bank Working Paper No 1403, 1994), 13-5.

17 Cook Paul, *Support Mechanism for Inter-firm Linkages Among SMEs: Impact and Assessment*, (IDPM, University of Manchester, 2000), 7

18 Cook Paul, *Support Mechanism for Inter-firm Linkages Among SMEs: Impact and Assessment*, (IDPM, University of Manchester, 2000), 7

19 Tendler and Arnorim , *Small Firms and Their Helpers' Lessons on Demand*, (World Development 24 (3), 1996), 407

Government can also play a role in establishing and strengthening links between Large Enterprises (LEs) and SMEs through subcontracting relations. A number of schemes to facilitate subcontracting linkages have been introduced in Korea, Taiwan, and Singapore. The most successful of these have been used to increase the absorptive capacity of SMEs. Therefore, they will become more attractive to the LEs<sup>20</sup>. All of three above economies have developed their institutional capacity to provide support through strong coordinating agencies, such as the Investment Development Bureau in Taiwan, the Ministry of Commerce and Industries in Korea, and the Economic Development Board in Singapore. Public policy also could provide strong technical support systems to complement the arrangements between large and small enterprises through technology centers in Japan<sup>21</sup>. In terms of financial support, the government has provided various types of support. In Taiwan, the government has encouraged banks to grant loans to SMEs. The Ministry of Finance has put pressure on banks to increase their ratio of financing to SMEs. The government has established a publicly-owned bank, the Taiwan Medium and Small Business Bank, to lend to SMEs<sup>22</sup>.

The government also can support SMEs through improving infrastructure and institutions. In this regard, the role of government in regulating the competitive process should be highlighted<sup>23</sup>.

### **2.3 Responsible Body for SMEs Policy**

In recent years, many governments have also supported the development of intermediary agencies, responsible body for SMEs policy, such as nonprofit institutions, sector associations.

Regarding the support from non-profit institution for SMEs, the local associations and other nonprofit organizations are also important sources that have provided support to SMEs. There are many kinds of association and organization as well as their activities, such as self-help

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20 Cook Paul (2000), page 7

21 World Bank, Industrial Structure Adjustment and the Development of SMEs Linkages: Examples from East Asia, (Washington DC: EDI Series, World Bank, 1994), 8-22

22 Hsueh, The Development of Small and Medium-Sized Enterprises in Taiwan, (Chung-Hai Institution for Economic Research, No. 9002, 1990)

23 Cook (1999), Privatisation and Utility Regulation in Developing Countries: The Lessons So Far, (Annals of Public and Cooperative Economics 74 (4), 1999)

organizations, local business associations and Chambers of Commerce that promote the interests of the business sector; or the private commercial institutions which provide a range of capacity building support in the area of technology, marketing, business, industry analysis, accountancy, law, institutional training, transport, and access credit<sup>24</sup>.

In addition, Hamalalai (1993), also noted that the business associations have been particularly important. Local business associations can perform a wide range of functions including: political voices; provision of concrete business services such as seminars, information and library services, exhibition and trade fairs, foreign contacts, contract adjudication, specialized legal advice and assistance, certification of document and product quality, or cartel arrangements. Moreover, they can participate in the framing and/or implementation of public policy<sup>25</sup>.

Ueda (1999) stated that the government as an "intermediary" in the establishment of an "investment and trade promotion center." For government to be able to respond quickly to the demands and problems of foreign companies, he argues that a permanent official institution be set up to act as an "intermediary."<sup>26</sup>

Chit So(1999) also recommended that the government encourage the private sector to take the leading role while the state plays a facilitating and supporting role.<sup>27</sup>

## 2.4 Basic Law Enactment

SMEs Basic Law is crucial for SMEs development. It was learnt that SMEs can survive if there is SMEs basic law. That is why Dr Kyaw Htin pointed out that SMEs industrial law could help solve financing problems and secure raw materials for the enterprises. He also mentioned that there is no SMEs industrial development law in Myanmar but there is a private industrial enterprises law (1990), and a promotion of cottage industries law (1991). According to the current definition, a small or medium enterprise is one that has fewer than

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24 Cook Paul, Support Mechanism for Inter-firm Linkages Among SMEs: Impact and Assessment, (IDPM, University of Manchester, 2000), 11

25 Moore and Hamalalai, Economic Liberalization, Political Pluralism and Business Associations in Developing Countries, (World Development 21 (12), 1993)

26 Ueda (1999), p 174

27 Chit So (1999), p 154

100 workers, uses less than 50 horsepower and has under K5 million for investment. This definition is outdated as most SMEs today rely upon larger amount of electricity and employ fewer people.<sup>28</sup>

## 2.5 Supports for SMEs

### a). Government Support for Business Start Up

Promotion of new entries is a traditional role of the government; nevertheless, it is especially important for SMEs development. The government may implement to raise “seedbed” enterprises which transfer technology to possible entrepreneurs to expand incentives for startups and to remove institutional obstacles of startups.

The first step of promotion policies is to pick up enterprises with growth potential. To find appropriate target enterprises, Minoru Kiryu suggested that the effective utilization of the nation's advantages, namely its agriculture and agro-industry, should be the first for development strategy of the government to promote industries.<sup>29</sup>

According to U Myat Thein, there are three views on the industrial development strategy of Myanmar: resource-based industrialization strategy, intermediate technology oriented industrialization strategy and linkage oriented industrialization strategy<sup>30</sup>. Aung Myint (1999) also mentioned that Myanmar should pursue a resource-based industrialization strategy because manufacturing industries are driving force of economic development and social progress.<sup>31</sup> Developing these areas will give the country's rural populations increased income, more employment opportunities and greater purchasing power. Developing a food processing industry is important for agro-based country. According to above mentioned facts, the government's objective of economic development is to use agricultural development as a base for developing the industrial sector.

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28 [www.myanmar.com/myanmartimes/MyanmarTimes17.331](http://www.myanmar.com/myanmartimes/MyanmarTimes17.331)

29 Minoru Kiryu The Role of Small and Medium-Sized Enterprises in the Industrial Development of Myanmar. Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok,1999.p 18

30 Myat Thein. Three Views on the Industrial Development Strategy of Myanmar. Annual magazine, institute of Economics, 1975. pp 140 - 148

31 Aung Myint. Investment Opportunities in the Processing and Manufacturing Sector in Myanmar. Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok,1999.p 18

## **b) Financial Support**

Financial support schemes are not established in many countries at the initial industrialization stage; at the same time, private financial institutions are also undeveloped there. Therefore, SMEs are in an extremely severe financial environment.

Therefore, one of the economic objectives set by the Government of Myanmar is "the development of the economy inviting domestic and foreign investment that will transfer technology and know how." This has resulted in receiving foreign investment and technical cooperation and in the emergence of joint ventures with firms from various countries including Japan, Singapore, and Thailand.

Chit So (1999) addressed that the quickest way to achieve industrialization will be to create a favorable environment for attracting foreign direct investment (FDI)<sup>32</sup>.

The following three points seem to be important concerning financial support schemes. The first is to widen the scope of targets of policy-based finance as much as possible as aforementioned. The second is that introduction of low interest loans should be carefully examined. Generally, the difficulty faced by SMEs in developing countries is lack of access to formal financial institutions. In such a situation, the basic principle may be not to apply low interests. The third is an issue concerning the scale of policy-based finance.

Financial mediation will be essential in order to guarantee their development, This means that interest rates must be adjusted so as to avoid inflation and promote savings. Furthermore, money lending by entrepreneurs must be facilitated in order to increase investment<sup>33</sup>.

In order to facilitate fund supply for small and medium enterprises, Government shall strengthen the functions of governmental financial institutions, develop credit enhancement projects, direct private sector financial institutions to conduct proper lending for SMEs, and take any other necessary measures. Chit So (1999) recommended that the government

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32 Chit So (1999) p 154

33 Takanori Wajima "Recent Banking Sector Developments and Current Monetary Status in Myanmar" Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999. pp 263-265

encourage the private sector to take the leading role while the state plays a facilitating and supporting role.<sup>34</sup>

A credit guarantee system is one of the financial supports to complement the shortage of collateral provided by SMEs in Korea. Since the Korea Credit Guarantee Fund was established in 1976, credit guarantees have been remarkably expanded to achieve more effective lending service, and more incentives are being offered for high-quality workers applying for employment with SMEs. In 1989, the Korea Technology Credit Guarantee Fund was also established in order to support new technology development and the commercialization of the R&D results of SMEs. However, the most impressive measure was the introduction of the special credit guarantee in order to extend the credit guarantee for SMEs and individuals.

### **e) Technological Support**

U Myat Thein (2001) suggested that developing countries such as Myanmar have less physical capital per head than developed countries, and must therefore choose less capital-intensive techniques of production in general. However, the natural resource endowment of a country may be such that capital-intensive methods may be required in certain industries (such as oil and gas) to exploit its comparative advantage<sup>35</sup>. Hence, he proposes the adoption of dual technology approach as in Russia in the early days of its development.

Professor Tetsuo Minato (1999) pointed out that the source of technological progress in developing economies is not product innovation but process innovation. To achieve efficient process innovation, it is necessary to make a division between specific and specialized production processes. This is because it is difficult for a single company to handle an entire operation effectively as production processes become more complex and specialized lines become longer. By integrating large and medium-sized companies and separating their production processes so as to maximize the advantages of each, the potential for technological progress driven by process innovation increases. In this way, a substantial rate of technological progress can be maintained and economic growth

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<sup>34</sup> Chit So (1999) p 154

<sup>35</sup> Myat Thein. "Dual Technology in Industrial Development, Industrial Development in Myanmar: Prospects and Challenges" Institute of Developing Economies, 2001. pp

guaranteed. Developing such a system of the inter-firm division of processes and labor is considered to have strategic importance in Myanmar's economic development.<sup>36</sup>

Specialization is indispensable for SMEs to raise their technology level due to their limited internal managerial resources that can be accumulated inside. For this purpose, markets must be big enough to enhance specialization. In order to raise SMEs' level, expanding markets by positively responding to globalization is essential along with domestic market integration through such efforts as development of transportation infrastructures.

The first strategy for this purpose is export promotion. Yoshiaki Ueda suggests that one lesson to be learned from the Asian financial crisis is a need to alleviate international financial risks by actively fostering export industries instead of import-substitute industries.<sup>37</sup> Dr Kitti Limskul (1999) suggested that Myanmar should first try to develop intermediate products.

Collective (governmental, business association and NGO) marketing supports play a certain role although export markets are mainly developed by private marketing mechanisms. In addition, a flexible exchange rate policy is extremely important for export promotion though this may not be included in a general "promotion policy."

The second strategy is market integration in cooperation with neighboring countries. Southeast Asian countries have already established AICO in order to expand intra-regional trade. These movements towards market integration are also favorable in order to promote SME specialization. The local associations and other nonprofit organizations are also important sources that have provided support to SMEs. They provide a range of capacity building support in the area of technology, marketing, business, industry analysis, accountancy, law, institutional training, transport, and access credit.

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<sup>36</sup> Tetsuo Minato "Industrial Development and Inter-Firm Division of Labor in Myanmar". Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999, p 272

<sup>37</sup> Limskul, Kitti. The food sector in Myanmar: A view from Thailand's experience. Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999, p 186

#### **d) Marketing Support**

Supporting policy for securing markets is essential for SMEs development. This support is effective when the SMEs sector is not well developed. Establishment of market information system and marketing network play the vital role in SMEs promotion. Dr Kitti Limskul (1999) mentioned that as Myanmar technical expertise and marketing networks it should seek technical production assistance and international distribution support from its ASEAN neighbors, which can complement its needs.<sup>38</sup>

Ueda (1999) suggested that one lesson to be learned from the Asian financial crisis is a need to alleviate international financial risks by actively fostering export industries instead of import-substitute industries<sup>39</sup>.

### **2.6 Industrial Linkage Development**

In addition local business associations can perform a wide range of functions including political voices and provision of concrete business services such as seminars, information and library services, exhibition and trade fairs, foreign contacts, contract adjudication, specialized legal advice and assistance, certification of document and product quality, or cartel arrangements. Moreover, they can participate in the framing and/or implementation of public policy.

Furthermore, lack of capacities of implementation agencies as well as administrative resources may be a big issue in picking up policy targets. Due to the large number and scattered locations of SMEs, picking up target firms incurs huge costs; the government, however, does not necessarily own enough administrative resources enough to set up a sufficient number of implementation agencies. At the same time, it may be an issue for the government not owning sufficient know-how necessary to judge growth potential.

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38 Limskul, Kitti. The food sector in Myanmar: A view from Thailand's experience. Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999. p 186

39 Ueda, Yoshiaki, (1999): "Direct Investment in Asia by Japanese Corporations: A Message from Vietnam to Myanmar" Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok. pp-175.

The only way to solve these issues is to steadily reinforce capacity of implementation agencies and/or utilize chambers of commerce and industry and industry associations. Due to strong connections with member enterprises, these organizations have advantages to relatively easily accumulate information on the industry concerned and know-how. The public sector should take responsibility for both for providing new technology for state enterprises and creating matrixes for fostering SMEs development.

Intensively establishment of implementation agencies in industrial clusters should be considered for SMEs development. For this purpose, the government may promote investment of foreign firms and establish public technology institutes as supplement measures. If division of labor is deepened through orders placed by foreign firms, technology transfer and more specialization can be expected. Technology institutes may promote communications and information sharing as nodes in networks. In addition, establishment of industrial estates may be a suitable measure for promoting a small number of firms precedentedly since establishment of industrial estates requires enormous costs.

At the initial industrialization stage, countries should give priority to putting more efforts into human resource development and improvement of technology absorptive capacity. Chit So suggests that Myanmar learns from Japan's economic development example that nation's most valuable resource is not its cultivable land but its people. To achieve sustainable growth, Myanmar will also need to advance its industrialization through technology infusions.<sup>40</sup> Furthermore, the important government roles include removing obstacles of private technology introduction such as relaxation of import regulations on capital goods which embody technology, and expanding technology inflows such as FDI promotion. It is also indispensable to establish and reinforce intellectual property rights as the development stage advances.

The government could play more important roles at this stage due to weakness of private firms and scarce R&D ability. Major measures seem to include technological guidance/training by experts and facility/machine leasing which aim at easier access to generalized technology. It may be appropriate to start with reinforcement of the product inspection by public institutions.

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40 Chit So (1999) p 152

The government should focus more on indirect supports for self-help efforts of the private sector rather than direct supports such as introduction, development and diffusion of technology by itself. Major measures seem to provide equipment, human resources, and preferential treatments on finance and taxation.

The subcontracting system used successfully by Japan can provide an example for developing countries, where a model project for production subcontracting is slowly taking shape. If technology transfers to SMEs can continue to be implemented and good cooperation maintained between contracting firms, it will be possible for the country to produce internationally competitive products within several years.

Even if the government may play a certain role, it depends on institutional capacity. Since SMEs can face management problems, it is not always the best way for the government to take measures for solving them. There are cases where improvement of private business environments is more effective than direct public supports.

Professor Johzen Takeuchi (1999) pointed out that Myanmar needs skilled human resources as it attempts to introduce new industries and to improve basic infrastructure, and he concludes that in order to promote industrialization in Myanmar the training of government officials should focus on regional development and its impact on local populations.<sup>41</sup>

#### **a) Links-based Economic Growth Model**

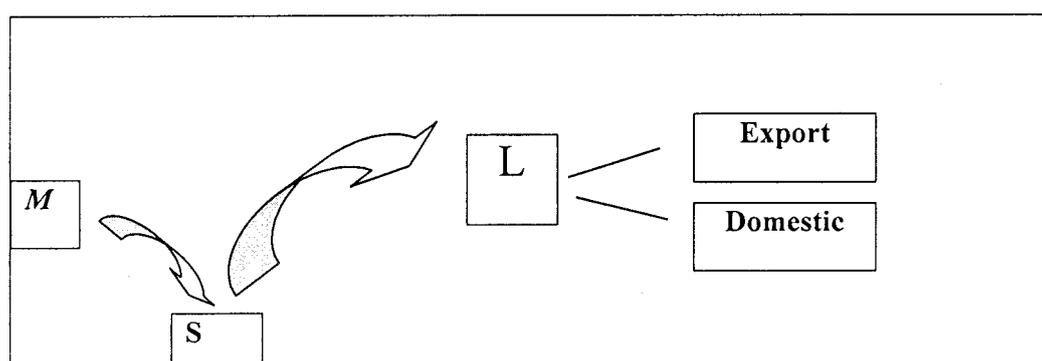
Establishment of a small enterprise may be an individual phenomenon, but every small enterprise depends critically on the whole web of relationships with customers, suppliers, competitors and others. Establishment linkage is one of the most vital conditions for SMEs success. The threats and opportunities offered by the increasing globalization of world market have made this skill more necessary. Large and small firms must be encouraged to establish durable, effective and long term relationships to their mutual benefit.

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41 Johzen Takeuchi " Formation and features of entrepreneurship in Myanmar and Japan. Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok,1999.p 186

The Links-based Economic Growth Model<sup>42</sup> (Tan, 1998) illustrates how such linkages may be developed, with each category of firm taking on different, complementary roles. In this model, medium-sized firms, with the access of resources and facilities, supply materials to the small firms. The small firms, in turn, process these raw materials through their specialized operations and yield top-quality products. Since large firms can flex greater logistics muscle, they would handle the distribution and merchandising of the products of the small firms. The large firms enable the small firms to enter doorways into larger markets, both domestically and internationally.

**Figure 2.1 Links- based Economic Growth Model**



Source: Small and Medium Enterprise Development Council, The Philippine SMEs Development Strategy (1998)

The Model requires two conditions of small firms: (1) that they find their specialization and excel in it; and, (2) that they organize and forge strong links among themselves. Small firms must be able to establish their own specific competencies in their sector.

Further, they must build networks among themselves so they can enter into truly interdependent relationships with other larger players in their field.

Industrials sub-contraction, which may involve processing materials for the purchasing large company, or the provision of parts or assemblies, is the most common form of cooperation.

#### **b) Other Forms of Linkages**

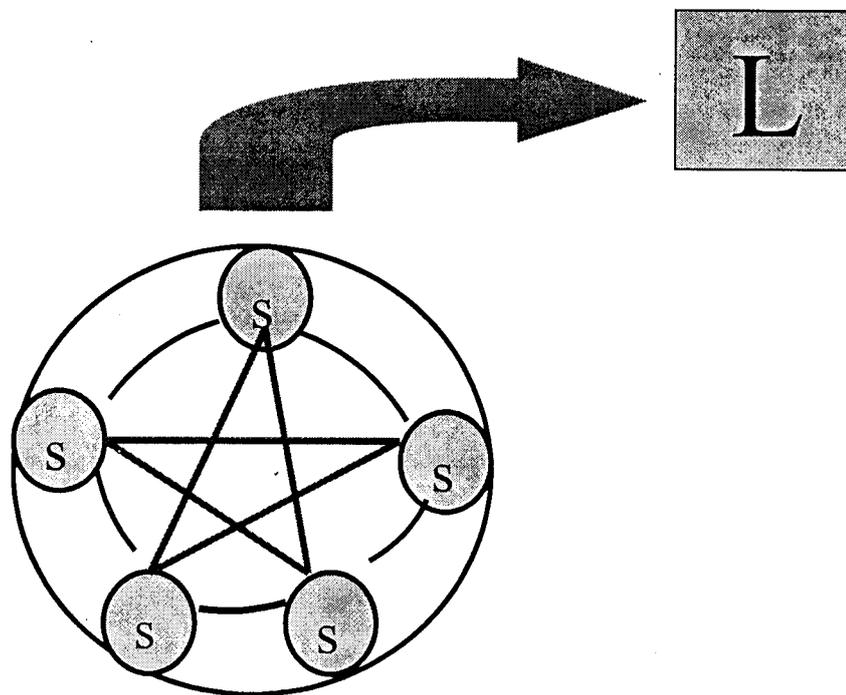
There are other forms of organization possible among small firms.

- (1) Most business communities have chambers of commerce or similar bodies that can collectively link with a large firm. Pooling their resources together, the small

<sup>42</sup> Small And Medium Enterprise Development Council, The Philippine SME Development Strategy, Department of Trade and Industry, June 1998, p 8

firms will be able to meet the large volume demands of the growing local and international markets. Large firms could serve as “consolidators” of the products for the export markets (Figure 2.2).

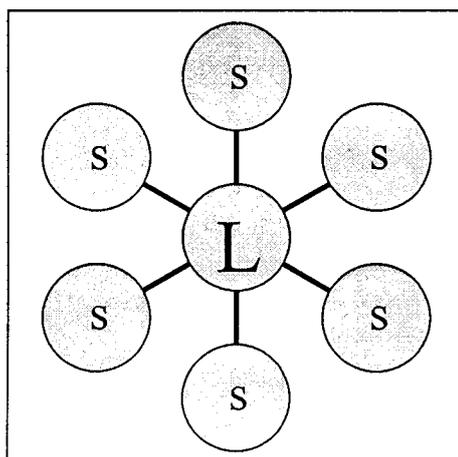
**Figure 2.2 Small Firms Collectively Linking up with a Large Anchor Firm**



Source: Small and Medium Enterprise Development Council, *The Philippine SMEs Development Strategy* (1998)

- (2) One can also have a scenario where one anchor firm handles the marketing, or sales and distribution of the products from the cluster of firms around it.. Individual small firms with specialized capabilities will handle a specific part of the production process, or act as key supplier of a specialized product or service for the large anchor firm.

**Figure 2.3 Small Firms Individually Linking up with a Large Firm**



Source: Small and Medium Enterprise Development Council, *The Philippine SMEs Development Strategy*.(1998)

In fact, large firms can provide technical and material support for their partner small firms. Assistance from the parent companies include: in-plant training, provision of designs and technical know-how, inspection and quality control, providing raw materials, testing equipment and standardization tools and assistance to achieve cost-effectiveness. These linkages ultimately serve to enable small firms to evolve into excellent modern enterprises singly competing in local market and abroad. Examples of industries successfully operating on the model are the information technology products in Silicon Valley, the electronics in Osaka, the software industry in Bangalore and the automotive production and assembly of Toyota.

The typical support mechanisms have been provided by private enterprises to SMEs through subcontracting. In Japan, parent firms and trading houses have provided marketing support to SMEs. Subcontracting in Japan is often in a 'pyramid' form. For example, a car assembler has transactions with only the first tier of subcontractors (supplier), and the first tier subcontracts with the second in a pyramid form. The assembler is positioned at the apex of the pyramid<sup>43</sup>. In Korea, subcontracting relationships are an important means by which SMEs receive support from larger and more well-established enterprises. However, the Korean

<sup>43</sup> UNCTAD, *An Overview of Activities in the Area of Inter-firm Cooperation: A Progress Report*, (Geneva: UNCTAD, 1997)

version differs in that it usually involves only two levels as opposed to the complex pyramid of Japanese subcontracting relationships<sup>44</sup>.

For the benefits of subcontracting activities, according to Kim, through subcontracting relations, firms can have the following advantages: first, exploitation of economies of scale, and second, the cost will be reduced because of using modernized management techniques and purchasing raw materials in large volumes<sup>45</sup>. For the contractors, through the subcontracting system, they might have a lot of benefits such as low labor costs, low rates of capital depreciation, low costs of technology accumulation, low management costs, and a high rate of production efficiency, etc. At the same time, the subcontractors have the following advantages: low marketing cost and easy specialization. In addition, they may receive support in management, finance and technology from contractors, etc<sup>46</sup>. For the economy as a whole, the subcontracting expansion will create more efficient use of resources.

However, subcontracting activities have also created some problems for both the contractor and subcontractor. These problems, especially failures to meet specifications and delivery dates, arise from the lack of specialization and managerial experience of subcontractors. For the subcontractors, they might face some serious problems such as the pressures to reduce prices, irregular orders, changes in specification and intensification criteria, and delay in payment from contractors<sup>47</sup>.

## **2.7 Researchers' Views on SMEs Development in Myanmar**

After the socialist regime's centrally-planned economy from 1962 to 1988, the government of the Union of Myanmar introduced market-oriented economy in 1988. Because of this change in policy, the private sector had been re-vitalized and many enterprises have emerged in the country. However there is little research paper related to SMEs.

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44 Kim Joo Hoon (1991), *Liberalization Subcontracting and Reorganization*, (Seoul: Korea Development Institute, 1991), 14-31

45 Kim Jae Won, *Subcontracting Market Expansion and Subcontracting Activities Promotion- the Case of Korea's Manufacturing Industry*, (Seoul: Korea Development Institute, 1983), 14-9

46 *ibid*

47 Kim Jae Won, *Subcontracting Market Expansion and Subcontracting Activities Promotion- the Case of Korea's Manufacturing Industry*, (Seoul: Korea Development Institute, 1983), 18

Being the Small and Medium Enterprises (SMEs) a critical role in the country's industrialization programme, literature review should be focused not only on SMEs development strategy but also on industry development strategy.

One of the earliest literature on industrial development strategy can be found in "Three Views on the Industrial Development Strategy of Myanmar"<sup>48</sup> written by U Myat Thein. He reviews some research papers that were presented at the Burma Research Congress, in 1971. He mentions that there are three views on the industrial development strategy of Myanmar; export oriented industrialization strategy, intermediate technology oriented industrialization strategy and linkage oriented industrialization strategy. He also presents the strengths and weaknesses of each industrial development strategy.

In 1999, Sasakawa Southeast Asia Cooperation Fund sponsored the Symposium on Industrial Reform in Myanmar. The objectives of the Symposium were to make a comprehensive examination of the problems that Myanmar's enterprises face as the country makes its transition to a market-oriented economy, to gain knowledge of current problems relative to Myanmar's enterprises through conducting research and holding symposia for researchers and policymakers both in and outside Myanmar and to prepare policy recommendations for submission to the Government of Myanmar based on the results of these processes, in an effort to aid in its task of reforming the nation's industrial policies. In this symposium, industrial development and reforms in Myanmar were incorporated in research reports prepared by researchers from Japan, Myanmar, and Thailand.

As a result of the Survey of Selected Manufacturing Firms in Myanmar,<sup>49</sup> Dr Nu Nu Yin stated that the 132 manufacturing firms in the survey, which are practicing various types of ownership systems (state-owned enterprises, joint ventures, cooperatives, and private enterprises) have operations aimed mostly at import substitution. She explains that among fifteen industries, only those in the areas of wood-based products, gems, fishery, and garments are engaged in export promotion. Since domestic demand for these products is sufficiently large, most manufacturing firms do not look beyond the domestic market. In terms of their

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48 Myat Thein. "Three Views on the Industrial Development Strategy of Myanmar" Annual Magazine 1971-72. Institute of Economics. pp 140-146

49 Nu Nu Yin. "Survey of Selected Manufacturing Firms in Myanmar". Industrial Development and Reforms in Myanmar. Sasakawa Peace Foundation, Bangkok, 1999. pp 31-88

product quality, however, there is a crucial need for improvement if these firms plan to enter the export market. The survey results show the major obstacles to SME business operations to be: shortages of electricity, raw materials, and machine spare parts; a lack of high technology; and the difficulty of hiring skilled labor. To guarantee the survival of these enterprises, she recommends that they should develop links, through a framework of subcontracting, with industries in other ASEAN countries as well as with domestic firms.

In his research paper on Investment Opportunities in the Processing and Manufacturing Sector in Myanmar<sup>50</sup>, Aung Myint suggested that because manufacturing industries are the driving force of economic development and social progress Myanmar should pursue a resource-based industrialization strategy. Such a strategy, he contends, is important in a country possessing abundant and varied natural resources. He points out that to enhance the development of the processing and manufacturing sectors the government has set four economic objectives. One is "the development of the economy inviting domestic and foreign investment that will transfer technology and know how." This has resulted in receiving foreign investment and technical cooperation and in the emergence of joint ventures with firms from various countries including Japan, Singapore, and Thailand. Lastly, he points to the necessity of efficient production, particularly by creating small-scale and supporting industries and integrating them into medium- scale and large scale enterprises.

Mr Yoshiaki Ueda and Dr Kitti Limskul presented the ASEAN experience in SMEs. Mr Yoshiaki presented "Direct Investment in Asia by Japanese Corporations: A Message from Vietnam to Myanmar"<sup>51</sup>. He introduced some Vietnamese examples of potential reference to Myanmar. He points to the very important role of government in fostering a healthy, competitive business environment. For example, he mentions that the automobile and tourism industries of Vietnam are facing excessive competition due to the government's failure to provide adequate guidance. For such industries, he recommends orderly investment through a system of government approval. Taking the case of Sony as an example, he proposes that the government should nurture successful companies that can serve as

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50 Aung Myint "Investment Opportunities in the Processing and Manufacturing Sector in Myanmar". Industrial Development and Reforms in Myanmar. Sasakawa Peace Foundation, Bangkok, 1999. 89-122

51 Yoshiaki Ueda. "Direct Investment in Asia by Japanese Corporations: A Message from Vietnam to Myanmar" Industrial Development and Reforms in Myanmar. Sasakawa Peace Foundation, Bangkok, 1999. pp 173-180

development models while promoting investment and economic growth. He sees government as an "intermediary" in the establishment of an "investment and trade promotion center." For government to be able to respond quickly to the demands and problems of foreign companies, he suggests that a permanent official institution be set up to act as an "intermediary." Lastly, he points out that one lesson to be learned from the A financial crisis is a need to alleviate international financial risks by actively fostering export industries instead of import-substitute industries.

Dr Kitti Limskul offered advice for Myanmar's food industry based on Thailand's experience<sup>52</sup>. He said that no strategies for industrial development have thus far been formulated in Myanmar. He suggests that the country should look to Thailand's industrial development, which shows the importance of developing a food processing industry both for earning foreign currency and financing economic development. In developing Myanmar's agro-industry, canned pineapple, canned tuna, along with other fruit and seafood products, can be important sources of foreign currency. This is because the country's soil is able to grow pineapples while its labor-intensive plantations provide a cheap wage base. He further points out that canned products, with the exception of tuna, require few material inputs, which reduces imports and saves foreign currency. He advises Myanmar not to develop a tuna industry for the time being because of the high capital and technical inputs required. He says that it should seek technical production assistance and international distribution support from its ASEAN neighbors, which can complement lack of such technical expertise and marketing networks. He also suggests that Myanmar first tries to develop intermediate products, such as soybean cake and soybean oil for its own as well as for Thai markets, and he anticipates such products can be developed at a level that meets international standards.

Toshihiro Kudo, Takinori Wajima, Tetsuo Minato and Johzen Takeuchi presented the view from Japan in the Symposium. In the Industrial Policy in Myanmar: Lessons from the Past,<sup>53</sup> Mr. Toshihiro Kudo provided a historical viewpoint. He interpreted that Myanmar's post-independence economic history as being a series of conflicts between nationalist-cum-

52 Kitti Limskul. "Myanmar's food industry based on Thailand's experience" *Industrial Development and Reforms in Myanmar*. Sasakawa Peace Foundation, Bangkok, 1999. pp181-208

53 Toshihiro Kudo. "Industrial Policy in Myanmar: Lessons from the Past". *Industrial Development in Myanmar: Prospects and Challenges*. Institute of Developing Economies, 2001. pp 209-238

socialist doctrines and the basic reality that private initiative drives economic development. Whenever each of the governments since independence wanted to accommodate and integrate the energy of private enterprises into the national economy, socialist ideology, anti-capitalist attitudes, and xenophobia stood in the way. He argues that this is why past reform efforts toward economic liberalization have yielded at best lukewarm results. Although the present government's initiatives are much more committed than those in the past to market economy principles that enhance the role of the private sector, there is, to be sure, considerable room for improvement. For example, state-owned enterprises are still more favorably treated than most private enterprises in terms of access to such inputs as raw materials, electricity and petroleum, finance, and foreign exchange. Large-scale privatization programs have long been planned but have yet to materialize. Moreover, the government still tends to resort to administrative and sometimes coercive measures to deal with perceived unstable economic situations. Such an attitude may raise suspicion in the minds of entrepreneurs, evoking the bitter experiences of the socialist period. The only way, he concludes, to instill private sector confidence in its policies is for the government to steadily promote concrete economic reforms toward a free and fair market economy.

“Recent Banking Sector Developments and Current Monetary Status in Myanmar<sup>54</sup>” by Mr Takanori Wajima addressed the financial aspects of industrial development in Myanmar. He states out that after the promulgation of the Financial Institutions of Myanmar Law in 1990, which was crafted in line with the new government's private sector orientation, private foreign banks were allowed to operate in Myanmar. He points out that the Central Bank of Myanmar Law was designed to strengthen monetary control over the financial market while allowing relative independence in the decision-making process of government budget. Along with new financial reform laws, this law is meant to preserve the internal and external value of Myanmar's currency. He adds that the Myanmar Agriculture and Development Bank was established to support the development of rural enterprises through banking services. Since Myanmar's economy is currently sustained by SMEs, financial meiation will be essential in order to guarantee their development. This means, he asserts, that interest rates must be adjusted so as to avoid inflation and promote savings. Furthermore, money lending by entrepreneurs must be facilitated in order to increase investment.

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54 Takanori Wajima. “the formation and features of entrepreneurship in Myanmar and Japan” *Industrial Development and Reforms in Myanmar*. Sasakawa Peace Foundation, Bangkok, 1999. pp 239-270

Takeuchi discusses in the formation and features of entrepreneurship in Myanmar and Japan.<sup>55</sup> Professor Johzen explained that Myanmar is still a traditional country, whose economy relies on the primary sector, and whose basic industrial structure, for example, its manufacturing sector, has virtually stagnated. Despite the potential of Myanmar's primary sector and its possible utilization in the country's development, agricultural production has shown a statistical decline over recent years. Although the bulk of the country's manufacturing sector consists of small workshops. Within the sector, the modernization of state enterprises relies heavily on the importation of basic products used in production. Development strategies are urgently needed to lighten the dependence of Myanmar's economy. Professor Takeuchi suggested that Myanmar might derive some helpful ideas by taking Japan as an example in SMEs development, especially in building its manufacturing and labor-intensive sectors. The public sector should, he suggests, take responsibility both for providing new technology for state enterprises and for creating matrixes for fostering SME development. He points out Myanmar's need for skilled human resources as it attempts to introduce new industries and to improve basic infrastructure, and he concludes that in order to promote industrialization in Myanmar the training of government officials should focus on regional development and its impact on local populations.

The Third Myanmar-Japan Economic conference was held at the International Business Centre for two days on 6th and 7th December 1999. At the conference, Dr Kyaw Htin, presented the research paper on Myanmar's Industrialization focusing on the Current Situation and Future Prospects of Myanmar's Industrialization Programme<sup>56</sup>.

He pointed out that many private companies are formed and registered due to the government's free and fair trade policies. He describes the characteristics and importance of SMEs in Myanmar. He also presents the industrial law, Myanmar Industrial Development Committee, the Role of Union of Myanmar Chamber of Commerce and Industry and Myanmar Industries Association. He points out that although over 98 per cent of the business enterprises belong to the SMEs, at the moment there is no law for the promotion of SMEs in Myanmar as in Japan, South Korea and Thailand. The main reason for this situation is that

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55 Johzen Takeuchi. the formation and features of entrepreneurship in Myanmar and Japan. Industrial Development and Reforms in Myanmar. Sasakawa Peace Foundation, Bangkok, 1999. pp 299-331

56 Kyaw Htin "Myanmar's Industrialization focusing on the Current Situation and Future Prospects of Myanmar's Industrialization Programme" [www.ibiblio.net/obl/reg\\_burma/archives/199912/msg00618.html](http://www.ibiblio.net/obl/reg_burma/archives/199912/msg00618.html)

the SMEs in Myanmar are still in the nurturing stage and there are very few large-scale enterprises which could support the growth of SMEs.

In 2001, Institute of Developing Economies published two volumes of Industrial Development in Myanmar.<sup>57</sup> Among them, the research paper on Transformation and structural changes in the 1990s and Dual Technology in Industrial Development were reviewed.

Toshihiro Kudo's paper, Transformation and structural changes in the 1990s,<sup>58</sup> described Myanmar's industrial policy, performance and structural changes in transition from a centrally planned economy to a market oriented one in the 1990s. In this paper he reviews the historical changes in industrial policies in Myanmar. He studies a series of liberalization programs implemented under the present government and assesses the impact on industrial changes and performance. The historical changes in industrial policy and the impact of economic reforms on the industry structure and ownership patterns are mainly described in his study.

U Myat Thein's paper "Dual Technology in Industrial Development,<sup>59</sup>" focused on the choice of appropriate technology in the industrialization process and the role of the State in fostering technology. He suggests that developing countries such as Myanmar have less physical capital per head than developed countries, and must therefore choose less capital-intensive techniques of production in general. However, the natural resource endowment of a country may be such that capital-intensive methods may be required in certain industries (such as oil and gas) to exploit its comparative advantage. He also points out that waste of capital must be avoided as much as possible by utilizing it as effectively as possible. Intervention by the State in the manufacturing sector is clearly needed. He concludes that it is very important for the State to make the right kind of intervention and it should be stressed that industrial development will be greatly facilitated if the State can make the right kind of intervention which will conserve capital and save foreign exchange.

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57 Industrial Development in Myanmar: Prospects and Challenges. Institute of Developing Economies, 2001.

58 Toshihiro Kudo. "Transformation and structural changes in the 1990s" Industrial Development in Myanmar: Prospects and Challenges. Institute of Developing Economies, 2001.

59 Myat Thein. "Dual Technology in Industrial Development, Industrial Development in Myanmar: Prospects and Challenges. Institute of Developing Economies, 2001.

Toshihiro Kudo's paper 'Stunted and Distorted Industrialization in Myanmar''<sup>60</sup> provided a bird-eye's view of industrial changes from the 1990s up to 2005. He stated that the industrial sector showed a preliminary development in the first half of the 1990s due to an "open door" policy and liberalization measures. However, a brief period of growth failed to affect any changes in the economic fundamentals. He mentioned that the industrial sector still suffers from poor power supplies, limited access to imported raw materials and machinery, exchange rate instability, limited credit, and frequent changes of government regulation. Public ownership is still high in key infrastructure sectors, and has failed to provide sufficient services to private industries. He tries to comprehend the mechanism of development and/or underdevelopment of industry in Myanmar and investigate the factors that impede industrial development, most of which are deeply rooted in structural realities. He points out that government economic policy have both promoted and constrained the industrial development of Myanmar. He divides the period into three, namely preliminary development with the growth of pent-up demand, a slow-down during which structural problems surfaced, and a shift to a state-factory strategy.

He also added firm-level survey data. The survey data also provide firm-level observations on the characteristics of private enterprise as well as the investment and business climate in Myanmar. This survey data are useful in providing an overall picture of industrial development and a frame of reference for understanding the mechanisms whereby Myanmar's industrial development has become stunted and distorted. Lastly, he summarizes his arguments in a conclusion that Myanmar has experienced a lengthy period of stunted and warped industrialization with an unstable macro-economy and distorted prices. Moreover, the government seems to have reversed its strategy of encouraging a market-oriented economy with a vibrant private sector and has returned to a planning-oriented one with state-owned enterprises. In addition to these developments, the investment climate and the industrial infrastructure are in very bad shape. He points out that all of these factors seem to hinder the industrial development of Myanmar for the foreseeable future.

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60 Toshihiro Kudo. 'Stunted and Distorted Industrialization in Myanmar'' [http://www.ide.go.jp/English/Publish/Dp/pdf/038\\_kudo.pdf](http://www.ide.go.jp/English/Publish/Dp/pdf/038_kudo.pdf)

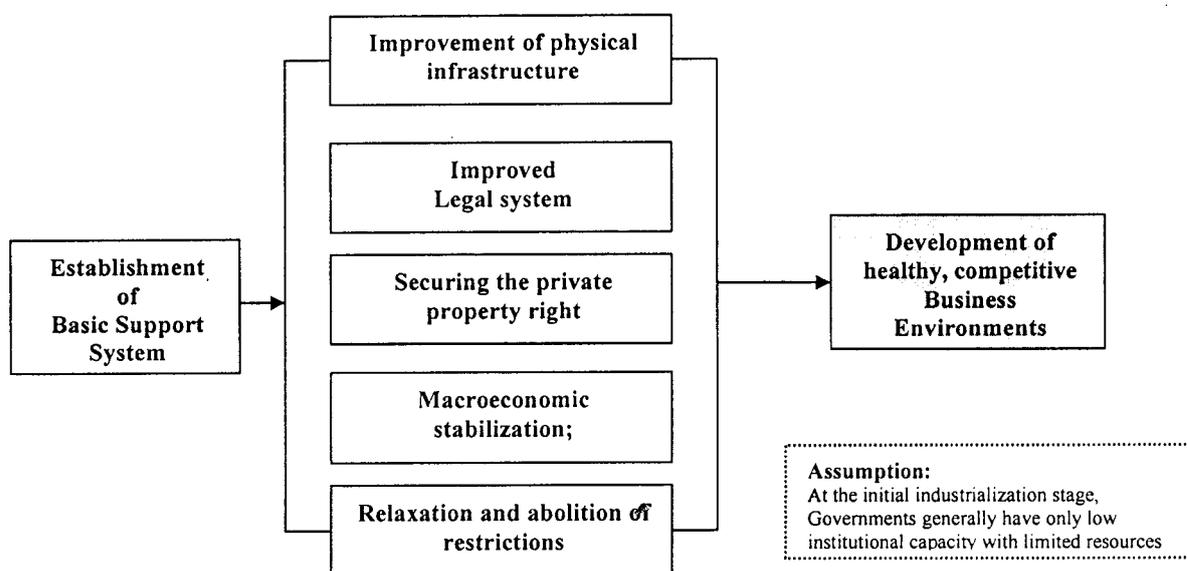
## 2.8 Conceptual Framework of SMEs Development

The survey of literature on SMEs development in Myanmar and theories of SMEs development provide the conceptual framework of SMEs development.

### a) The Development of Business Environment: Main “SMEs promotion policy”

Development of Business Environment is the main factors for “SMEs promotion policy”. The government of any country at the initial industrialization stage generally has only low institutional capacity with limited resource. Therefore, the government should match its roles to its institutional capacity and concentrate on “minimal functions” until its institutional capacity is improved.

Figure 2.4 Conceptual Framework for Main SMEs promotion policy



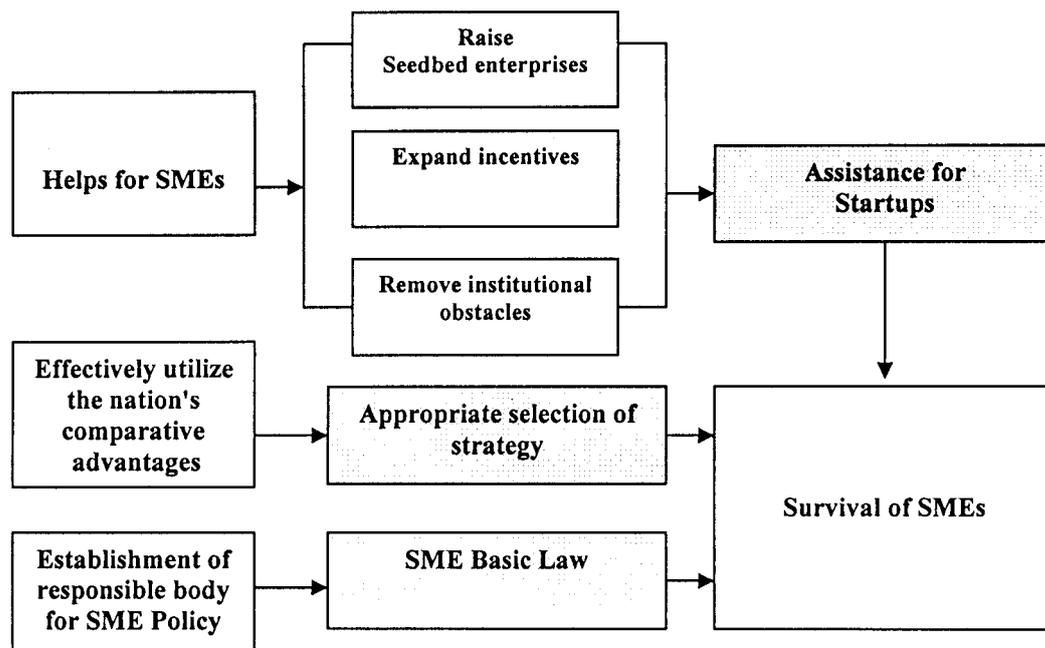
Minimal functions concerning industrialization include: development of environments, which is a prerequisite for markets to function, such as development/improvement of physical infrastructure; the legal/accounting system, securing the private property right, and macro economic stabilization; relaxation and abolition of restrictions which are obstacles of business operations such as simplification of import and export procedure, reduction of export items dominated by the government. These measures, aiming at establishing the

business environment where private firms can operate without difficulty, are the main “SMEs promotion policy” at the initial industrialization stage. Although improving the environment does not necessarily help firms grow, the effect of promotion policies is greatly reduced without it. Therefore, the governments play the very important role in fostering a healthy, competitive business environment. The only way to instill private sector confidence in its policies is for the government to steadily promote concrete economic reforms toward a free and fair market economy. Moreover, the quickest way to achieve industrialization will be to create a favorable environment for attracting foreign direct investment (FDI).

## b) The Establishment of Government Support System for Survival of SMEs

If institutional capacity is limited, supports for startups, appropriate selection of strategy with growth potential and establishment of responsible body for SMEs may be crucial for survival of SMEs.

Figure 2.5 Conceptual Framework for Survival of SMEs



Promotion of new entries is a traditional role of the government; nevertheless, it is especially important for SME development. The government may implement to raise “seedbed” enterprises which transfer technology to possible entrepreneurs; to expand incentives for startups and to remove institutional obstacles of startups. It is very important for the State to make the right kind of intervention and it should be stressed that industrial development will be greatly facilitated if the State can make the right kind of intervention which will conserve capital and save foreign exchange.

There are three strategies for SMEs development: resource-based industrialization strategy, intermediate technology oriented industrialization strategy and linkage oriented industrialization strategy. Agro-based countries should pursue a resource-based industrialization strategy because manufacturing industries are driving force of economic development and social progress. Developing these areas will give the country's

rural populations increased income, more employment opportunities and greater purchasing power. Development of a food processing industry is important both for earning foreign currency and for financing economic development

The government should encourage the private sector to take the leading role while the state plays a facilitating and supporting role. That is why the establishment of responsible body should be essential. As improved legal system is crucial for development of a healthy, competitive business environment for SMEs, the governments of Japan, South Korea and Thailand have issued Basic law for SMEs.

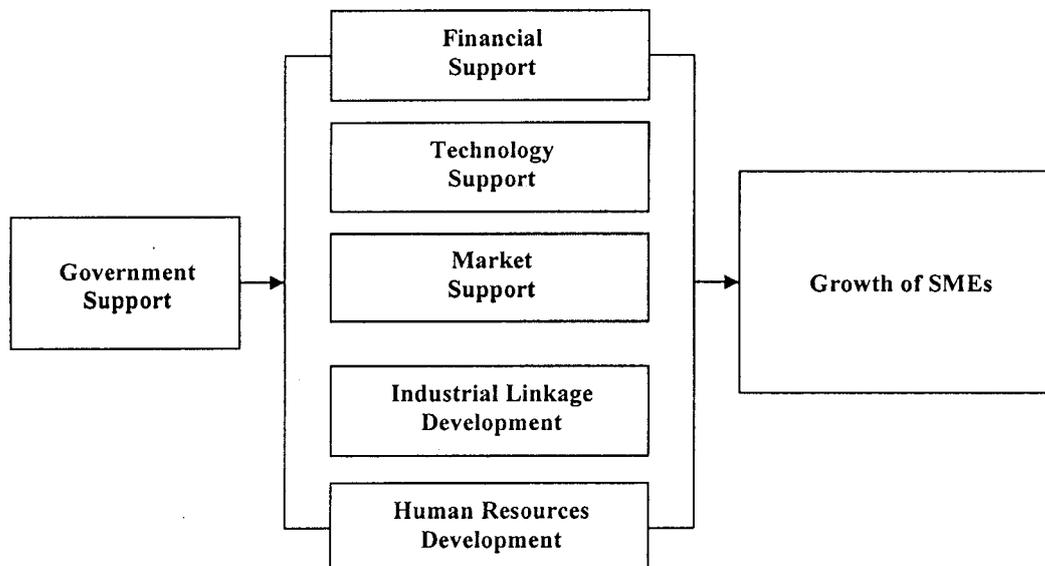
The government should act as an "intermediary" in the establishment of an "investment and trade promotion center." For the government to be able to respond quickly to the demands and problems of foreign companies, the responsible body for SMEs policy should be set up to act as an "intermediary."

### c) The Establishment of Government Support System for the Growth of SMEs

Typical types of support that the government often focuses on are: technical support (managerial skills, technical training, technological transfers, quality test systems); financial support (preferential loans, credit guarantees, access to credit); and marketing support (market information, access to exports).

Direct programs of support operate through a variety of incentive schemes using tax and subsidies, preferential credit, procurement policies and the relaxation of regulatory requirements. The government can also play a role in establishing and strengthening links between LEs and SMEs through subcontracting relations.

Figure 2.6 Conceptual Framework for Growth of SMEs



Some important financial support schemes are to widen the scope of targets of policy-based finance as much as possible as aforementioned. The second is that the introduction of low interest loans should be carefully examined. Generally, the difficulty faced by SMEs in developing countries is lack of access to formal financial institutions. The third is an issue concerning the scale of policy-based finance. Financial mediation will be essential in order to guarantee their development. This means that interest rates must be adjusted so as to avoid inflation and promote savings. Furthermore, money lending by entrepreneurs must be facilitated in order to increase investment.

In order to facilitate fund supply for small and medium enterprises, the government should strengthen the functions of governmental financial institutions, develop credit enhancement projects, direct private sector financial institutions to conduct proper lending for SMEs, and take any other necessary measures.

A credit guarantee system is one of the financial supports to complement the shortage of collateral provided by SMEs in Korea. Since the Korea Credit Guarantee Fund was established in 1976, credit guarantees have been remarkably expanded to achieve more effective lending service, and more incentives are being offered for high-quality workers applying for employment with SMEs.

Another important issue is selection of appropriate technology and technical support. As developing countries have less physical capital per head than developed countries, and must, therefore, choose less capital-intensive techniques of production in general. The source of technological progress in developing economies is not product innovation but process innovation. To achieve efficient process innovation, it is necessary to make a division between specific and specialized production processes.

Specialization is indispensable for SMEs to raise their technology level due to their limited internal managerial resources that can be accumulated inside. For this purpose, markets must be big enough to enhance specialization. In order to raise SMEs' level, expanding markets by positively responding to globalization is essential along with domestic market integration through such efforts as development of transportation infrastructures. Therefore, the first strategy for this purpose should be export promotion. It is a well-known fact that export markets are mainly developed by private marketing mechanisms. In addition, a flexible exchange rate policy is extremely important for export promotion.

The second strategy is market integration in cooperation with neighboring countries. Southeast Asian countries have already established AFTA in order to expand intra-regional trade. These movements towards market integration are also favorable in order to promote SMEs specialization.

The local associations and other non-profit organizations are also important sources that have provided support to SMEs. They provide a range of capacity building support in the areas of technology, marketing, business, industry analysis, accountancy, law, institutional training, transport, and access credit.

Supporting policy for securing markets is essential for SMEs development. This support is effective when the SME sector is not well developed. The establishment of market information system and marketing network play the vital role in SMEs promotion. Developing countries of ASEAN should seek technical production assistance and international distribution support from its ASEAN neighbors, which can complement such technical expertise and marketing networks

The Links-based Economic Growth Model is one of the effective models for industrial linkage development. According to the Links-based Economic Growth Model, large firms can provide technical and material support for their partner small firms. These linkages ultimately serve to enable small firms to evolve into excellent modern enterprises strongly competing in local market and abroad. The typical support mechanisms have been provided by private enterprises to SMEs through subcontracting. In addition, intensive establishment of implementation agencies in industrial clusters should be considered for SMEs development. For this purpose, the government may promote investment of foreign firms and establish public technology institutes as supplement measures.

At the initial industrialization stage, countries should give priority to more efforts into human resource development and the improvement of technology absorptive capacity. It is well known fact that Japan have already proved that the most valuable resource of the nation is its human resources instead of natural resources.

## Chapter Three

### Policies and Practices for SMEs development in Selected Countries

In this chapter, the nature of SMEs, definition of SMEs, policies and practices of SMEs and current situation of SMEs development in some selected countries are presented.

#### 3.1 Types of SMEs

Small and medium enterprises are a very heterogeneous group. They include a wide variety of firms such as village handicraft makers, small machine shops, restaurants, and computer software firms. Small and medium enterprises possess a wide range of sophistication and skills, and operate in very different markets and social environments. Some are dynamic, innovative, and growth-oriented; others are traditional “lifestyle” enterprises that are satisfied to remain small.

Prof. Minoru Kiryu categorizes the types of small-scale and medium-scale enterprises in current manufacturing industries in Myanmar as follows:<sup>61</sup>

- (1) Analog enterprises in rural areas;
- (2) Traditional local enterprises;
- (3) Local urban enterprises;
- (4) Export-oriented small and medium-sized enterprises; and
- (5) Subcontractors for parts manufacturing small and medium-sized enterprises.

##### a) Analog Enterprises in Rural Areas

Most SMEs fall into this category, which includes small cottage industries. Typical enterprises are cottage scale rice milling, edible oil extraction, tobacco manufacturing (including cheroot), and other industries that target local markets.

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61 Minoru Kiryu The Role of Small and Medium-Sized Enterprises in the Industrial Development of Myanmar. Industrial development and Reforms in Myanmar, Sasakawa Peace Foundation, Bangkok, 1999 pp 18-18

#### **b) Traditional Local Enterprises**

This category includes local homegrown enterprises that process materials other than agricultural products. They included various food processing, furniture making, metal working (farming tools and mule-cart parts), textile, sewing, jewel polishing and processing, and bamboo, cane and other handicraft industries. These are mostly cottage enterprises.

#### **c) Local Urban Enterprises**

These enterprises operate in Yangon, Mandalay and other cities and suburbs. Some are manufacturing enterprises dependent upon imported raw materials. This group has seen new entrepreneurs as well as investments in plants and equipment since 1988. Major enterprises includes various food processing (especially snacks, drinks and instant foods); household-item manufacturing such as kitchen utensils; construction material manufacturing; bricks and stone processing; various printing works; wrapping material manufacturing. These small-scale and medium-scale enterprises are beginning to receive orders from private foreign companies, such as hotels, indicating the possibility of further development.

#### **d) Export-Oriented Small and Medium-Sized Enterprises**

Until 1988, private manufacturing enterprises hardly produced any export products. There were no export-oriented manufacturing firms, except for the rare cases of lacquer-ware, silk textiles, and handicrafts. Nowadays, firms with private foreign investments are taking the lead in increasing the export of garments, frozen shrimp, and woodwork such as furniture. Some Myanmar industries are also exporting some industrial products such as bamboo aural caneware, Jewelleries, rubber products and hand tools.

#### **e) Subcontractors for Parts Manufacturing Small and Medium-Sized Enterprises**

In the past, any business relationships hardly existed for subcontracting or orders between private and state-owned enterprises. Such relationships were rare among private enterprises as well, and it can be said that there were no subcontracting SMEs. Since 1988, with the progress of adopting market economy, subcontractors have slowly been employed. However, there were very few subcontracting relationships in parts manufacturing. Subcontracting

businesses are seen as receiving orders and deliveries of packing materials and other related products. In order to promote SMEs in manufacturing industries, it is essential to reform state-owned enterprises and increase private foreign investment. Even the industries at Sinda under the Ministry of Industry (2) had been allocating the manufacture of some small machine parts to the workshops in Pye Industrial Zone.

### 3.2 The Nature of SMEs

(The governments of developing countries took interest in SMEs because they account for a large share of firms and employment. In most developing countries, SMEs account for the majority of firms and a large share of employment. SMEs contribute to creation and expansion of employment. A lot of surplus labor exists in countries at the initial industrialization stage, mainly in rural areas. The issue of surplus labor is closely related to poverty, and the expansion of employment is the top priority with which these countries must deal. SMEs are generally labor-intensive and expected to absorb surplus labor. SMEs are expected as driving forces of regional development and especially important for labor with little mobility. Small firms employ a large share of the labor force in many developing countries,) but they are more labor demanding than large firms. Many analysts argue that, within industries, (SMEs are more labor intensive than large firms.) However, the evidence suggests that enterprise scale is an unreliable guide to labor intensity many small firms are in fact more capital-intensive than larger firms in the same industry. Labor intensity exhibits more variation across industries than among firm-size groups within industries. Leading some authors to suggest that efforts to make economic growth more labor-demanding should focus on altering the pattern of demands in favor of labor-intensive industries rather than on supply-side efforts to change the size distribution of firms. The fact that SMEs employ a large share of the labor force in developing countries may be more a reflection of the product composition of production in those countries than an inherent labor-intensity of small firms.<sup>62</sup>

Apart from labor intensity, it is often argued that SMEs are important for employment growth, i.e., job creation. Here again, the evidence does not support the conventional wisdom. While gross job creation rates are substantially higher for small firms, so are gross fatal rates. This is because small firms exhibit high birthrates and high death rates, and many small firms

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62 Asasen, Choompon (2003) A Proposed ASEAN Policy Blueprint for SME Development 2004- 2014

fail to grow. In developed countries, net job creation rates do not exhibit a systematic relationship to firm size.

Since small firms have higher gross job creation and destruction rates than large enterprises, SMEs may offer less job security than larger firms. Yet it appears that job destruction during recessions is lower in SMEs than in large enterprises—perhaps due to greater wage flexibility in SMEs. In other words, SME owners may temporarily accept lower compensation during recessions in order to hold on to their business.

SMEs can play an important role in maintaining economic vitality. In this regard, the more industrialized a country becomes the bigger role SMEs will play. In general, the market does not function effectively if monopoly or oligopoly prevails. For this purpose, it is important to maintain a competitive environment through ensuring free business activities of many firms. In this respect, the existence of many SMEs seems to have good influence on the entire economy.

Measures of enterprise efficiency vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as management skill and technology, and the effects of the policy environment. In the manufacturing of sector Japan, industries in which larger firms have a greater market share have greater productivity growth. Most studies of developing countries show that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale firms.

It is often argued that SMEs are more innovative than larger firms. In developed countries, SMEs often follow “niche strategies,” using high product quality, flexibility, and responsiveness to customer needs as means of competing with large-scale mass producers. Many small firms bring innovations to the marketplace, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them.

While there are many exceptions to the basic pattern, the weight of evidence suggests that employers at large firms offer better jobs in terms of wages, fringe benefits, working conditions, and opportunities for skills enhancement, as well as job security. In low-income

countries, small enterprises have much lower productivity levels than larger firms, and this is reflected in the lower wages and non-wage benefits paid by SMEs compared to large firms.

Moreover, SMEs can contribute to the industrial structure change. As latecomers are industrialized, comparative advantages may be lost in the sectors which have contributed to economic growth. Thai garment and footwear industries seem to be examples. Establishing new industries is one of the important conditions for the industrial structure advancement; markets for the new industries, however, are not necessarily large at the beginning. In this case, SMEs are expected to enter and open up these small markets.

Searching for further justification to promote SMEs as an instrument of poverty alleviation is not necessary; it is enough to recognize that SMEs are the emerging private sector in poor countries, and thus form the base for private sector-led growth.

It is a well-known fact that SMEs lead to reinforcement of the industrial base. This recognition has spread in ASEAN countries at the initial industrialization stage where there are few firms which are supposed to be driving forces of promoting industrialization. A healthy and dynamic SME sector is important for durable stability and equity in socio-economic progress and regional advancement.

Moreover, the reinforcement of the SMEs sector leads to increases in FDI inflows. Although excessive dependency on FDI possibly distorts the industrial structure, promoting FDI inflows, a relatively stable source to finance current account deficits is still an important policy objective, considering differences from developed countries in terms of such areas as technology and capital procurement. If the SME sector is reinforced, foreign firms can procure parts locally and enjoy various advantages, namely shortened lead-time, reduced costs such as tariff and transportation expenses, evasion of exchange rate risks. These advantages will enhance FDI inflows. In addition, the reinforcement of supporting industries is important for technology transfer from foreign firms to the host country.

SMEs are often said to contribute to a more equal distribution of income or wealth. To the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SMEs may lead to a more equitable distribution of income. However, SME owners and workers are unlikely to be the poorest of the poor so SME

promotion may not be the most effective poverty alleviation instrument. In addition, the strategy of promoting SMEs to achieve equity objectives may be less effective than more direct methods, e.g., income transfers.

In reality, the desire of governments to promote SMEs is often based on social and political considerations rather than on economic grounds. Often SMEs are the domain of certain ethnic groups or political constituencies, such as the Pribumi in Indonesia or women in traditional societies. Sometimes the growth of small firms is seen as part of a process of democratization and increased social stability or as an instrument of regional development. An evaluation of the merits of these arguments is outside the scope of this paper. SMEs are related to social policy issues in some countries, SME owners and workers are dominated by members of particular ethnic groups, such as the native Pribumi in Indonesia or indigenous groups in Bolivia. In such countries as Malaysia and Indonesia, preferential treatments are provided for small enterprises owned or managed by specific racial groups with relatively lower income in order to rectify income gaps among races.

SMEs are, by and large, owned and operated by the (founding) entrepreneurs and members of their extended families. Indeed, the entrepreneurs themselves tend to play a crucial role in the success or failure of the SMEs concerned. Such a commanding influence, while understandable in terms of business development, can be a constraint in accessing finance from banks and venture funding sources. Micro enterprises are normally family businesses or self-employed persons operating in the semi-formal and informal sectors; most have little chance of growing into larger scale firms, accessing bank finance or becoming internationally competitive. Serving them often requires distinct institutions and instruments, such as the group-based lending methodologies used by some microfinance institutions. In contrast, SMEs usually operate in the formal sector of the economy, employ mainly wage-earning workers and participate more fully in organized markets. SME access to formal finance is a desirable possibility, and SMEs are more likely than micro enterprises to grow and become competitive in domestic and international markets.

However, policy efforts to foster the on-going development of SME entrepreneurship and basic skills are even more important because of the changing development context. As noted earlier, this paradigm shift has been jointly induced by trade and investment liberalization at

the global and regional levels. It has also been pushed by the rapid advances in ICTs as well as in transport, biology and new materials technologies.

SMEs can be a useful vehicle for gender empowerment. In fact, women entrepreneurs have an important presence in the SME sector, according to a survey report to the APEC grouping (APEC, 1999). Characteristically, women-owned businesses are also found in all major sectors of production and services.

### **3.3 Definitions of SMEs in Selected Countries**

The statistical definition of SMEs varies from country to country, and is usually based on the number of employees or the value of assets. The lower limit for small-scale enterprises is usually set at 5 to 10 workers and the upper limit at 50 to 100 workers. The upper limit for "medium-scale" enterprises is usually set between 100 and 250 employees. Since statistical definitions vary, it is very difficult to compare size distributions across countries. However, one should not be overly concerned about the lack of consistency in employment-based SME definitions since the number of employees, viewed in isolation from the size of markets or the economy, may be misleading.

Moreover, other characteristics of the firm, such as the degree of informality or the level of technological sophistication, may matter more than the number of employees as a segmentation factor.

There is a great diversity in the definition and classifications of SMEs among countries within ASEAN. This is a reflection of the significant differences in aggregate income and its distribution, in production structures and capabilities, and in industrial and technological characteristics among economies. As such, there is no sufficient reason to expect that SME definitions be uniform or even comparable across countries and through time.

On the other hand, the term SMEs has not always been understood in a uniform manner even within individual countries. This has difficult problems in the design, implementation, coordination and evaluation of SME-related policies. At the working level, in fact, such a diversity has affected the provision of credit, finance and other assistance to SMEs among

agencies and institutions within the same country itself<sup>63</sup>. (Regnier, 2000, pp. 27-30; and Urata, 2000, pp. 157-158)

Table 3.1 Definitions of SMEs in Selected Countries in East and South-East Asia

Country	Type of SMEs	Number of workers	Capital investment (US\$)
Brunei Darussalam	Small Medium	less than 10 persons 11-100 persons	
Indonesia	Cottage and household industry Small Medium	1-4 persons 5-19 persons 20-99	less than 20,000 20,000 / to 50,000
Malaysia	SMEs	less than 150 persons	less than 6.6 million
Myanmar	Small Medium	10-50 persons 51-100 persons	less than 148.6 thousand 148.6 to 742.9 thousand
Philippines	Cottage Small Medium	1-9 persons 10-99 persons 100-199 persons	1.9 to 28.8 thousand 28.8 to 287.9 thousand 287.9 to 1.15 million
Singapore	Manufacturing Services	less than 100 persons less than 200 persons	less than 0.8 million less than 0.8 million
Thailand	Manufacturing and services Small Medium  Wholesale trade Small Medium  Retail trade Small Medium	less than 50 persons 51-200 persons  less than 25 persons 26-50 persons  less than 15 persons 16-30 persons	less than 1.7 million 1.17 million to less than  less than 0.7 million 0.7 million to less than  less than 0.7 million 0.7 to less than 1.4 million
Vietnam	Small Medium	less than 30 persons 30 to 200 persons	less than 65 thousand 65-260 thousand

Source: Asasen, Choompon (2003) A Proposed ASEAN Policy Blueprint for SME Development 2004-2014

63 Regnier, Philippe, Small and Medium Enterprises in Distress- Thailand, the East Asian Crisis and Beyond ( Aldershot, Gower Publishing Limited, 2000,p.27-30. and Urata, Shujiro, Policy Recommendations for SME Promotion in Indonesia report to the Coordination Ministry of economy, Finance and Industry,mimeographed,2000, p.157-158

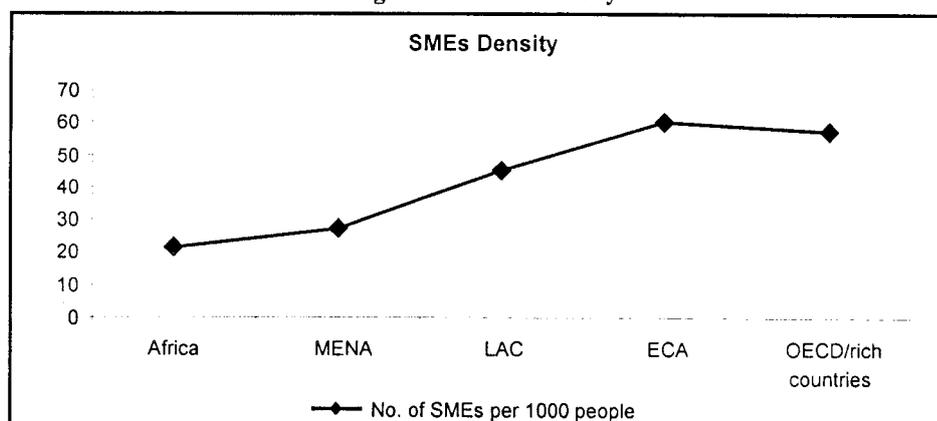
### 3.4 Current Situation of SMEs in some selected countries

The feature of countries at the initial industrialization stage is that the numbers of industrial establishments are small. Most enterprises are small; moreover, most of very few large enterprises are state or foreign owned. For instance, in Myanmar, according to November 2005 figures from the Ministry of Industry (1), 77.7 percent of Myanmar enterprises were classified as small, 14.7 percent as medium and 7.6 percent as large<sup>64</sup>.

The total number of SMEs in Korea was 2,876,817 in 2001 representing 99.8% of all enterprises. Among them medium-sized enterprises constitute 2.8% while small-sized enterprises account of for 97%. In terms of people, 85.6% of total workers, 9.97 million people, worked in SMEs in 2001.

The relative importance of small producers varies significantly across countries and, within a given country, across stages of development over time. Comparative studies of manufacturing show a common pattern in the transformation of the **size distribution** of firms as industrialization proceeds. In low-income countries, the vast majority of firms are micro- or small-scale, existing alongside a few large-scale enterprises. In middle-income countries, medium-scale enterprises begin to account for a relatively larger share of production and employment.

Figure 3.1 SMEs Density



Source :Small and Medium Enterprise Department, International Finance Corporation, Washington, D.C.

MENA = Middle East and North Africa  
LAC = Latin America and the Caribbean  
ECA = Europe and Central Asia  
OECD = Organization for Economic Cooperation & Development

64 The Myanmar Times, 28 August-3 September 2006

SMEs density is defined as the number of SMEs per 1000 people. This dataset is a collection of publicly available data on micro, small, and medium enterprises (SMEs) in 103 countries. According to the figure 3.1, in most countries, the more SMEs density is highly related with per-capita income increases.

Table 3.1 present the SMEs definition, structure of SMEs and SMEs participation in the economy. According to the different definition of SMEs, it is difficult to compare the structure of SMEs.

**Table 3.2 SMEs Structure, Density and Contribution to Employment**

Country	SMEs definition		SMEs Participation in the Economy			Income Group
	Small	Medium	No of SMEs	SMEs per 1,000 people	SMEs employment	Type of country
China			25,110,000	19.7	78	Lower middle
Indonesia	5-19	20-99	41,362,315	19.5	60	Lower middle
Japan	10-49	50-249	6,122,407	48.2	88.4	High
Korea, Rep.	5-19	20-99	2,876,817	57.4	85.6	High
Philippines	10-99	100-199	806,866	10.1	69.1	Lower middle
Thailand	5-19	20-99	842,360	13.7	18	Lower middle
Vietnam	10-49	50-299	59,831	0.7	85.7	Low
Malaysia	< 150		204,669	8.8	40	Upper middle
Myanmar	10-50	51-100	80,000	1.5		Low

Source: Small and Medium Enterprise Department, International Finance Corporation, Washington, D.C.

When role of SMEs in country economy is studied, the share of SMEs in GDP is high in high and upper middle income countries. The share of SMEs in employment is also high in high income countries. It is more than 70% of the total workforce in Japan, Korea, China and Vietnam and about 40% in Malaysia. In Indonesia, approximately 60% are employees of small and micro enterprises. It can be said that employment created by SMEs is enormous.

SMEs have long been a pillar of the Thai economy and they make up a large portion of Thailand's national economy in terms of output, employment and effective utilization of regional resources. More than 90% of the total number of establishments in the manufacturing sector in Thailand are SMEs, which are scattered both in Bangkok

Metropolitan and regional areas. They employ about 65% of industrial workers and contribute about 47% of the total manufacturing value added.<sup>65</sup>

SMEs have contributed significantly to the economic development of Vietnam and have resolved many social problems during the last 10 years of economic renovation. In industry, trade, service and construction sectors, SMEs have employed approximately 1.5 million employees (representing 13 percent of labour force in Vietnam). Total industrial output value by SMEs account for 28 percent of the total national industrial output value.<sup>66</sup> SMEs have produced large portions of necessary consumer goods, made some 35 percent of its laws, equality and mutual benefits.

At present, the small and medium industries (SMIs) account for more than 80% of the total manufacturing establishments in Malaysia, where 88% are Small scale Industries and 12% belongs to the Medium scale Industries. The SMIs have experienced substantial gains in productivity even though they only contribute 13.8% to total output and 17.4% to employment. Added value per employee grew at an annual rate of 6.4% for the period between 1991 and 1996. It has seen a steady rate of growth for the period and rose from 29.6% in 1995 to 30.5% in 1996.

The improvement in Added Value per Employee was due to an increase in Total Output per Employee at an average growth rate of 4.3%. The positive growth is also reflected in Added Value per Total Output with a growth of 2.0% for the 5-year period up to 1996. The high growth in Total Output was consistent with the increase in local and export demand for electrical and electronic products and machinery and equipment creating demands from the larger industries for supply and intermediate products produced by the SMIs as they respond to the market demand.<sup>67</sup>

In the Philippines, the SMEs comprise 99% of the total manufacturing establishments, contribute 54.9% in employment generation and 28.1 % of the value-added in production. However, most SMEs are concentrated in the National Capital region and its nearby provinces namely Southern Tagalog Region and Central Luzon. As of 1995, there were

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<sup>65</sup> <http://aeup.brel.com>

<sup>66</sup> Ibid

<sup>67</sup> Ibid

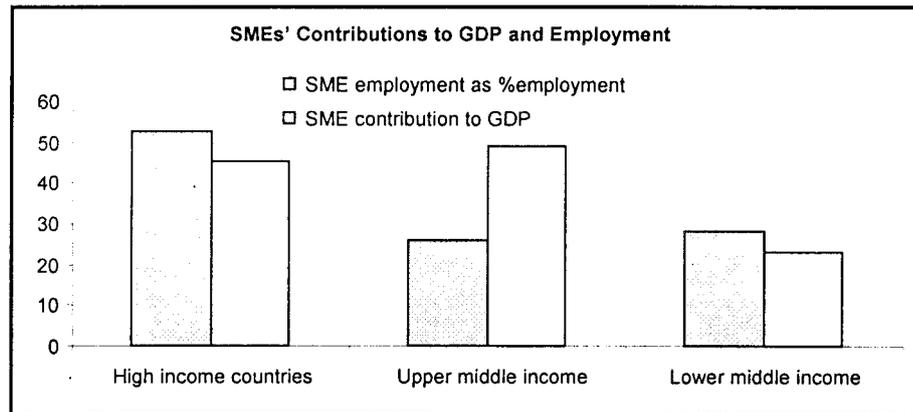
494,974 business establishments operating in the Philippines, both in the manufacturing and service sectors. Of these, 2,487 were large ventures and 2,712 were in the medium-size category. The balance consisted of micro, cottage and small enterprises, which make up 99% of all Philippines business establishments. SMEs generated 1,438,643 jobs in 1993 versus 66,502 for the large enterprises. This indicates that SMEs contributed almost 55% of the total jobs generated by all types of business establishments that year. This percentage is consistent when only manufacturing establishments are considered. The most jobs among the manufacturing SMEs, followed by wearing apparel, fabricated metal products and furniture. The food sector contributed 18.6% of the total jobs generated by manufacturing sector SMEs in 1993, with wearing apparel a far second at 8%. This is directly related to the number of SMEs in each of the sectors-food processors and wearing apparel comprised 45.3% and 15.8% respectively of all SMEs in manufacturing.<sup>68</sup>

As seen in Figure 3.2, it was found that the SMEs contribution to GDP and employment is comparatively low in lower middle income countries.

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<sup>68</sup> Ibid

Figure 3.2 SMEs' Contribution to GDP and Employment



Source: Small and Medium Enterprise Department, International Finance Corporation, Washington, D.C.

However, productivity of SMEs compared with large enterprises seems to be low. The proportion of SMEs to total manufacturing value added is low at 28% in Malaysia and 27% in the Philippines.

In the case of Japan, the number of establishments expanded greatly in the high growth era. It increased by more than twice from 1955 to 1970. Although the micro enterprise has somewhat decreased its share in 1990, the share of the entire SME sector has not greatly changed.<sup>69</sup>

Next, the number of employees working for SMEs increased in the high growth era like establishments. The SMEs sector has stably maintained its share in the postwar period at around 60-65% and greatly contributed to job creation. However, it should be noted that the total number of employees in the manufacturing sector, especially of micro enterprises, has decreased in 1990's in the background of big structural changes such as the progress of globalization and aging of population.

As for value added, the share of SMEs showed a tendency to increase in the high growth era and has somewhat decreased mainly at micro enterprises since around 1980. Nevertheless, the SMEs sector still accounts for approximately half of total value added in manufacturing.

69 Suzuki, Masaaki (2000) "Policy Proposals on Small and Medium-sized Industry Promotion in Southeast Asian Countries" [www.mof.go.jp](http://www.mof.go.jp)

### **3.5 Policy and Practices of SMEs Development in Selected Countries**

The accelerated globalization process and trade liberalization taking place in the international economy provides many challenges and opportunities for developing countries. In this context, SMEs participation and growth will be critical to future growth and development of developing countries.

It was found that the differences between countries were as great as the similarities across the South Asian region. For example, the policies of countries such as Japan and Korea were directed at encouraging SMEs to export, while those of countries such as Cambodia were directed at encouraging foreign investment in domestic SMEs. Nonetheless, there were some important similarities in government policy across the region. Governments were implementing policies that sought to address similar problems faced by SMEs in each country. Although the definition, form, and productive orientation of SMEs were different in each country, the problems faced were often the same.

These problems included: access to finance and credit; training and human resource development; access to technology; assistance with research and development; the impact of government regulation; the impact of government commitments in the WTO; limited information on possible markets and clients; weaknesses in transportation and infrastructure; and the impact of external factors such as the broader economic climate.

Governments were attempting to address these problems and governments also provided supporting policies for SMEs development. Therefore, supporting policies for SMEs development were studied in this research project. Governments from developing countries issued supporting policies in order to encourage and facilitate, increasing managing ability, developing technology and human resource; extending relationships with other enterprises; increasing operating efficiency and competitiveness; developing production, creating jobs and increasing living standards of labors.

### 3.5.1 SMEs in Japan

In Japan, the legal definition is provided in the "Small and Medium Enterprise Basic Law".

**Table 3.3 Definition of Small Business**

Sector	Equity Capital	Employees
Manufacturing Mining Construction Transportation Others	¥ 100 million or less	300 or fewer (1,000 or fewer in mining)
Wholesale	¥ 30 million or less	100 or fewer
Retail Services	¥ 10 million or less	50 or fewer

Source: Kimura-Tadao "The internationalization of Japan's Small and Medium Enterprises, and the Relationship with APEC"  
(Tokyo Institute of Developing Economies) p.51

According to the definition, companies in mining, manufacturing, transportation, and construction industries, capitalized at no more than 100 million yen or with 300 or fewer employees, are defined as small businesses. Wholesalers capitalized at no more than 30 million yen or, with 100 or fewer employees and retailers or service companies capitalized at no more than 10 million yen or with 50 or fewer employees are also defined as small businesses. It shows that there is a distinction in sizes for enterprises under the wholesale, retail and service sectors. The Small and Medium Enterprise Basic Law was enacted in 1963.

The first change in the environment for Japanese SMEs has been the advance in internationalization. "Economic internationalization" refers to the incorporation of the Japanese economy into the international economy. The second change is the gradual transition from closed-market export-oriented internationalization to open-market export-oriented internationalization. Through the 1960s, both Japan's economy and its companies were weak. From around 1970s, high growth elevated the position of Japan in the

international economy. Japan had a considerable impact on the outside world. One result of this trend was trade friction.<sup>70</sup>

In the post war era, Japanese SMEs achieved major growth under so-called "closed market export-oriented" internationalization. Responding to this internationalization, in the 1960s SMEs modernized and rationalized to improve their productivity. The wave of industrialization in developing countries also came to influence Japanese SMEs.

The number of direct investments by all Japanese companies increased gradually in the 1970s, and tentatively peaked in 1973. The first oil crisis then led to decline, with lower investment continuing for some time. With the sharp rise of the yen from 1985, the number of these investments grew again- tripling between the years of 1985 and 1988 began to decrease.

### **3.5.1.1 History of SMEs Policies in Japan**

#### **(a) Post war reconstruction period (1945-54)**

After the second World War, SMEs policies made a full-fledged start by opening small and medium enterprise agencies in August 1948. As SMEs were pressed seriously for money, policy focusing more on finance was needed. Special funds for SMEs were provided, including setting up a line of credit by the Reconstruction Finance Bank. Moreover, a financial institution specializing SMEs and a government-owned People's Finance Cooperation were set up in 1949. The Small and Medium Enterprise and Cooperative Act, which implemented joint venture and built up competitive force of SMEs as well as a business consulting program, were set up in 1948.

#### **(b) The first half of the high-growth period (1955-72)**

Full-fledged modernization policy for SMEs began. Between 1956 and 1957, modernization policy (rationalization policy) for specific industries "machinery industry", "electronics industry" and "textile industry" was implemented.

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70 Kimura Tadoo, (1996) "The Internationalization of Japan's Small and Medium Enterprises and the Relationship with APEC" paper, Tokyo: Institute of Developing Economie.

**(c) The second half of the high-growth period (1963-72)**

After the completion of the "SMEs Basic Law" (effective in July 1963), the policy was systematized as part of the industrial structural policy. "Basic law" is to improve development of SMEs to bolster both international competitiveness of Japanese industries and the upgrading of industrial structure. Its concrete goal is to correct productivity differential between SMEs and large enterprises.

**(d) Stable growth period (1973-84)**

In the 1970s, industrial structural policy was shifted to knowledge-based policies. In the 1980s, the "soft enrichment policy of management resources" was introduced to improve the transformation of industrial structures. Furthermore, new "measures representing regional perspective" was introduced against the backdrop of community-conscious ideas.

**(e) Transition period (1985 to present)**

By the administration of "SMEs Management Innovation Law" in July 1999, management improvement with the introduction of new product development and new production systems, supported not only ventures but all enterprises. In the mid-90s, supporting systems for initiation and new ventures which started in the late 1980s went into full swing. Under "SMEs Innovation Law" (enforced in April '95), various subsidy devices was implemented after the approval of prefectural governors. This law was further strengthened to "New Business Innovation Law" (Japanese style SBIR) enforced in February 1999. Upon request, enterprises passing the screening of the ministries or special corporations in line with their fields must be subsidized. Thus, SMEs policy which had been developed as part of the industrial structural policy pursued the competition policy in the '90s. This was compiled into the revision of the "SMEs Basic Law" issued and implemented in December 1999. This was a great transformation from measures of industrial structural policy as a principle to measures based on competition policy.

In the rapid deterioration of business situation of SMEs in recent years, SMEs policy in 2002 has been implemented to meet needs of the SMEs to develop as new bases for economic and social development according to the following ideas. (1) Develop safety net in financial terms thoroughly to protect SMEs with high aspirations and

challenging new businesses. In order to do that, the following items are important: - double the number of new businesses in the next five years – from 180 thousand companies to 360 thousand annually: maximize business startup support: Innovate management so that SMEs entering new growing fields utilizing their potentials be strongly supported. (3) Under the regional economic deterioration, thorough support for TMOs (Town Management Organization), shopping malls, and private shops should be provided along their needs to revitalize downtown which is “the face of the town” of every municipality.<sup>71</sup>

**Table 3.4 Major Policy Measures in Japan for SMEs Development**

Period	Major policy measures	
<b>1945-54 (Reconstruction period) Prevention of excess economic power concentration</b>		
a. Finance	Establishment of Government Financial Institutions (49 People's Finance Corp., 53 Small Business Finance Corp.) Establishment of credit guarantee system (50 small Business Credit Corporation Law, 53 Credit Guarantee Association Law)	
b. Organization	1949	Small and Medium Enterprises Cooperative Association Law (establishment of the democratic cooperative system (freedom of participation/withdrawal, equality in voting right))
	1952	Law on Temporary Measures for Specific SMEs Stabilization (production adjustment of specific industries)
	1953	Small and Medium Enterprises Stabilization Law (permanent approval of anti-depression cartels, expansion to the sales price & method)
c. Managerial guidance	1948	Introduction of Diagnostic Consultation Service
	1952	Circulating guidance
	1953	Commerce and Industry Association Law
<b>1955-73 (High growth period) Structural upgrading</b>		
a. Equipment modernization	1954	Loan Program for Facility Modernization (prefectures' zero interest loan up to 50% of equipment introduction costs)
	1956	Law on Financing and Other Measures for Aiding Small and Medium Enterprise (central gov. supports for the prefecture loan program for modernization)
	1960	Structural upgrading policy for specific industries (machine parts, electronics, etc.)
	1963	Law on Temporary Measures for Promotion of SMEs by Industry (Guidance/proposal based on fact finding surveys) Small and Medium Enterprise Modernization Promotion Law (Kinsoku Ho)
b. Expansion of firm size	1963	Law on Financing for the Modernization of Small and Medium Enterprises
	1969	Structural Improvement Program (modernization of "Sanchi" and the whole industry)
c. Rectification of disadvantages of business activities	1956	Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters (for protecting subcontractors' interests from unfair transactions)
	1957	Law on Small and Medium Enterprise Organizations (Establishment of Commercial and Industrial Cooperative system, strong authorization (compulsory participation etc.))
	1962	Revision of Law on the SME Organization (approval of the rationalization cartel)
	1966	The Public Procurement Law (Contract target)
Others	1963	Small and Medium Enterprise Basic Law
	1963	Small and Medium Enterprise Guidance Law (expansion of diagnostic consultation service, etc.)
	1963	Small and Medium Enterprise Investment Consultation Company (SMEIC) Law (Establishment of SMEIC (equity investment and consultation for invested firms))
<b>1973-84 (Stable growth period)</b>		
Promotion of knowledge-intensity	1980	Japan Small Business Corporation Law
	1980	Establishment of Institute for Small Business Management and Technology
	1981	Overseas Investment Advisory Service Expansion of budget for technology and management
Supports for structural change adjustment	1975	Program for SMEs to switch to new business areas (for SME associations in industries facing sluggish demand, etc.)
	1976	Law on Temporary Measures for Line-of-Business Conversion by SMEs
	1978	Law on Temporary Measures for SMEs in Specific Depressed Regions (For all industries)
	1979	Law on Temporary Measures for Regional SMEs
<b>1985-present (Transition period)</b>		

71 JETRO. Small and Medium Enterprise in Japan. [www.jetro.go.jp/thailand/e/data/smeinapan.pdf](http://www.jetro.go.jp/thailand/e/data/smeinapan.pdf)

		Expansion of budget for technology and management
Supports for structural change adjustment	1975	Program for SMEs to switch to new business areas (for SME associations in industries facing sluggish demand, etc.)
	1976	Law on Temporary Measures for Line-of-Business Conversion by SMEs
	1978	Law on Temporary Measures for SMEs in Specific Depressed Regions (For all industries)
	1979	Law on Temporary Measures for Regional SMEs
<b>1985-present (Transition period)</b>		
Supports for structural change adjustment	1985	Law on Extraordinary Measures for Promotion of Technological Development by SMES(Gijutsu Ho)(reinforcement of technical capability of SME associations)
	1986	Law on Emergency Measures for the Business Conversion of Specific SMEs (regions hard hit by the strong yen)
	1988	Extraordinary Law Concerning the Promotion of the Development of New Business Areas through Fusion of the Knowledge of SMEs in Different Industries (Yugo-ka Ho)
	1992	Law on Temporary Measures for Activation of Specific SME Industrial Agglomerations
	1993	Temporary Law concerning Measures for Smooth Adaptation of Structural Changes in Economy by Advancement of Specific SMEs to New Fields, etc.
	1997 1999	Law on Temporary Measures for Activation of Specific Regional Industrial Agglomerations Law on Supporting Business Innovation of Small and Medium Enterprises
Supports for business opening	1995	Temporary Law concerning Measures for the Promotion of the Creative Business Activities of SMEs (Integration of Gijutsu Ho and Yugo-ka Ho)
	1998	Law for Facilitating the Creation of New Business
Others	99	Revision of SME Basic Law (basic ideas (importance of agility, flexibility and creativity), expanded definition of SMEs, etc.)

Source: Masaaki Suzuki "Policy Proposals on Small and Medium-sized Industry Promotion in Southeast Asian Countries" 2000

### 3.5.1.2 Financial Support

The main purpose of financing measure for SMEs is to furnish loans. Private banking institutions and three government banking institutions supply SMEs financing. The major role of government institutions is to make up for the loans which private banks cannot supply. The three institutions are Japan Finance Corporation for Small Business, the People's Finance Corporation and the Central Cooperative Bank for Commerce and Industry.

The "Credit Supplement System" was created to help SMEs unable to arrange findings from private banks, due to lack of mortgages or credit.

The Small Enterprises Credit Insurance Corporation wholly financed by the government also secures such loans.

### 3.5.1.3 Preferential Tax Treatment

The second policy category is preferential tax treatment. Reduced tax rates, special depreciation rates, or other measures are adopted to build up SMEs internal reserves, and pursue policy objectives.

Special plant and equipment depreciation schemes are also adopted to promote modernization and structural improvements for SMEs.

#### **3.5.1.4 Consulting, Instruction and Personnel Training**

The third policy area is consulting, instruction and personnel training. Consulting and Consulting and instructions courses are provided by the Comprehensive Guidance Centre for SMEs and the Guidance Centre for Commerce and Industry. These centers are staffed with specialists, most being government licensed experts consulting service for smaller enterprises.

##### **(A) Consulting and Guidance**

The Society of commerce and Industry and the Individual Chamber of Commerce and Industry assist in improving the management of smaller scale enterprises – the majority of SMEs. This work covers management consulting and preparation of accounting books.

Under development and inspection of technology, about 170 public research institutes furnish SMEs with technical guidance and consultation services.

##### **(B) Personnel Training Courses**

Of the training for SMEs managers, administration and employees, the regional administrative institutes and SMEs guidance group is in charge of programs which provide basic and general knowledge. The SMEs colleges handle more advanced and systematic training. The SMEs college system was established in 1980 as one of the operations of the Small Business Corporation, a special corporation established and fully funded by the government (up to 1990, nine of these colleges operate nationwide).

#### **3.5.1.4 Proper Subcontractor Transaction**

Out of about 680,000 SMEs engaged in manufacturing, about 56 percent are subcontractors. A key aim is to promote proper subcontractor relations – namely, avoiding proper subcontractor payments and improving relations between subcontractors and parent firms.

Laws have been enacted to help organize and promote the establishment of such cooperatives mainly through financial support and preferential tax treatment.

Small Business Associations and the National Association of Small Business Associations are providing guidance on establishment and operation of cooperatives.

#### **3.5.1.6 Budget Contribution**

The government allotted some percentage of total annual expenditure to the Ministry of International Trade and Industry for distribution to organizations in change of SME policy.

#### **3.5.1.7 Overseas advances of SMEs**

In Japan various policies have been devised for the overseas advances of SMEs in order to achieve smooth overseas development by Japanese SMEs. The Small Business Cooperation and Japan External Trade Organization or JETRO have arranged consultation and guidance by overseas investment advisors since 1984.<sup>72</sup>

SMES Overseas Development Guidance Operation (Domestic and Local Overseas Guidance carries out by the Small Business Cooperation Exports offer individual guidance for SMEs planning to invest overseas.

SMEs Manager Overseas Investment Training is carried out by the Small and Medium Enterprise Colleges local overseas managers are also trained in management techniques, trade operations and overseas business activities. JETRO overseas offices play a key role in gathering investment site and lifestyle environment information at the state and level. This information is put into databases, and supplied through the JETRO Trade Information Centers around Japan.

Under financing the Temporary Law Concerning Measures for Smooth Entering into New Fields is carried out by the Small Business Finance Cooperation, the People' Finance Cooperation, and the Central Cooperative Bank for Commerce and Industry. This law provides a financing a financing system for SMEs approved for such advances. With this plan, assistance is offered for equipment investment to start up or expand overseas operations

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72 Kimura Tadoo, (1996) "The Internationalization of Japan's Small and Medium Enterprises and the Relationship with APEC" paper, Tokyo: Institute of Developing Economic. p.48

under the SMEs Overseas Investment Guarantee System (Credit Guarantee Association), individual credit guarantee associations secure loans taken out by the SMEs.

The SMEs Overseas Investment Loss Revenue System guards against the political and economic risk of investing in developing countries. Under their system, when the designated share of 15 percent of the loan and investment value is complied as reserves, the amount of those said reserves may be included in the loss value.<sup>73</sup>

There are three specific directions based on Japanese SMEs. The first is effort to cut costs in conventional fields in Japan, followed by development of new products. The second is advances into new fields in Japan and the launching of businesses. The third is overseas advances and development.

### **3.5.2 SMEs in Korea**

#### **3.5.2.1 Development of SMEs**

It has been long recognized that SMEs require an appropriate policy and business environment in order to contribute in an economy. SMEs have competitive advantages as they are able to respond quickly and flexibly to market changes and technological development through close contact with their customers. However, they have disadvantages compared to large enterprises for the following reasons: lack of financial sources because of relatively lower credit; lower productivity because of less capital intensive technology. SMEs in Korea made important role towards the recovery of the economy from Asian financial and economic crisis based on the contribution to a knowledge-based society.

Many observers express that the success to the performance of the country's production, exports and economic growth in last three decades was based on the well-known *Chaebols* and Large enterprises (LEs). However, along with the *Chaebols*, the Small and Medium Enterprises (SMEs) have also contributed significantly to the development of the Korean economy, especially since the early 1980s when the government policy began to concentrate on the promotion of SMEs.. The total number of SMEs in Korea was 2,876,817 in 2001 representing 99.8% of all enterprises. Among them medium-sized enterprises constituted

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<sup>73</sup> Ibid, p.44

Enterprises (SMEs) have also contributed significantly to the development of the Korean economy, especially since the early 1980s when the government policy began to concentrate on the promotion of SMEs.. The total number of SMEs in Korea was 2,876,817 in 2001 representing 99.8% of all enterprises. Among them medium-sized enterprises constituted 2.8% while small-sized enterprises accounted for 97%. In terms of people, 85.6% of total workers, 9.97 million people worked in SMEs in 2001.

**Table 3.5 Scope of Small and Medium-sized Enterprises in Korea**

Industrial Classification	Definition
Manufacturing	Fewer than 300 employees or less than US\$ 6.7 million in paid in capital
Mining, Construction, Transportation	Fewer than 300 employees or less than US\$ 2.5 million in paid in capital
Farm, Forestry, Fishery	Fewer than 200 employees or less than US\$ 16 million in sales -fishery Fewer than 50 employees or less than US\$ 4 million in sales – farm, forestry
Service	Fewer than 300 employees or less than US\$ 25 million in sales – information processing, etc. (9 categories) Fewer than 200 employees or less than US\$ 16 million in sales- communication, etc. (43 categories) Fewer than 50 employees or less than US\$ 4 million in sales – wholesale, etc. (14 categories) Fewer than 30 employees or less than US\$ 1.6 million in sales- retail, etc. (224 categories)

Source: Baek. Nakki, (2003) "Development Process and Promotion Policies for Small and Venture Business in Korea, Korea Institute for Industrial Economics and Trade) 2003, p.4

In Korea, small and medium-sized enterprises (SMEs) are defined as firms in the manufacturing, mining, transportation and construction sectors which are independently

owned and employ fewer than (300) persons, firms in the fishery, hotels, and telecommunications and broadcasting, sectors with employ fewer than 200 persons and firms in wholesaler, farm and forestry sectors which employ fewer than 50. In addition, firms in manufacturing, mining and transportation sectors, with a workforce of fewer than (50) persons are termed small enterprises.

With the number of employees, paid-in capital in the manufacturing, mining, transportation and construction and sales amounts in the agriculture, forestry and fishery, hotels, telecommunications, wholesaler, retail and etc. are also used to define SMEs. Thus, the firm which qualifies any of either the number of employees or paid-in capital or sales is defined as the SMEs. In addition, to be classified as a SMEs, a company should not be subsidiary of one of the nation's 30 largest firms.

In Korea SMEs support policies have adopted throughout the economic development. In the 1960s, the country's outward looking strategy began to be implemented since the external environment was favorable for its export drive. In this period, Korea started to shift its development strategy from import substitution policy to export promotion. In fact, this policy gave priority to large enterprises (LEs) and created disadvantages for SMEs for three reasons. First, LEs had better access to financial institutions than SMEs which lacked collateral. Second, it facilitated LEs assembly production by permitting the duty-free import of raw materials and equipment. Third, it discriminated against domestic market oriented industries which did not receive incentives and consisted mostly of SMEs. Therefore, for the promotion of SMEs, a series of policies were pursued.

With regard to the development process, small and medium Korean enterprises as a whole have experienced a dramatic change throughout the country's phases of development.

### **3.5.2.2 SMEs Policies in the 1960s**

The First Five-Year Economic Development Plan was implemented in 1962. In this period, Korea had started to shift its development strategy from import substitution policy to export promotion. The main feature of this development strategy was export-oriented industrial

expansion<sup>74</sup>. It relied heavily on liberal financing at preferential interest rates. In fact, this policy gave priority to LEs and created disadvantages for SMEs for three reasons: First, LEs had better access to financial institutions than SMEs which lacked collateral and credit worthiness. Second, it facilitated LEs assembly production by permitting the duty-free import of raw materials and equipment. Third, it discriminated against domestic market-oriented industries which did not receive incentives and consisted mostly of SMEs<sup>75</sup>.

For the promotion of SMEs, a series of policies were pursued in the 1960s, but most of them were proceeded by trial and error<sup>76</sup>. In 1961, the Industrial Bank of Korea was established for financing SMEs, followed by legislation of the SMEs cooperative Act and SMEs Business Regulation. In 1963, the Kookmin Bank (The Citizens National Bank) was established to provide small loans for citizens and small business. In 1965, ordinary commercial banks were obligated to devote a mandatory quota of 30% of their total lending to SMEs lending. The promulgation of the Small and Medium Industry Act in 1966 had established the basic framework for supporting SMEs in Korea. In 1967, the Small Business Credit Guarantee Law was established to improve the financial aid to SMEs<sup>77</sup>.

### 3.5.2.3 SMEs Policies in the 1970s

The development strategy in the 1970s emphasized the promotion of heavy and chemical industry (HCI). Under this policy, the shipbuilding, automobile, steel, and machinery industries had received intensive investment, and therefore, diverted funds from SMEs<sup>78</sup>. In addition, many of the subsidies on the import of raw materials, intermediate goods, and capital equipment discouraged the development of supplier industries. Moreover, a huge inflow of foreign capital since the early 1970s also contributed to shifting the structure of the manufacturing industry toward LEs because the foreign loans were mostly tied to big projects that only LEs were able to carry out<sup>79</sup>.

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74 Somi Seong, *Small and Medium-Sized Enterprises and the Structural Adjustment of the Korean Economy*, In Eul Yong Park, (Eds.), *Small and Medium-Sized Enterprises and Economic Development*, (Seoul: Korea Development Institute, 1995), 126

75 Kim Chuk Kyo, *SMEs Development, SMEs Policy Approaches, Achievements and Constraints in the Republic of Korea*, (Seoul: Hanyang University, 1993), 12-3.

76 Somi Seong, *Small and Medium-Sized Enterprises and the Structural Adjustment of the Korean Economy*, In Eul Yong Park, (Eds.), *Small and Medium-Sized Enterprises and Economic Development*, (Seoul: Korea Development Institute, 1995), 127-29

77 Meyanathan, *Restructuring Korea's SMEs Toward the Knowledge Economy*, (World Bank Publication, 2003), 1

78 Somi Seong (1995), page 129

79 Kim Chuk Kyo, *SMEs Development, SMEs Policy Approaches, Achievements and Constraints in the*

During the first half of the 1970s, the ambitious promotion of HCI had undermined the importance of SMEs, with few specific measures taken for SMEs<sup>80</sup>. In the latter half of this decade, the government started to pay more attention to SMEs because the promotion of HCI needed well developed supplier industries. In order to promote parts and component industries, in 1975, the government enacted The Small and Medium Enterprises Subcontracting Promotion Act. This Act was also to protect SMEs in a vertical relationship with LEs. In addition, support was provided for the construction of small and medium-sized factories producing machinery and equipment. The suitable products for SMEs were also designated for intensive support<sup>81</sup>.

In 1976, The Korea Credit Guarantee Fund (KCGF) was established to help SMEs<sup>82</sup>. Three years later, in 1979, The Small and Medium Industry Promotion Corporation (SMIPC), a semi governmental organization, was set up to implement various programs<sup>83</sup>, such as management and information services, financial aid, extension and training services, etc., for the promotion of small and medium industries.

#### **3.5.2.4 SMEs Policies in the 1980s**

In the early 1980s, in order to solve the problems of structural imbalance, the Korean government began to reshape the development policy by introducing wide ranging macro economic as well as industrial policy reforms. The government began to overhaul the industrial incentive system, gradually replacing industry-specific support with functional support. Various incentives for exports and HCI were drastically reduced while the priority was given to technology and manpower development<sup>84</sup>.

In contrast to the overall policy which had tended to reduce the support and intervention of the government, the Korean government has paid much more attention to the development of SMEs. The numerous support policies were made to protect and support SMEs. The SMEs Promotion Fund began providing an enormous sum for the facility modernization fund; various support policies were also implemented according to the SMEs Promotion Long-term

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Republic of Korea, (Seoul: Hanyang University, 1993), 13-4

80 Somi Seong, Economic Development and policies for SMEs in Korea, (Seoul: Korea Development Institute, 1993), p. 22

81 Kim Chuk Kyo (1993), page 14

82 Industrial Bank of Korea, Small and Medium Enterprises in Korea, (Seoul: Industrial Bank of Korea, 1994), 30-1

83 Somi Seong, Economic Development and policies for SMEs in Korea, (Seoul: Korea Development Institute, 1993), p. 22

84 Kim Chuk Kyo, SMEs Development, SMEs Policy Approaches, Achievements and Constraints in the Republic of Korea, (Seoul: Hanyang University, 1993), 15-6

Plan formed in 1981<sup>85</sup>. Moreover, many specific-purpose credit funds were set up, for example, to help rural industries, to foster collective or cooperative activities among SMEs, to help older SMEs update their technology, etc.

In 1983, a system which will identify and provide support for “promising SMEs” was established. In addition, both commercial banks and non-bank financial institutions were required to allocate minimum specified percentages of their loans to SMEs. Moreover, the government provided many kinds of tax incentives to SMEs, such as accelerated depreciation allowances, deductions from taxable income, tax moratoria, and tax rate reductions.

Coinciding with numerous government policies, there were also many SMEs support institutions established in this period. They were organized as either government or nonprofit institutions. Even though some of these agencies were not established exclusively to support only SMEs, in fact, they were heavily used by SMEs.<sup>86</sup>

### **3.5.2.5 SMEs Policies since 1990**

During this period, there were some changes in the business and policy environment both domestic and external, as represented by the inauguration of the WTO (January 1995) and the Local Autonomy System (June 1995). In addition, there was also an overall review of SMEs policy in this year.<sup>87</sup>

In accordance with an overall economic policy that focused on strengthening industrial competitiveness, SMEs policy came up with the Structural Reform Program (1993). Moreover, the establishment of the Small and Medium Business Administration (SMBA) in 1996 and the improvements in SMEs-related laws have enhanced the roles of SMEs policy.<sup>88</sup> Table 3.2 shows the important laws which were enacted or amended in 1980-1996. To face the challenges of globalization, the SMEs Frame Work Act was revised in 1994 to contain the new emphasis on independent viability. The SMEs Promotion Act and the SMEs-made Products Promotion Act were amalgamated into the Promotion of SMEs and Encouragement

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85 Meyanathan, *Restructuring Korea's SMEs Toward the Knowledge Economy*, (World Bank Publication, 2003), 2

86 Jeffrey B. Nugent and Seung-Jae Yhee, *Small and Medium Enterprises in Korea: Achievements, Constraints and Policy Issues*, (Washington, D.C: World Bank Institute, 2001), 28

87 Meyanathan, *Restructuring Korea's SMEs Toward the Knowledge Economy*, (World Bank Publication, 2003), 2

88 *ibid*, page 3-4

of Purchase of Their Products Act in 1994. The Act on Special Measures for Supporting the Structural Improvement and Managerial Stabilization of SMEs was enacted in 1995 to help the sustainable development of SMEs.<sup>89</sup>

Another characteristic of SMEs policy in this period is that the government began to realize the importance of fostering the various sectors not only the targeted sectors, which reflect the diversification of SMEs (with the inauguration of the Local Autonomy System and Regional SMEs development)<sup>90</sup>

**Table 3.6 SMEs Related Laws and System in Korea**

Year	Law/System
1961	1. The Ministry of Commerce and Industry set up the Small Business Division responsible for government policies for SMEs 2. Industrial Bank of Korea (IKB) is established 3. SME Cooperative Act and SME Business Regulation
1963	Kookmin Bank (The Citizens National Bank) was established
1965	SME Lending Quota System
1966	Small and Medium Industry Act (enacted)
1967	Small Business Credit Guarantee Law was established
1975	The Small and Medium Enterprises Sub-contracting Promotion Act
1976	The Korea Credit Guarantee Fund (KCGF)
1979	1. The Small and Medium Industry Promotion Corporation (SMIPC) 2. SME Specialized Business Categories Regulation were designated
1981	1. SME Promotion Long-term Plan (1982-1991) 2. SME-made Products Promotion Act
1983	Promising SME Promotion System
1984	1. Fair Transactions in Subcontracting Act 2. Bank of Korea Rediscount System
1985	SME Priority Support System
1986	1. Industrial Development Act 2. Support for SME Establishment Act
1987	Korea Technology Credit Guarantee Fund (KOTEC) was established
1989	SME Stabilization and Structural Improvement Support Act
1994	1. SME Framework (revised) 2. Promotion of SME and Encouragement of Purchase of Their Products Act (enacted)

89 *ibid.*, page 3

90 *ibid.*, page 4-5

1995	1. Act on the Protection of the Business Sphere of SMEs and Promotion of Their Cooperation (enacted) 2. Act on Special Measures for Supporting the Structural Improvement and Managerial Stabilization of SMEs (enacted)
1996	Small and Medium Business Administration (SMBA) was established

Source : Lan Luong Dinh (2004), "A Study on Support Mechanisms for SMEs in Korea (1960-1996) and Policy Implication for Vietnam.", P. 29

### 3.5.2.6 Major Support Systems

#### (A) Technical Support System

During 1960-1996, there were many institutions which have provided technical support for Korean SMEs. Most of them were set up or extended their support to SMEs between the late 1970s and early 1980s as the role of SMEs in Korean economy was recognized.

Korea has an extensive network of agencies that have provided technical support for SMEs. These supports are generally in the form of technical assistance, training programs, information services, or joint research opportunities. Most technical support institutions have been provided a combination of services often supported by financial and tax incentives.

The Industrial Advancement Administration (IAA) was established under the Ministry of Commerce and Industry in 1973. The IAA was the head of technical support agencies in Korea. Its task was to coordinate the functions of technical support agencies for both large and small enterprises. Under IAA's jurisdiction are the National Industrial Technology Institute (NITI) and eleven Regional Industrial Technology Institutes (RITIs), which provide technical extension services directly to enterprises. These institutes have the following major functions<sup>91</sup>:

- 1) to receive applications for technical assistance from firms,
- 2) to mobilize technical experts from various sources, and
- 3) to follow a "family doctor" type system, in which particular technical experts are assigned long-term to SMEs so that technical ties can be maintained over a long period of time.

91 Linsu Kim and Jeffrey B. Nugent, *The Republic of Korea's Small and Medium-Size Enterprises and Their Support Systems*, (The World Bank: Policy Research Department, Working Paper No 1404, 1994), 12-3

Another agency is the Small and Medium Industry Promotion Corporation (SMIPC), established in 1979. It was the most important agency that provided exclusively technical support for SMEs. SMIPC provide many support activities such as helping SMEs improve their production, helping SMEs change from labor-intensive to technology-intensive production, and promoting sharing of facilities among SMEs. Along with technical support, SMIPC has also provided managerial and technical training, technical information services and financial support. In addition, SMIPC also acted as an intermediary that helped SMEs to access foreign technology and expertise. The Korea Productivity Center (KPC) also offered technical support related to factory and office automation. Its services include technical assistance, training, and information, which are related to automation. The Korea Institute of Design and Packaging (KIDP) was another public institution. Its responsibility is to help firms, particularly SMEs, improve industrial design and packaging. There were also several other research institutes that offer technical services to SMEs, such as the Korea Institute of Industrial Technology (KAITECH), the Korea Institute of Science and Technology (KIST) and the Korea Institute of Machinery and Metals (KIMM)<sup>92</sup>.

Most of these institutions were established jointly by the industrial association and the government. The Korea Standards Association (KSA), with 11 regional offices, assists SMEs mainly through its training programs and publications on quality standards. With government support, some industrial associations have also established their own inspection and testing institutes.

The Industry associations such as the Electronics Industry Association of Korea (EIAK) and the Korea Association of Machinery Industry (KOAM) provide technical training and information services to their respective industries. Some industries, with partial government support, have established their own R&D institutes<sup>93</sup>.

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92 Linsu Kim and Jeffrey B. Nugent, *The Republic of Korea's Small and Medium-Size Enterprises and Their Support Systems*, (The World Bank: Policy Research Department, Working Paper No 1404, 1994), 13-4

93 Linsu Kim and Jeffrey B. Nugent, *The Republic of Korea's Small and Medium-Size Enterprises and Their Support Systems*, (The World Bank: Policy Research Department, Working Paper No 1404, 1994), 14-5

In Korea, it is difficult to distinguish the sources of financial support for SMEs between the private sector and the government. There are some reasons for this. First, some financial institutions were partly private and partly public. Second, many commercial sources of credit were nationalized until the early 1980s. Third, public guarantees of private contracts and financial instruments have been played an important role in Korea. Finally, there were a strong cooperation between the private and public sectors.<sup>94</sup>

In general, financing for Korean SMEs has come from four sources<sup>95</sup>: (1) funding through commercial banks and other financial institutions, (2) loans from specialized banks created specially to promote SMEs (Small and Medium Industry Bank, and Citizens National Bank), (3) loan guarantees from Korea Credit Guarantee Fund, and (4) program loans from the government, Korea Federation of Small Business (KFSB) and Small and Medium Industry Promotion Corporation (SMIPC).

The important public policies that strongly support SMEs are the government regulations on the operation of commercial lending institutions. Under the government guidelines, financial institutions in Korea were required to supply a certain percentage of loans or guarantees to SMEs. During the 1980s, the commercial banks were required to allocate 35% of incremental domestic-currency loans to SMEs (the local banks were 80%). The short-term finance companies had to provide 35% of discounted bills, and the merchant banks had to share 25 % of the total leasing contrasts or payment guarantees.<sup>96</sup>

The Small and Medium Industry Bank (SMIB) was established in 1961 to complement the needs of small and medium-sized manufacturing enterprises with 300 or less employees. The SMIB changed its name into the Industrial Bank of Korea (IBK) in 1987. The SMIB had provided preferential medium- and long- term loans to SMEs for many purposes such as technology development, export and import financing, facility modernization, business start-ups and energy conservation. The

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94 *ibid*, page 31

95 Industrial Bank of Korea, *Small and Medium Enterprises in Korea*, (Seoul: Industrial Bank of Korea, 1994), 30

96 *ibid*

Citizens National Bank (CNB), established in 1963, also performed the same function as the SMIB, but mainly for smaller firms (100 employees or less)<sup>97</sup>.

To support SMEs which lack the requisite collateral, the Credit Guarantee Fund Reserve System was first organized in 1961 (under the Small and Medium Industry Bank). In 1976, the Korea Credit Guarantee Fund (KCGF) was created. The KCGF's funds were contributed from the government and financial institutions<sup>98</sup>. Its major activities include credit guarantees, credit information services, management and technical extension services and investment in SMEs.

The Korean government provided financial support to SMEs mainly through the contributions to the special funds. In the 1980s, the government provided about two trillion Won to support SMEs through six special funds<sup>99</sup>: the SMEs Restructure Fund, the Industry Specific Fund, the National Investment Fund, the Industrial Technology Improvement Fund, the Mutual Aid Fund, and the Special Facility Fund.

Along with special government funds, the Small and Medium Industry Promotion Fund, managed by Small and Medium Industry Promotion Corporation, was available for modernization programs, business start-ups, management training and R&D.

### **(C) Marketing Support System**

Since the early 1960s, the Korean government has considered export-oriented policy as an important strategy for economic development. Therefore, a variety of institutions to assist firms with export marketing were established in this period. The most important agency is the Korea Trade Promotion Corporation (KOTRA). This is a government agency established in 1962 to provide a various types of services such as market research, information in foreign markets, assistance with trade fairs and overseas marketing trips, etc. At the beginning, KOTRA mainly helped large firms, but later on these firms became more self-sufficient. Therefore, KOTRA's activities have focused more on SMEs. In the other hand, in order to provide the import and export agency services for SMEs more effectively, KOTRA established the Korea

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97 Industrial Bank of Korea, *Small and Medium Enterprises in Korea*, (Seoul: Industrial Bank of Korea, 1994), 30

98 Kim Chuk Kyo, *SMEs Development, SMEs Policy Approaches, Achievements and Constraints in the Republic of Korea*, (Seoul: Hanyang University, 1993), 21-2

99 Industrial Bank of Korea (1994), page 31

Trading Company (KTC) in 1969, it is different from KOTRA that KTC operates based on a commercial purpose<sup>100</sup>.

The other sources of marketing support are the Korea Federation of Small Business and the Cooperative Association of SMEs, founded with government support in 1962. In addition, many industry sectors also have had their own association. For examples, in the electronic sector the Korea Electronics Industries Cooperative was formed in 1967, and the Electronic Industries Association of Korea (EIAK) was formed in 1976<sup>101</sup>. Both organizations provide market research and information services, and facilitate participation in trade shows.

### **3.5.3 SMEs Policies and Practices in selected ASEAN countries**

#### **3.5.3.1 Responsible body for SMEs policy**

Actually, the interest, concern and promotion of SMEs in Thailand did not just occur 5 - 10 years back, but it began for a long time since 1936 at Industrial Division under supervision of Ministry of Economic Affairs. The promotion policy on household industry was introduced. Then, the Ministry of Industry was established and the Industry Promotion Department was responsible for SMEs promotion in Thailand.

Main organizations responsible for SMEs in Philippine are the Bureau of Small and Medium Business Development, The Regional Operations Group, Small and Medium Enterprise Development Council and Small Business Guarantee and Finance Corporation.

The Bureau of Small and Medium Business Development which initiates and implements programmes and projects addressing the specific needs of SMEs in areas concerning entrepreneurship and institutional development, productivity improvement, organization, financing and marketing. The Bureau is also tasked to formulate policies and strategies geared toward the advancement of SMEs.

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<sup>100</sup> Linsu Kim and Jeffrey B. Nugent, *The Republic of Korea's Small and Medium-Size Enterprises and Their Support Systems*, (The World Bank: Policy Research Department, Working Paper No 1404, 1994), 22-3

<sup>101</sup> *ibid*

Small and Medium Enterprise Development Council which oversees the creation and promotion of an environment conducive to the development of SMEs through the establishment of adequate support mechanisms. Roles of Small Business Guarantee and Finance Corporation are to develop and promote various types of financing for small enterprises, including loan guarantee for qualified small enterprises.<sup>102</sup>

In Malaysia, Small and Medium Industries Development Corporation (SMIDEC) is the leading Government agency responsible for coordinating the development of SMIs. In addition to offering advisory service relating to the development of the industry, the agency also provides training and development programme for SMI entrepreneurs and the public.<sup>103</sup>

To improve the performances of SMEs, the Business Development Services (BDS) "Provider" has been formed and introduced. It functions not only to help SMEs finding working capital from financial institutions in order to improve their business activities, but also supervises them to recruit employees, better their management and help seek market opportunities as well as educate managers of SMEs and cooperatives to read market demands.

In Indonesia, Development Small Scale Industry (Ministry of Industry and Trade) and Ministry of Cooperatives are responsible body for SMEs policy.

### **3.5.3.2 Basic law enactment**

In 2000, the Thai government issued the Small and Medium Enterprises Promotion Act, established the Small and Medium Enterprises Promotion Committee as well as set up the Office of SMEs Promotion in the same year.

In the past, the SMEs Promotion Committee had prepared the first plan for SMEs promotion (2002-2006) which was approved by the Cabinet. The plan stipulated the vision on SMEs promotion, focused on the Entrepreneur Society, and encouraged SMEs to be qualified and standardized, strong and stable. In addition, SMEs was expected to be important roots of overall economy and community economy. The mentioned promotion plan had divided the

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102 Strategy Paper for SME Development in the East ASEAN Growth Area (EAGA) <http://www.asiandevbank.org>

103 <http://www.gov.my/MyGov/BI/Directory/Business/BusinessByIndustry/IKS/IKSTrainingProgramAndDevelopment/SMIDEC/>

In the past, the SMEs Promotion Committee had prepared the first plan for SMEs promotion (2002-2006) which was approved by the Cabinet. The plan stipulated the vision on SMEs promotion, focused on the Entrepreneur Society, and encouraged SMEs to be qualified and standardized, strong and stable. In addition, SMEs was expected to be important roots of overall economy and community economy. The mentioned promotion plan had divided the strategies into 2 parts which were strategy for every kind of SMEs and in every area throughout the country and strategy which was particular for target group. In addition, the SMEs Promotion Committee had prepared an operational plan for short term, moderate term and long term which would be followed in order to further encourage SMEs.

In Thailand, Government policies in relation to SMEs were strongly mentioned for the first time in the 4th Plan (1977-1981) as a measure to create employment, to harness and effectively use given natural resources and to narrow the income gap. In the 6th Plan (1987-1991) and the 7th Plan (1992-1997), SMEs will contribute to the improvement of income distribution, and at the same time, speed up industrial decentralization in order to distribute economic activity and the use of local natural resources. This will be carried out consistently with regional and urban development plans through the following specific measures:

- Development of credit extension system and support institutions for small-scale enterprises in remote region;
- Improvement in research and development of production technology and management techniques;
- Promotion of production through a subcontracting system linking small-scale and large-scale concerns.

To encourage the development of SMEs, the Government of the Philippines enacted into law the Magna Carta of Small Enterprises (Republic Act 6977) which outlines the general policies for the development of SMEs. Among others, the law mandated the establishment of Small and Medium Enterprise Development Councils throughout the country to promote public-private sector partnership in the promotion of SMEs.<sup>104</sup> In Indonesia Small Scale Industry Law was also enacted in 1995.

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104 <http://www.dticebu.net.ph/Library>

Vietnam has been implementing a large number of measures to further encourage and support the development of SMEs. They are:

- step by step creating a favorable legal environment to ensure all the business activities are doing well;
- providing favorite and promotion policies for SMEs in sectors such as textile and clothing, shoe and leather, consumer goods and export production, parts and spare parts manufacturing, food and foodstuff processing, electrical and electronics and information technology;
- receiving and implementing a number of technical assistance projects of international organizations and countries to develop SMEs;
- establishing centre for consulting and supporting SMEs in sectors, cities and provinces;
- looking for and expanding internal and external markets.

The policy measures provided by the Vietnam government for the promotion and support of SMEs can be classified into 3 key areas, namely Investment Promotion, Financial Assistance and Technical Training and Consultancy through various administrative organizations dealing with SMEs promotion activities.

#### **3.5.3.3 Technology support system**

In Thailand, there are several units supporting technology which are National Science and Technology Development Administration (NSTDA), Department of Industrial Promotion, Thailand Industrial Standard Institute, National Productivity Institute and National Innovation Office. The followings are samples of the measures:

- Industrial Technology Assistance Program (ITAP) of NSTDA, which supports expenses on specialists employment for not over 50% within the maximum limit of 500,000 baht.
- Company Directed Technology Development Program of NSTDA, which supports Thailand's SMEs in industry sector by granting fund without return condition in order

to encourage the research and development of new products and production methods within the limit not over 3 million baht and not over 50% of the budget of the project.

Coinciding with numerous government policies, there were also many SMEs support institutions established in this period. They were organized as either government or nonprofit institutions. Even though some of these agencies were not established exclusively to support only SMEs, but in fact, they were heavily used by SMEs.<sup>105</sup>

The major institutions are National Science and Technology Development Agency (NSTDA), the Department of Export Promotion (DEP), the Technological Promotion Association (Thai-Japan), National Supplier Development Program (NSDP) BUILD Unit, Office of the Board of Investment and the Thai Chamber of Commerce.

The Thai Chamber of Commerce, as one of the leading private organizations in Thailand, has recognized the importance of the SMEs. More than 90% of its members belongs to SME category. The Thai Chamber of Commerce (TCC) would not render services that have already been provided by other organizations. The TCC will try to fill the gap and encourage those SMEs to deploy more existing assistance. The TCC is actively involved in the Textile Industry Division (TID), the Metal Working and Machinery Industries Development Institute (MIDI), the Regional Industrial Promotion Centers, Industrial Development Center (IDC), the Industrial Productivity Division of the Thailand Management Development and Productivity Center (TMDPC).

#### **3.5.3.4 Technical assistance programs for SMEs in Indonesia**

Among the technical assistance programs for SMEs in Indonesia, the Small Industries Development program (BIPIK), initiated in 1980 by the Department of Industry, was by far the most important program. This program provided training and extension services to SMEs and was also carried out by the Department of Industry.

This program was a coordinated program of input provision for SMEs, under which technical assistance is provided to clusters of firms. This concept of clusters is a major element of the

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<sup>105</sup> Jeffrey B. Nugent and Seung-Jae Yhee, *Small and Medium Enterprises in Korea: Achievements, Constraints and Policy Issues*, (Washington, D.C: World Bank Institute, 2001), 28

BIPIK program which actually dates back to the 1950s when the government established Industrial Centre to provide technical assistance, particularly to the indigenous-owned weaving industry. However, insufficient funding and reluctance on the part of the small entrepreneurs to utilize the facilities of the Industrial Centre accounted for the lack of success of this early technical assistance program in the 1950s.

Despite these early failures, the BIPIK program again focused on the development of industrial clusters or centre of SMEs, specifically small and medium-scale industries. These centre generally consist of 50 to 100 small manufacturing establishments, including cottage establishments. These small industry clusters were supported by Technical Service Centres (Unit Pelayanan Teknis, UPT), which provided extension and technical services and occasionally raw materials (Department Perindustrian, 1982).

Since the late 1970s, Small Industry Estates (Lingkungan Industri Kecil, LIK) were established in some regions with a relatively large concentration of small industries and where specific skills appropriate to them were available. The two major facilities available in these Small Industry Estates were facilities for education and training and facilities for improving the quality of products. However, these Technical Service Centre and Small Industry Estates were not successful. Occupancy of these facilities was relatively low, and the productivity of the firms with these facilities was low. The reason was that in general the field extension officers had little or no technical and business experience. Moreover, training and subsidized inputs were provided according to a schedule determined by central planners rather than by the real needs of the small entrepreneurs.

#### **3.5.3.5 Financial support system**

As for the crediting of SMEs, the Thai government had established Financial Office for Small Industry under supervision of Industry Promotion Department in order to give a financial support to the small industries. After that, this department was transferred and re-established as Small Industry Finance Corporation (SIFC). Later, it was promoted and transformed into the Small and Medium Enterprises Development Bank of Thailand (SMEs Bank). In the part of SMEs credit guarantee, the government had established Small Industry Credit Guarantee Fund (SICGF) in order to guarantee the small industry credit which was later changed into Small Industry Credit Guarantee Corporation (SICGC) in 1987.

The government will encourage SMEs by granting credit through 6 financial institutions of the government. At present, the Industrial Finance Corporation of Thailand was merged with Thai Military Bank. The Small Industry Credit Guarantee Corporation (SICGC) is a financial institution in charge of credit guarantee for SMEs in the limits without collateral.

The SMEs & People Financial Advisory Center (SPFAC) is responsible for consultation on debt restructuring, coordination between financial institutions specifically established by the government and SMEs and people as well as giving advice on capital fund in order to extend the business and reinvestment.

It consists of the development of equity market for SMEs, establishment of Market for Alternative Investment (MAI) which targeted to the small and medium businesses with the registered capital less than 200 million baht. The attractive measure is the reduction of juristic income tax from 30% to 20% for 5 accounting periods for companies registered in this market. Two SMEs Promotion Venture Funds established for funding were SMEs Venture Capital Fund with Ministry of Finance as the major unit holder within the limit of 1,000 million baht and Thailand Recovery Fund which is a venture capital fund in medium enterprise within the limit starting from 100 million US. Dollars.

In Indonesia, the two major nation-wide credit programs for SMEs included the Small Enterprises Development Program (KIK/KMKP program) and the Small Enterprises Credit (KUK) program. The KIK/KMKP program, launched in 1973, was the first major nation-wide subsidized credit program in terms of the volume of credit provided to SMEs. The scheme was aimed at helping small, indigenous enterprises, including cottage enterprises, to obtain subsidized credits for investment and working capital purposes. The bulk of the funds was provided by the Bank of Indonesia, which also coordinated the implementation of this program. The actual provision of credit was handled by Indonesia's five state-owned commercial bank, the Indonesian Development Bank, all Regional Development Banks, and 14 private banks, which around the mid-1980s had more than 1,000 branch offices throughout the country.

While the KIK/KMKP credits were intended for both investment and working capital purposes, the bulk of credits provided was used for working purposes to keep the operations of these SMEs going, rather than for investment purposes, such as purchasing new equipment

or expansion purposes. Small manufacturing enterprises, however, received 13 per cent of KIK (investment) credits, and 11 per cent of KMKP (working capital) credits. These figures suggest that, unlike the majority of SMEs, small manufacturing firms used slightly more of their credit for investment.

By the late 1980s the sustainability of the KIK/KMKP program became increasingly in doubt, as arrears and collection problems had driven the default rate to more than 27 per cent. This high default rate and serious collection problems were most likely caused by various factors, including inadequate training of bank staff, unofficial payments to corrupt bank staff, mismanagement of the funds and inadequate penalties for default or incentives for the bank staff to be diligent in the collection of loan repayments. Because of the high default rate, the KIK/KMKP program was terminated in 1990.

To replace the KIK/KMKP program, the government in 1990 introduced the Small Enterprise Credit program. Under this program, all commercial banks, including state-owned and private banks, were required to allocate 20 per cent of their loan portfolio to small enterprises (defined as enterprises with assets amounting to a maximum of Rp. 600 million) (roughly US\$ 3.3 million at the prevailing exchange rate), excluding the value of land and buildings and cooperatives at market interest rates.

The implementation of the KUK program did not proceed satisfactorily because the banks either found it difficult or were reluctant to provide 20 per cent of their loans to SMEs. To meet the requirement of providing 20 per cent of their loans to SMEs, the banks often extended credits to the owners of SMEs for consumption rather than for business purposes. Moreover, in view of the rather broad definition of SMEs (enterprises with a capital investment of less than Rp. 600 million), the larger SMEs rather than the small SMEs have benefited from this program.

The available data also show that SMEs in Java, and particularly in the Jakarta Capital Region, which have benefited the most from this program (respectively 67 per cent and 27 per cent of the total). The data also show that the state-owned banks provided more KUK loans than the private banks. As a result of the lack of success of the KUK program in promoting the development of viable SMEs, this credit program too was discontinued after the Asian economic crisis.

### 3.5.3.6 Marketing Support system

There are several units playing the major role in marketing and exporting of SMEs in Thailand such as Department of Export Promotion, Department of Industrial Promotion, Department of Domestic Trade, and Department of Foreign Trade. The followings are samples of the measures;

- pushing for establishment of Goods Distribution Center both domestic and overseas such as establishment of goods distribution center, a project encouraging and developing franchise business of Thai people.
- promotion of product design and packaging such as establishment of product development center in the type of home decoration gifts, cloths, woven things, food, furniture and toys and the promotion project on development of packaging for SMEs for export.
- Thai Brand Promotion such as Project of Creating Image of Thailand Brand
- providing service on trading data system such as giving suggestion on trading of Department of Export Promotion and supporting database in the industry of Board of Investment.
- enhancement of electronic commerce such as a project supporting Thai handicrafts into electronic commerce.

### 3.5.3.7 Industrial linkage development

The Industrial Linkage Programme (ILP) in Malaysia is aimed at developing domestic SMEs into competitive manufacturers and suppliers of parts and components and related services to MNCs and large companies. This programme is supported and enhanced by SMIDEC's existing financial schemes and developmental programmes. To encourage participation in the ILP, Pioneer Status with tax exemption of 100 per cent on statutory income for five years or Investment Tax Allowance of 60 per cent on qualifying capital expenditure incurred within a period of five years are provided to eligible SMEs. SMEs must manufacture products or undertake activities in the List of Promoted Activities and Products in an ILP to become qualified for the incentives and supplying to MNCs or large companies. For MNCs or large companies, expenses incurred in developing SMEs such as training, factory auditing and technical assistance to ensure the quality of vendors' products will be allowed as deduction in the computation of income tax.<sup>106</sup>

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<sup>106</sup> <http://www.smidec.gov.my/detailpage.jsp>

Other industrial linkage development strategy was found in Indonesia, "Foster Father Scheme". Under this scheme, large enterprises (referred to as 'Foster Fathers'), were urged to establish partnerships with cooperatives and small enterprises, largely owned by members of the economically weak groups in society. Naturally these schemes were unworkable and ineffective in raising the economic viability of these cooperatives and small enterprises, as they were not motivated by market considerations, but in effect amounted to forced marriages.

**Table 3.7 Supports for SMEs Development**

	<b>Thailand</b>	<b>Malaysia</b>	<b>Philippines</b>	<b>Indonesia</b>
Responsible body for SME policy	Small and Medium Enterprise Promotion Office.	SMIs Development Corp. (SMIDEC), Ministry of International Trade & Industry (MITI)	Bureau of Small & Medium Business Development Department of Trade and Industry (DTI)	Agency for Development Small Scale Industry (Ministry of Industry and Trade), Ministry of Cooperatives
Basic law enactment			Magna Carta for Small Enterprises (1991)	Small Scale Industry Law (1995)
Financial support	Industrial Finance Corporation (IFCT) Small Industry Finance Corporation (SIFCT) Small Industry Credit Guarantee Corp. (SICGC) Central Bank (rediscount facility) Board of Investment (BOI; seminar on investment) Dept. Industrial Promotion (DIP; soft loans for handicraft, etc.)	Mandatory credit allocation for fin. institutions Credit Guarantee Corp. (credit guarantee of mandatory loans) Development Bank of Malaysia (BPM) Industrial Development Finance (MIDF) Industrial Bank of Malaysia (IDB) SMIDEC (emergency loans for distressed firms, etc.)	Mandatory credit allocation for fin. institutions Small Business Guarantee and Finance Corp.	Mandatory credit allocation for banks State-owned banks (loans for puribumi firms, etc.)
Technology support	bodies under DIP Industrial Service Div. (ISD) Metalworking & Machinery Industries Development Inst. Regional Industrial Promotion Center (specialized in regional needs) Management Development & Productivity Center Dept. of Labor, Ministry of Interior (skill development)	Standards & Industrial Research Inst. (SIRIM) Forest Research Inst. (wood-based) Agricultural Research & Development Inst. (food technology) Industrial Technology Center (new technology) Skill training by government agencies Seminar co-sponsored by the public & private) Industrial Technical Assistance Fund (R&D financing, etc.) SMIDEC (for Bumiputera firms, etc.)	Univ. of the Phil-Inst. for Small-Scale Industries DTI (staff training for implementation agencies, etc.) □ Bureau of Domestic Trade Promotion (matching consultants with firms) □ Cottage Industry Technology Center APEC Center for Technology Exchange & Training of SMEs (ACTETSME)	MOIT (technology service center, etc.)
Marketing	BOI, BUILD (matching foreign firms and local part suppliers) DIP (investment, market research, etc.) Dept. of Export Promotion, Ministry of Commerce	Marketing training by various gov. bodies (council of Trust for the Development of Indigenous People (MARA), etc.) Establishment of public trading firms MITI (database of small	DTI (matching parent firms / exporters with subcontractors, etc.)	

		& medium part suppliers)		
Industrial linkage development		Industrial Linkage Programme		Foster Father Programme
Others	BOI (specification of priority industries) DIP (entrepreneur support (managerial guidance, etc.))	Entrepreneurial Development Center (entrepreneur supports (management guidance, etc.)) Establishment of industrial estates MARA (equipment leasing for puribumi firms)	SME Development Council (government-business exchange of views on policies) Establishment of industrial estates	Establishment of industrial estates MOC (promotion of small enterprise organization)

Source : Masaaki Suzuki "Policy Proposals on Small and Medium-sized Industry Promotion in Southeast Asian Countries"  
[www.aseansec.org/pdf/sme\\_policies\\_1.pdf](http://www.aseansec.org/pdf/sme_policies_1.pdf)

### 3.5.4 Hanoi Declaration on Strengthening SMEs Competitiveness for Trade and Investment

The 13th APEC SMEs Ministerial Meeting was held in Ha Noi on 28-29 September 2005, under the theme "Strengthening SMEs Competitiveness for Trade and Investment" with the objective to identify the best policies and entrepreneurial practices to strengthen SMEs competitiveness for trade and investment in the APEC community. Ministers adopted the "Hanoi Declaration on Strengthening SMEs Competitiveness for Trade and Investment" to develop specific measures to improve competitiveness, innovation and entrepreneurship.

As globalization proceeds, APEC economies, especially developing economies, and their enterprises face major challenges in strengthening their human and institutional capacities to take advantage of emerging trade and investment opportunities. Their readiness in facing these challenges is dependent on the stage of development of each economy, which is directly reflected in the development of SMEs.

The Bogor Goals set the target of free and open trade and investment in the APEC Region by 2010 for industrialized economies and 2020 for developing economies. To achieve this target APEC needs to place more emphasis on strengthening SMEs' competitiveness in trade and investment by developing specific measures to improve competitiveness, innovation and entrepreneurship.

Such measures should include:<sup>107</sup>

- enhancing capacity building for enterprises and officials in order to enable firms to take advantage of trade liberalization;

<sup>107</sup> <http://www.apec.org>

- undertaking domestic reforms such as enhancing the legal and regulatory framework, implementing the rule of law, cutting down on bureaucracy, investing in infrastructure, removing gender biases, improving labor conditions and fighting corruption. These reforms should be reflected at all levels of government administration;
- building institutional capacities that support the internationalization of, and exports from, SMEs; and disseminating information on good and ethical business practices to SMEs;
- encouraging firms' alignment to international standards for products and services;
- exchanging best practices and encouraging effective enforcement of intellectual property rights;
- encouraging collaboration between business and government agencies to jointly promote the importance of implementing pro-active business strategies to SMEs at the firm level, through leveraging business organizations and other support organizations;
- enhancing the quality, effectiveness and sustainability of export and investment promotion support institutions;
- improving the availability of, and access to, knowledge and information, financial resources, business resources and business matching platforms and services that SMEs and micro enterprises require for developing new capabilities, and increasing their technological absorptive capacity for both domestic and international trade and investment;
- incorporating business incubation, innovation and entrepreneurship development as integral parts of the development strategies of APEC economies;
- developing higher quality partnerships with the representatives of the business community in formulating SMEs trade and investment promotion policies and strategies.

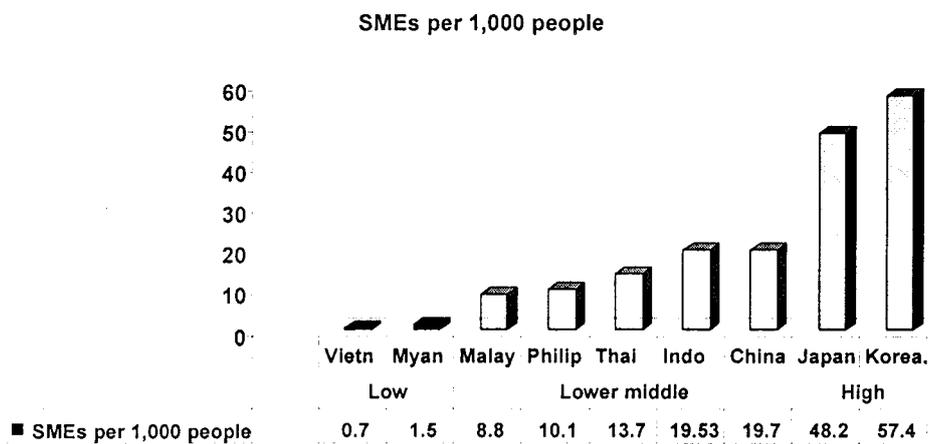
### **3.5.5 Lesson Learnt from Policy and Practices of SMEs development in some selected countries**

When role of SMEs in country economy is studied, SMEs have contributed significantly to the economic development in **studied countries** and have resolved many social problems. In industry, trade, service and construction sectors, SMEs have employed many employees. It can be said that employment created by SMEs is enormous.

It should be noticed that the share of SMEs in GDP and the share of SMEs in employment is also high in high and upper middle income countries. It was also found that the SMEs contribution to GDP and employment is comparatively low in lower middle income countries and low income countries.

Development of SMEs can be measured by using share of SMEs in GDP, share of SMEs in employment and SMEs density. SMEs density is defined as no of SMEs per 1000 people. In most countries, the more SME density is highly related with per-capita income increases. On the other hands, SMEs contributed significantly to the economic development.

**Figure 3.3 SMEs Density in Some Selected Countries**



In the case of Japan, the number of establishments expanded greatly and the number of employees working for SMEs increased in the high growth era like establishments. It was found that the differences between countries were as great as the similarities across the South Asian region. For example, the policies of countries such as Japan and Korea were directed at encouraging SMEs to export, while those of countries such as Vietnam were directed at encouraging foreign investment in domestic SMEs. Nonetheless, there were some important similarities in government policy across the region. Governments were implementing policies that sought to address similar problems faced by SMEs in each country. Although the definition, form, and productive orientation of SMEs were different in each country, the problems faced were often the same.

These problems included access to finance and credit; training and human resource development; access to technology; assistance with research and development; the impact of

government regulation; the impact of government commitments in the WTO; limited information on possible markets and clients; weaknesses in transportation and infrastructure; and the impact of external factors such as the broader economic climate.

Governments were attempting to address these problems and governments also provided supporting policies for SME development. Therefore, supporting policies for SMEs development should be learnt.

It is learnt that responsible body for SMEs policy is established in Japan, Korea and some ASEAN countries. Industry Promotion Department was established as responsible body for SMEs promotion in Thailand. Main organizations responsible for SMEs in Philippine are The Bureau of Small and Medium Business Development, The Regional Operations Group, Small and Medium Enterprise Development Council and Small Business Guarantee and Finance Corporation. In Malaysia, Small and Medium Industries Development Corporation (SMIDEC) is the lead Government agency responsible for coordinating the development of SMEs. In Indonesia, Development Small Scale Industry (Ministry of Industry and Trade) and Ministry of Cooperatives are responsible body for SMEs policy.

“Basic law” is to improve development of SMEs to bolster both international competitiveness of industries and the upgrading of industrial structure. Its concrete goal is to correct productivity differential between SMEs and large enterprises. In the case of Japan, the Small and Medium Enterprise Basic Law was enacted in 1963. In 2000, the Thai government issued the Small and Medium Enterprises Promotion Act, established the Small and Medium Enterprises Promotion Committee as well as set up the Office of SMEs Promotion in the same year. In Philippine, Magna Carta for Small Enterprises was enacted in 1991 while Small Scale Industry Law was enacted in 1995 in Indonesia. But there is no basic law for SMEs in Myanmar.

In the case of Japan, at the initial stage, as SMEs were pressed seriously for money, policy focusing more on finance was needed. Special funds for SMEs were provided, including setting up a line of credit by the Reconstruction Finance Bank. Moreover, a financial institution specializing SMEs and a government-owned People’s Finance Cooperation have set up since 1949. The main purpose of financing measurer for SMEs is to furnish loans.

Private banking institutions and three government banking institutions supply SMEs financing. The major role of government institutions is to make up for the loans which private banks cannot supply. The "Credit Supplement System" was also created to help SMEs unable to arrange findings from private banks, due to lack of mortgages or credit.

In general, financing for Korean SMEs has come from four sources: funding through commercial banks and other financial institutions, loans from specialized banks created specially to promote SMEs (Small and Medium Industry Bank, and Citizens National Bank), loan guarantees from Korea Credit Guarantee Fund, and program loans from the government, Korea Federation of Small Business (KFSB), and Small and Medium Industry Promotion Corporation (SMIPC). The Small and Medium Industry Bank (SMIB) was established in 1961 to complement the needs of small and medium-sized manufacturing enterprises with 300 or less employees. The Citizens National Bank (CNB), established in 1963, also performed the same function as the SMIB, but mainly for smaller firms (100 employees or less). To support SMEs which lack the requisite collateral, the Credit Guarantee Fund Reserve System was first organized in 1961 (under the Small and Medium Industry Bank). In 1976, the Korea Credit Guarantee Fund (KCGF) was created. The KCGF's funds were contributed from the government and financial institutions. Its major activities include credit guarantees, credit information services, management and technical extension services, and investment in SMEs.

As for the crediting of SMEs, the Thai government had established Financial Office for Small Industry under supervision of Industry Promotion Department in order to give a financial support to the small industries. In the part of SMEs credit guarantee, the government had established Small Industry Credit Guarantee Fund (SICGF) in order to guarantee the small industry credit which was later changed into Small Industry Credit Guarantee Corporation (SICGC) in 1987. The Thai government encouraged SMEs by granting credit through 6 financial institutions of the government.

In Indonesia, the two major nation-wide credit programs for SMEs included the Small Enterprises Development Program and the Small Enterprises Credit program launched in 1973. It was the first major nation-wide subsidized credit program in terms of the volume of credit provided to SMEs. The scheme was aimed at helping small, indigenous enterprises, including cottage enterprises, to obtain subsidized credits for investment and working capital

purposes. While the KIK/KMKP credits were intended for both investment and working capital purposes, the bulk of credits provided was used for working purposes to keep the operations of these SMEs going, rather than for investment purposes, such as purchasing new equipment or expansion purposes.

In Thailand, there are several units supporting technology which are National Science and Technology Development Administration (NSTDA), Department of Industrial Promotion, Thailand Industrial Standard Institute, National Productivity Institute, National Innovation Office.

Among the technical assistance programs for SMEs in Indonesia, the Small Industries Development program (BIPIK), initiated in 1980 by the Department of Industry, was by far the most important program. This program provided training and extension services to SMEs and was also carried out by the Department of Industry.

Technical support is provided by not only Government but also some Institutions. During 1960-1996, there were many institutions which have provided technical support for Korean SMEs. Most of them were set up or extended their support to SMEs since the late 1970s and early 1980s, as the role of SMEs in Korean economy was recognized. Korea has an extensive network of agencies that have provided technical support for SMEs. These supports are generally in the form of technical assistance, training programs, information services, or joint research opportunities. Most technical support institutions have been provided a combination of services which often supported by financial and tax incentives.

Coinciding with numerous government policies, there were also many SMEs support institutions established in Thailand. They were organized as either government or nonprofit institutions. Even though some of these agencies were not established exclusively to support only SMEs, but in fact, they were heavily used by SMEs. The Thai Chamber of Commerce, as one of the leading private organizations in Thailand, has recognized the importance of the SMEs. More than 90% of its member belongs to SME category.

Since the early 1960s, the Korean government has considered export-oriented policy as an important strategy for economic development. Therefore, a variety of institutions to assist firms with export marketing were established in this period. The most important agency is the Korea Trade Promotion Corporation (KOTRA) established in 1962 to provide a various types

of services such as: market research, information in foreign markets, assistance with trade fairs and overseas marketing trips, etc. At the beginning, KOTRA mainly helped large firms, but later on these firms became more self-sufficient. Therefore, KOTRA's activities have focused more on SMEs. In the other hand, in order to provide more effectively the import and export agency services for SMEs, in 1969, KOTRA established the Korea Trading Company (KTC). It is different with KOTRA that KTC operates based on a commercial purpose. The other sources of marketing support are the Korea Federation of Small Business and the Cooperative Association of SMEs, founded with government support in 1962.

There are also several units playing a major role in marketing and exporting of SMEs in Thailand such as Department of Export Promotion, Department of Industrial Promotion, Department of Domestic Trade, and Department of Foreign Trade.

It was learnt that some countries introduced the industrial linkage program. The Industrial Linkage Program (ILP) in Malaysia is aimed at developing domestic SMEs into competitive manufacturers and suppliers of parts and components and related services to large companies.

Other industrial linkage development strategy was found in Indonesia, "Foster Father Scheme". Under this scheme, large enterprises were urged to establish partnerships with cooperatives and small enterprises, largely owned by members of the economically weak groups in society.

As discussed in this chapter, it can be concluded that SMEs need supporting policies from government. According to the lesson learnt from policy and practices of SMEs development in some selected countries, it can be remarked that SMEs can be developed when there are proper government supporting policies. Above mentioned fact clear proved that *there is a positive relationship between governments' supporting policies and the survival and development of SMEs.*

## Chapter Four

### Current Situation of SMEs in Myanmar

For many years, considerable contribution of small and medium sector for employment and economic dynamism has been growing rapidly across the world, both in developing and developed countries. SMEs are generally recognized that the best practices can be used as positive examples for rapid development of the emerging transitional economies including Myanmar. In doing so, instead of focusing the standardized mass production that lost its weight already some time ago on the amount of the quality orientation in management and ability to tailor production to individual and changing needs of ever-stronger customers, SMEs can efficiently provide more flexible responses to the individualized customer needs, capability of customer focus, faster adapting to and learning from changing world market situations, more risk prone in introducing new technologies and new creative methods of management.

Therefore, for politicians and governments especially in transitional economies, SMEs are important first of all due to the fact that it can replace the government in the difficult task of job creation, which is one of the most sensitive issues during the transition period. Also, SMEs are important since gradual development of the sector leads in future to creation of the new, prosperous middle class the best proven factor of a country's a long-term stability. Another important consideration for the governments is the potential for additional fiscal income creation by the SMEs<sup>108</sup>.

A country, which wants to be successful in using SMEs as the major driving force for the development of the national economy, has to be aware of existing inadequacies, strengths and weaknesses of the role of SMEs. Thus, all governments in the transitional process from planned economy into market-oriented economy have been trying to introduce and promulgate necessarily the appropriate policies, laws and regulations and measurements for

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<sup>108</sup> Mohammad Mohsin (1995): "SMEs sector in transition economies: what is expected?". Economics of Small Business in Islam, Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia. pp.2-4.

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#### 4.1 The Definition of SMEs in Myanmar

The official definition of SMEs in Myanmar since 1990 that can be shown in Table (4.1), tends to focus on the industrial sector only. Four measure criteria, namely number of employees, capital investment, production volume and electrical usages were applied to classify the different sizes of Myanmar private firms. No distinction in size is made for enterprises under the trade and service sectors or cottage and handicraft industries. Due to definition of SMEs defined by the Private Industrial Enterprise Law 1990, the definition of SMEs in Myanmar can be described as follow;

Table 4.1 Definition of SMEs in Myanmar

Type	Definition Criteria
No. of workers	• less than 100
Capital outlay	• less than 5 million kyats
Production value	• less than 10 million kyats
Electrical usage	• Less than 50 H.P

Source: Dr Kyaw Htin. SME development in Myanmar : Policies and Strategies, 2002

108 Mohammad Mohsin (1995): "SMEs sector in transition economies: what is expected?", Economics of Small Business in Islam, Islamic Research and Training Institute, Islamic Development Bank, Jeddah, Saudi Arabia, pp.2-4.

Privately owned industrial establishments that were registered under the Private Industrial Enterprise Law total 41,984 in 2005 (Ministry of Industry 1). Based on the data of the Ministry of Industry (1), about 92.23 percent of the establishments in 2005 were small and medium industries (SMEs), about 62.47 percent of which were in the food and beverage sub sector in 2006.

## 4.2 The Contribution of SMEs

It was stated that the agricultural sector represented 50.5 percent of the nation's GDP, the service sector, 34.9 percent and the industrial sector, 14.6 percent<sup>111</sup>. The private sector and cooperatives were altogether contributing 90 percent of the nation's GDP. In the trade sector alone, 91 percent of the contribution comes from the private sector.<sup>112</sup>

**Table 4.2 Sectorial Distribution of SMEs (Number of Establishments)**

Sr.	Sub-sector	Small	Medium	Total	Share (%)
1	Food & Beverages	21481	3473	24954	62.91
2	Clothing & wearing apparel	1524	396	1920	4.84
3	Construction materials	2417	529	2946	7.43
4	Personal goods	615	322	937	2.36
5	Household goods	82	75	157	0.40
6	Printing & publishing	229	83	312	0.79
7	Industrial raw material	859	307	1166	2.94
8	Mineral & petroleum	1286	355	1641	4.14
9	Agricultural equipment	45	13	58	0.15
10	Machinery & equipment	364	53	417	1.05
11	Transport vehicles	67	16	83	0.21
12	Electrical goods	15	18	33	0.08
13	Miscellaneous	4470	575	5045	12.72
	<b>Total</b>	<b>33454</b>	<b>6215</b>	<b>39669</b>	<b>100.00</b>

Source: Sein Thaug Oo, "Current situation and Future Prospects of small and Medium Enterprise in Myanmar", MICT park, 2005

<sup>111</sup> The New Light of Myanmar, 3 April 2005

<sup>112</sup> The New Light of Myanmar, 13 March 2005.

Figure 4.1 Sectorial Distributions of SMEs (No. of Establishment)

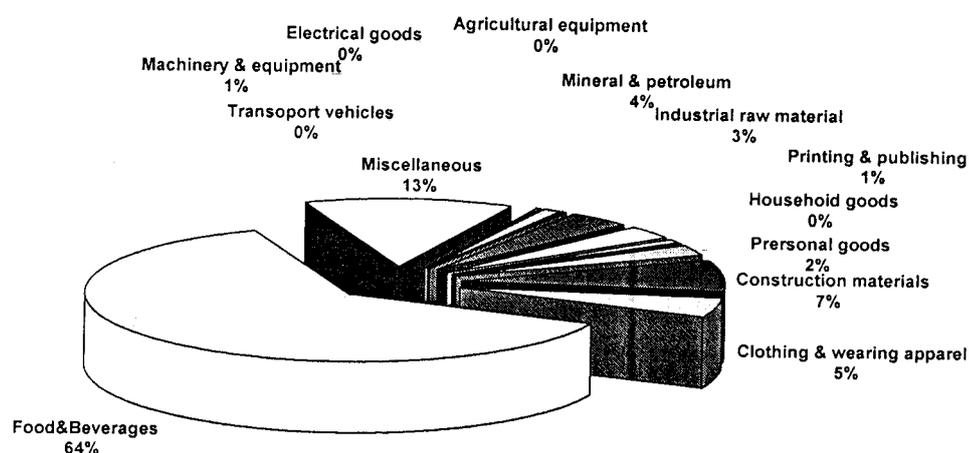


Table 4.2 and Figure 4.1 show how the total number of SMEs consists of which ratio between the small and medium enterprises. Food and Beverages sector is the largest among the enterprises while the small one belongs to the electrical goods manufacturing. Generally small enterprises are more than the medium ones except electrical goods production. Mostly the difference between the small and medium industries varies 2 to 6 times. First highest group is Food & Beverage while the smallest group is electrical goods manufacturing in which medium enterprises are larger than the small firms. On the other hand, the manufacturing of construction materials stands second and mineral and petroleum third.

### 4.3. The Growth of SMEs

Since the adoption of market economy in 1989, private industries have grown progressively that can be seen in Table 4.3:-

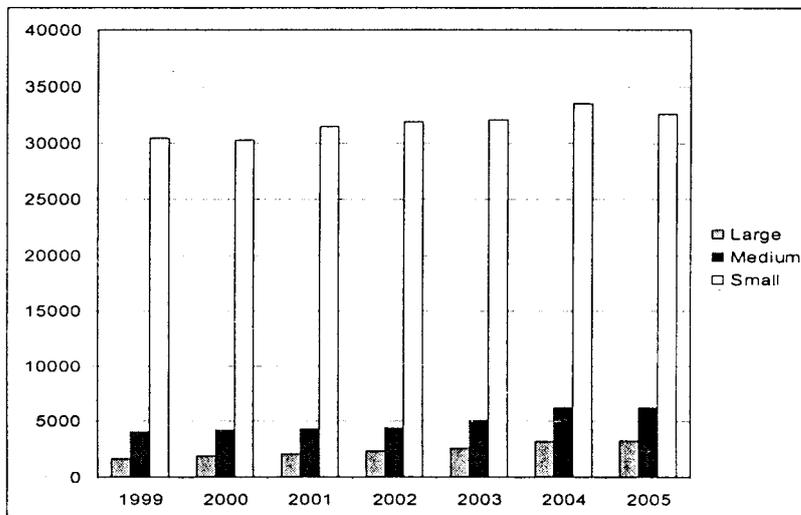
**Table 4.3 Structure of SMEs in Myanmar**

Firms	1999	2000	2001	2002	2003	2004	2005
Large	1593	1843	2047	2304	2536	3135	3273
	(4.4%)	(5.1%)	(5.4%)	(6.0%)	(6.4%)	(7.3%)	(7.8%)
Medium	4033	4185	4291	4342	5052	6215	6242
	(11.2%)	(11.5%)	(11.4%)	(11.3%)	(12.8%)	(14.5%)	(14.9%)
Small	30410	30201	31393	31852	32016	33454	32469
	(84.4%)	(83.4%)	(83.2%)	(82.7%)	(80.8%)	(78.2%)	(77.3%)
Total	36036	36229	37731	38498	39604	42804	41984
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)

Source: Sein Thaug Oo, "Current situation and Future Prospects of small and Medium Enterprise in Myanmar", MICT park, 2005

In Table 4.3 and Figure 4.2, the structure and growth of the SMEs can be seen obviously. From 1999 to 2005, the structure of SMEs changed within 7 years. In 1999, the large enterprise contributed only 4.4%, its share increased up to 7.8% in 2005. At the same period, the contribution of Medium enterprise increased from 11.2% to 14.9%. Although the share of medium and large enterprise increased, the contribution of small enterprise decreased. It was found that 84.4% of small enterprises contributed in 1999. However, the contribution of small enterprise decreased to 77.3% in 2005.

**Figure 4.2 Growth of Registered Private Enterprises**



Source: Sein Thaug Oo, "Current situation and Future Prospects of small and Medium Enterprise in Myanmar", MICT park, 2005

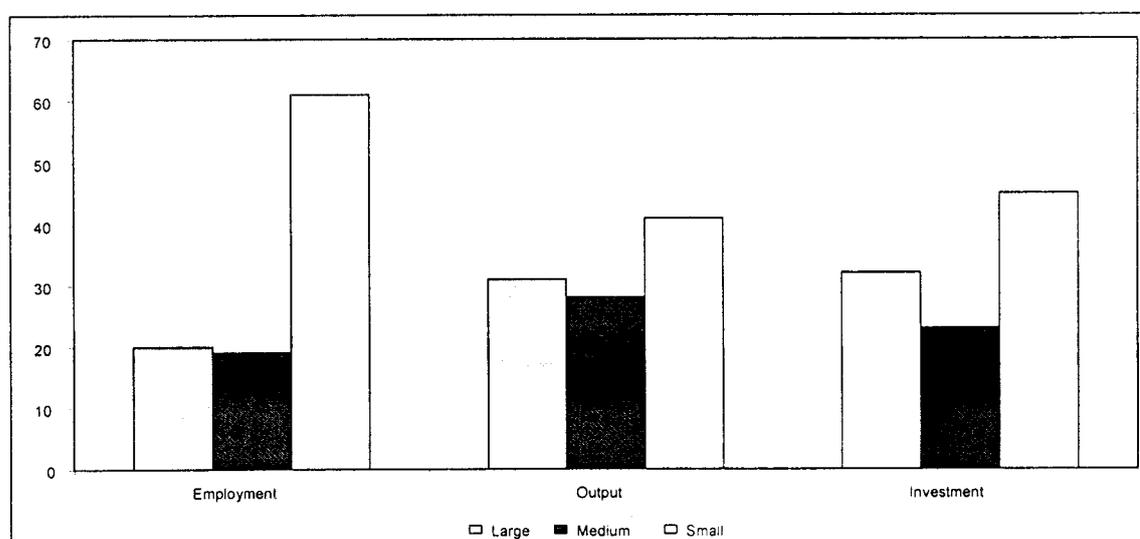
**Table 4.4 Share of SMEs' Contribution by Employment, Outputs and Investment in Myanmar in 2004**

Firms	Employment (%)	Output (%)	Investment (%)
Large	20	31	32
Medium	19	28	23
Small	61	41	45
Total	100	100	100

Source: Sein Thauing Oo, "Current situation and Future Prospects of small and Medium Enterprise in Myanmar", MICT park, 2005

The employment, investment and output in the SMEs are mentioned in Table 4.4 and Figure 4.3. In all areas, the small enterprises are larger than the medium firms, like 61percent and 19 percent in employment, 41 percent and 28 percent in output and 45 percent and 23 percent in investment respectively. Under these circumstances, it can be made a conclusion that the more the investment, the more the output and the higher the rate of growth. Of course, the employment is a benefit while the investment is a cause. It is more obvious that the shares of output and employment are larger because of the huge ratio of the investment. Even the large enterprises are tinier than the small firms. Of course, it is better that the SMEs are more and larger than the large enterprises but it is not good sign to apply mass production for producing economies of scale.

**Figure 4.3 Share by Employment, Output and Investment for the Year 2004**



**Table 4.5 Number of Registered Private Enterprises in States and Divisions  
in 2005 - 2006**

Sr.	State/Division	Large		Medium		Small		Total	
		2005	2006	2005	2006	2005	2006	2005	2006
1	Kachin	19	23	101	105	667	765	787	893
2	Kayah	6	7	50	60	217	218	273	285
3	Kayin	39	40	19	19	426	448	484	508
4	Chin	-	-	2	2	490	504	492	506
5	Sagaing	226	247	746	778	3539	2804	4,511	4829
6	Tanintharyi	105	112	55	59	632	626	792	797
7	Bago	222	226	535	560	3775	3967	4,532	4753
8	Magwe	75	79	243	247	1758	1811	2,076	2137
9	Mandalay	617	634	1788	1805	5523	5458	7,928	7897
10	Mon	109	114	244	252	2004	2064	2,357	2430
11	Rakhine	84	86	70	71	1475	1689	1,629	1846
12	Yangon	1389	1480	1517	1591	2971	3052	5,877	6123
13	Shan (South)	68	72	109	102	2484	2363	2,661	2537
14	Shan (North)	39	43	173	185	969	1002	1,181	1230
15	Ayeyarwaddy	275	288	590	607	5539	5685	6,404	6580
	<b>Total</b>	<b>3273</b>	<b>3452</b>	<b>6242</b>	<b>6443</b>	<b>32469</b>	<b>32456</b>	<b>41,984</b>	<b>43351</b>
	Percentage (%)	7.79	7.96	14.87	14.86	77.34	77.18	100	100

Source: MIDC & Department of Cottage Industries

Figure 4.4 Changes of Large Enterprises in 2005 - 2006

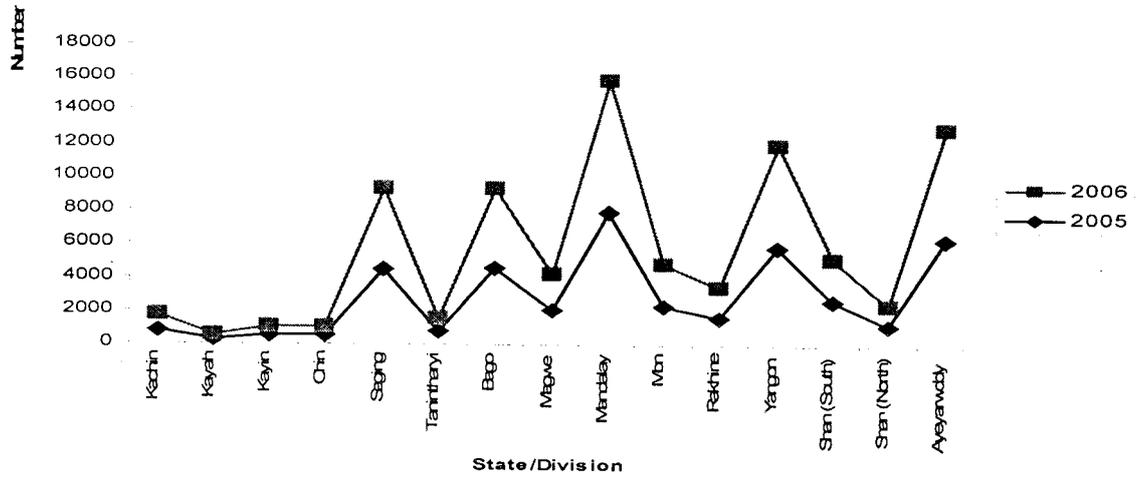


Figure 4.5 Changes of Medium Enterprises in 2005 - 2006

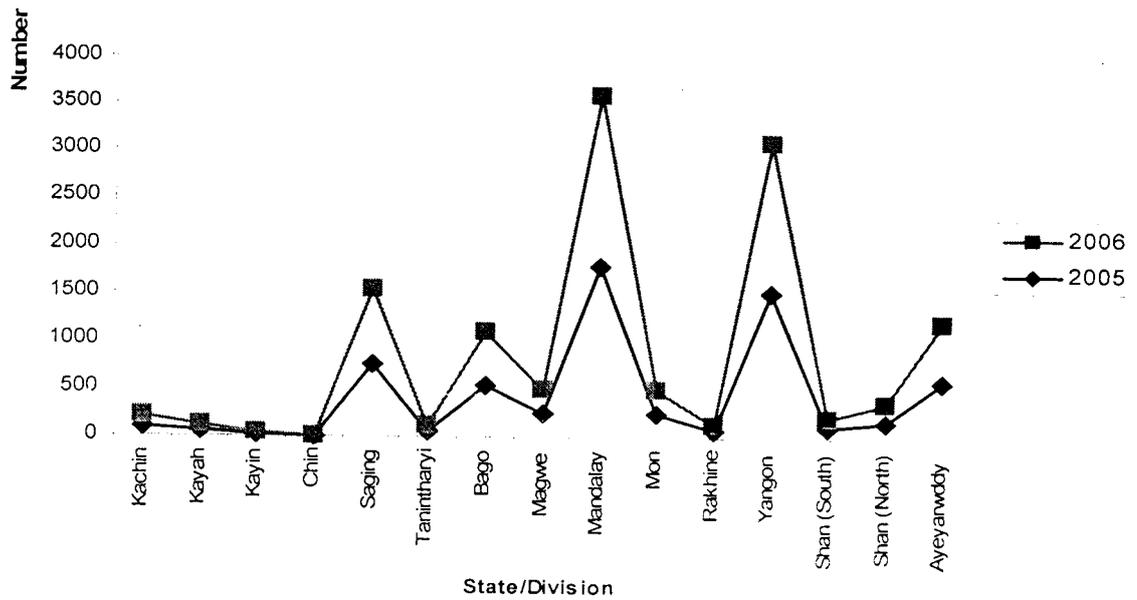


Figure 4.6 Changes of Small Enterprises in 2005-2006

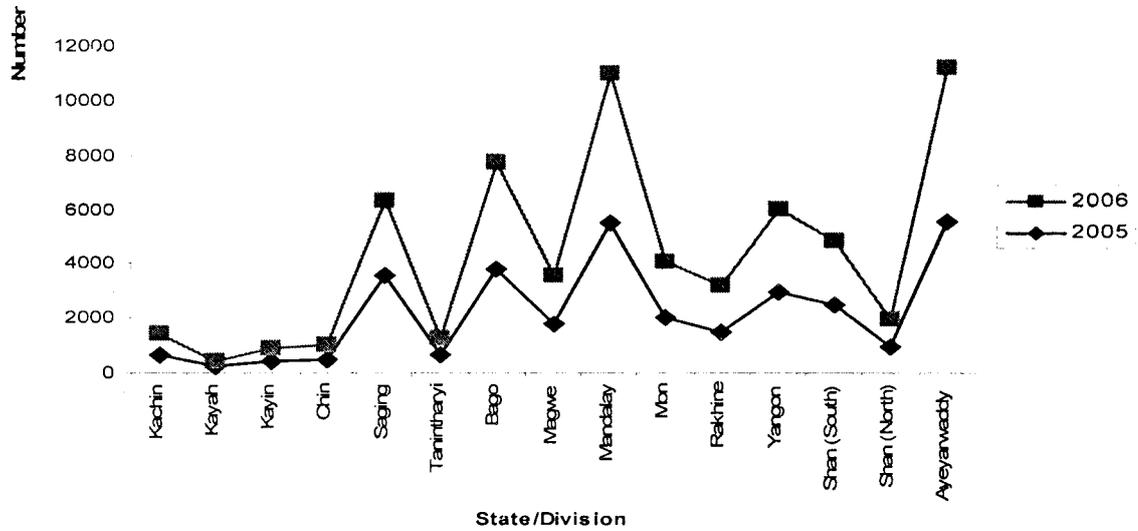
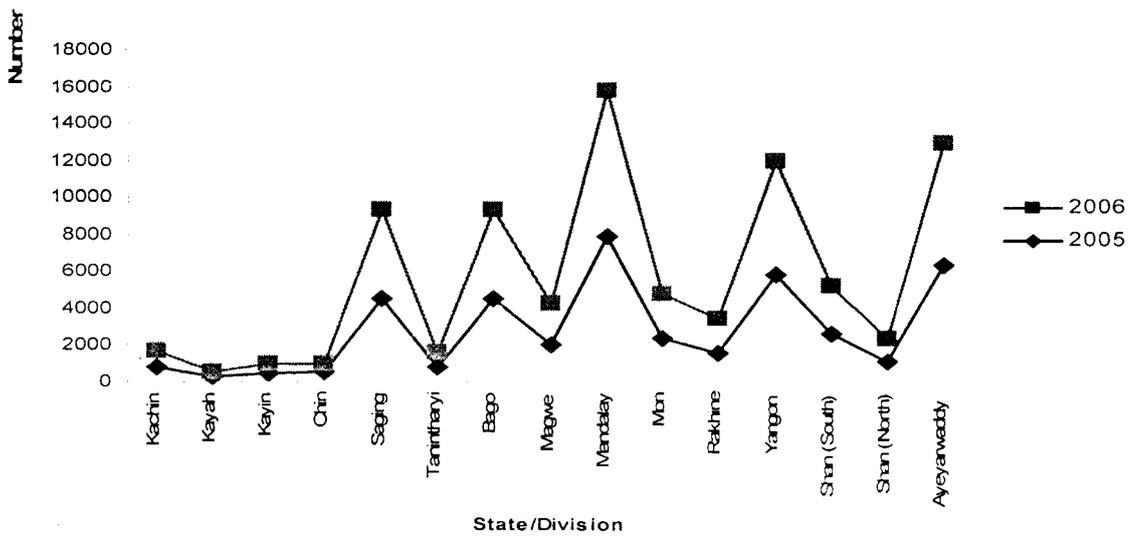


Figure 4.7 Changes of Total Enterprises in 2005-2006



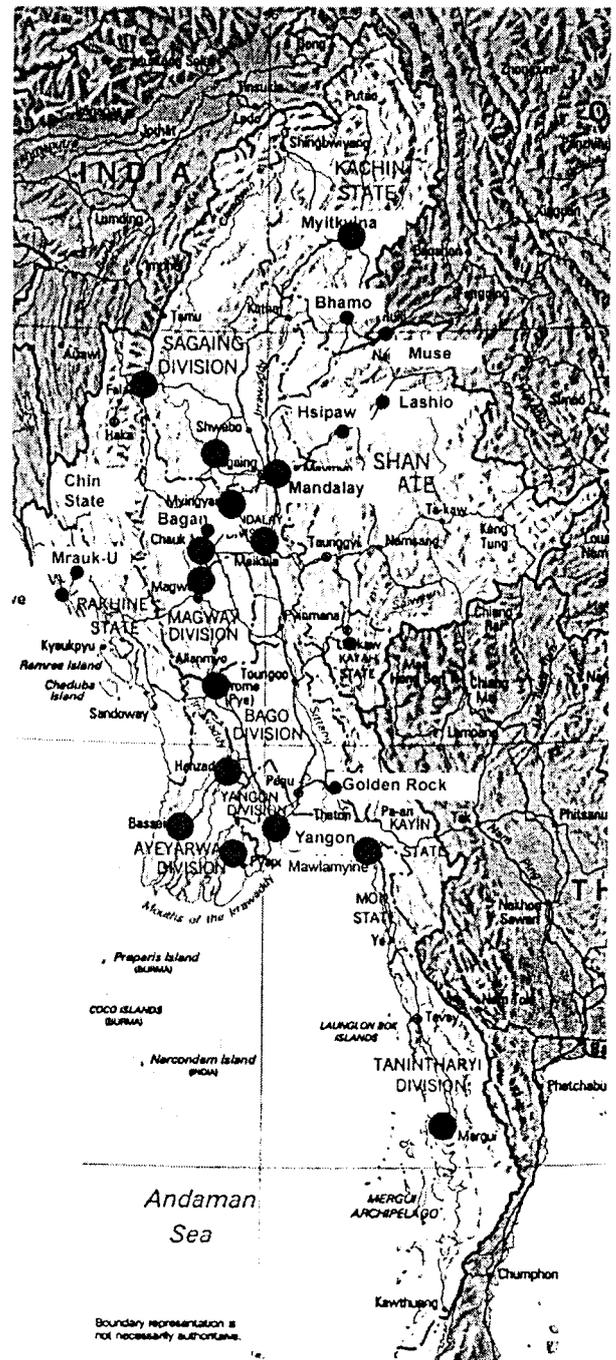
The contribution of the large, medium and small scale enterprises among the states and divisions can be evaluated in Figures 4.4, 4.5, 4.6, 4.7 and Table 4.5. The number of small

enterprises in all states and divisions are more than that of medium firms in 2006 as updated. In 2006, the small enterprises in Ayeyarwaddy Division stand first among the states and divisions, Mandalay Division second, Bago third and Yangon Division fourth while the medium enterprises in Mandalay Division take first place, Yangon second, Sagaing third and Ayeyarwaddy fourth. It is strange that the small and medium enterprises do not link each other in general because of the number of the small enterprises in Ayeyarwaddy Division is the largest among the states and divisions but the medium enterprises in Ayeyarwaddy are only in the fourth position. While the medium enterprise in Mandalay holds first among the states and divisions, it sets second in the small enterprises. Sagaing Division prevails fifth and third in the small and medium enterprises respectively. Bago Division obtains third in the small enterprises but it secures fifth in the medium firms. Though Yangon Division is the business capital, the small and medium enterprises stand fourth and second respectively among the states and divisions. The maximum and minimum in small enterprises among the states and divisions are (5685) in Ayeyarwaddy Division and (218) in Kayah State while the ones in medium enterprises are (1805) in Mandalay Division and (2) in Chin State. It means that the gap between the numbers of two enterprises is too great. The number of small enterprise is higher than that of the medium firms - 5467 and 1803 respectively. The least number of medium enterprises is located in Chin State, merely (2), where that of small enterprises is 5040. The least number of small enterprises is in Kayah State, only 218, where that of medium enterprises is 60. The number of small enterprises in Chin State is 8 times much more than ones in Kayah State.

Figure 4.8 Location of SMEs in Industrial Zones (31.8.2006)

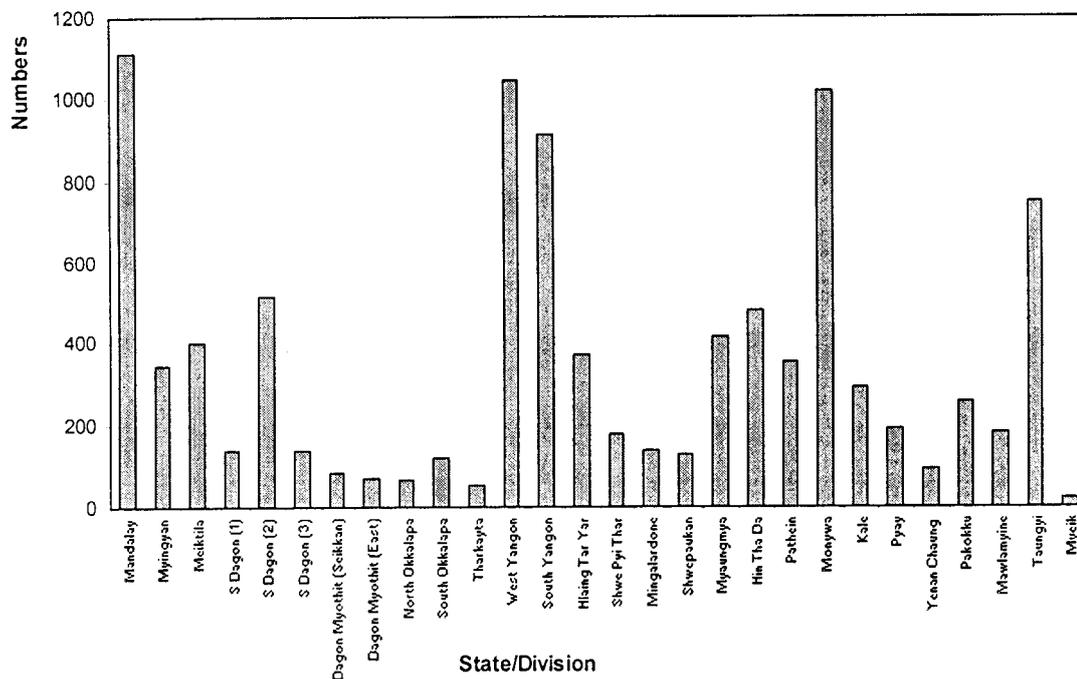
1. Mandalay (1110)	
2. Myingyan (345)	
3. Meiktila (400)	
4. East Yangon	
S. Dagon (1)	135
S. Dagon (2)	517
S. Dagon (3)	136
Dagon Myothit	83
Dagon Myothit (E)	69
North Okkalapa	67
South Okkalapa	118
5. West Yangon (1046)	
6. South Yangon (915)	
7. North Yangon	
Hlaing Tar Yar	370
Shwe Pyi Tar	176
Mingalardone	135
Shwepakkan	128
8. Myaungmya (414)	
9. Hin Tha Da (481)	
10. Patheingyi (353)	
11. Moneysa (1019)	
12. Kale (293)	
13. Pyaw (189)	
14. Yanan Chaung (92)	
15. Pakokku (255)	
16. Mawlamyine (182)	
17. Taunggyi (750)	
18. Myeik (20)	

**TOTAL - 9851**



Source: MIDC, 2006

Figure 4.9 Number of SMEs in Industrial Zones (31.8.2006)



Source: MIDC, 2006

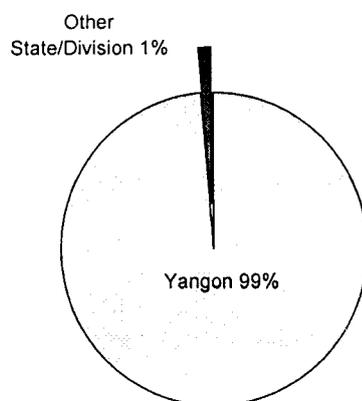
The location of SMEs and the number of SMEs in the industrial zones are mentioned in Figure 4.8 and 4.9 up to 31 August 2006. There are (18) industrial zones across the country, where three each are in Mandalay and Ayeyarwaddy Divisions, four in Yangon Division, two each in Saging and Magwe Divisions, one each in Bago, Mon, Shan and Tanintharyi respectively. Of course, the most SMEs are located in Yangon Division as 3895 enterprises and the maximum is established in East Yangon as (1,125) units. No industrial zone is created in Kachin, Chin, Rakhine, Karin and Kayah. Among the industrial zones, Mandalay zone belongs to the highest number of SMEs while only (20) SMEs are established in Myeik as minimum. West Yangon industrial zone stands second and Moneywa third followed by the South Yangon and Taunggyi as fourth and fifth.

**Table 4.6 Investment of SMEs in State/Division (kyats in million) (31.8.2006)**

Sr.	State/ Division	Investment (Kyats in Million)
1	Kachin	1,179.41
2	Kayah	244.39
3	Kayin	233.99
4	Chin	62.73
5	Sagaing	11,480.17
6	Tanintharyi	6,989.74
7	Bago	1,501.48
8	Magwe	3,361.14
9	Mandalay	17,795.83
10	Mon	2,403.52
11	Rakhine	2,396.96
12	Yangon	4,521,959.41
13	Shan (South)	2,082.18
14	Shan (North)	2,313.88
15	Ayeyarwaddy	9,478.60
	<b>Total</b>	<b>4,583,483.43</b>
	<b>US (\$) in mil</b>	<b>317.05</b>

Source: MIDC, 2006

**Figure (4.10) Investment of SMEs in State/Division (kyats in million) (31.8.2006)**



Source: MIDC, 2006

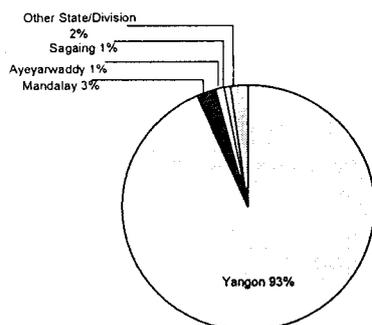
Investment, production and employees among the SMEs in the various industrial zones are shown in Table 4.6, Figure 4.10, Table 4.7, Figure 4.11 and Table 4.8, Figure 4.12. In producing the goods and services, investment is the most important factor among the other economic activities such as production, consumption, investment, saving, exchange rate and distribution. No production can be made without investment. In terms of the investments in various industrial zones, the investment in the SMEs in Yangon Division is fabulously highest among all ones in the states and divisions. While the investment in Yangon Division sets 99 percent of the total investment, the investments in Mandalay and Sagaing Divisions takes 0.39 percent and 0.25 percent respectively as second and third. Though the gap between the second and third is little, the gap between first and second and third is too great. It is not a good sign for perspective business for the whole economy. It is unbelievable that the investment in Chin State derives merely 0.001percent of total investment in SMEs in States and Divisions.

**Table 4.7 Production of SMEs in State/Division (kyats in million ) (31.8.2006)**

Sr.	State/ Division	Production
1	Kachin	3,649.71
2	Kayah	415.50
3	Kayin	888.76
4	Chin	168.33
5	Sagaing	22,178.37
6	Tanintharyi	10,855.89
7	Bago	4,412.32
8	Magwe	11,390.06
9	Mandalay	82,108.43
10	Mon	14,056.49
11	Rakhine	7,647.01
12	Yangon	2,997,553.87
13	Shan (South)	6,749.26
14	Shan (North)	14,704.35
15	Ayeyarwaddy	35,149.90
	<b>Total</b>	<b>3,211,928.24</b>
	<b>US(\$ (in mil)</b>	<b>1,313.7740</b>

Source: MIDC, 2006

**Figure (4.11) Production of SMEs in State/Division (kyats in million) (31.8.2006)**



Source: MIDC, 2006

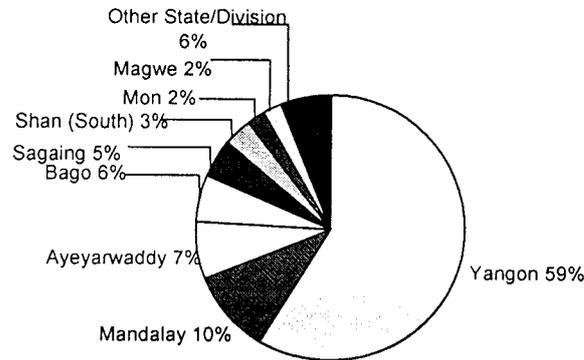
In the point of view of the production of the SMEs, of course, the SMEs in Yangon Division take the highest shares of the total production like 93 percent while Mandalay, Sagaing and Ayeyarwaddy set 3 percent, 1 percent and 1 percent respectively. The gap between the investment of first and second is mostly almost the same as that of production. It can be seen that the two factors investment and production, are directly linked. It is obvious that the more the investment, the more the production.

**Table 4.8 Number of Employees of SMEs in State/Division (31.8.2006)**

Sr.	State/ Division	No. of Employees
1	Kachin	4,350
2	Kayah	1,140
3	Kayin	2,112
4	Chin	1,454
5	Sagaing	19,624
6	Tanintharyi	5,436
7	Bago	24,154
8	Magwe	9,020
9	Mandalay	45,168
10	Mon	10,035
11	Rakhine	6,250
12	Yangon	253,746
13	Shan (South)	15,150
14	Shan (North)	5,819
15	Ayeyarwaddy	30,191
	<b>Total</b>	<b>433,649</b>

Source: MIDC, 2006

Figure 4.12 Number of Employees of SMEs in State/Division (31.8.2006)



Source: MIDC, 2006

On the other hand, the employment in the SMEs in various States and Divisions does not seem to be related too much to investment and production. Though the number of employees in SMEs in Yangon Division is the highest as in investment and production, only 59 percent is shared, not as high as 99 percent in investment and 93 percent in production. It means that the investment is not utilized in majority for the employment in SMEs in Yangon Division. The number of people employment does not depend on the amount of investment compare with the production. Apart from these, the labor intensive method is not applied in Yangon Division. The production of SMEs in Yangon Division is high not because of the number of employees but because of the investment. At the same time, even the share of total employment is 10 percent in SMEs in Mandalay, the production is only 3 percent as a result. On the one hand, the shares of production in Ayeyarwaddy and Sagaing Divisions are 1 percent each but the shares of employment are 7 percent and 5 percent separately. Under these circumstances, it can be noted that investment is the main factor for the production but not for the employment.

#### **4.4 The Development Policy for SMEs**

It can be said that there is no definite and proper SMEs policy or law in Myanmar. The formation of Committee for Industrial Development headed by the Prime Minister, the formation of Myanmar Industrial Development Committee (MIDC), the formation of Working Committee (MIDWC) and its accompanying objectives may be referred to as the policy guidelines for development of SMEs. The objectives of MIDC are:

- (a) Development of Industries with agriculture as the base;
- (b) Enhancement of quantity and equality of industrial products;
- (c) Increased production of new types of machinery and equipment;
- (d) Production of machinery and equipment;
- (e) Production of machinery and equipment for industrial use and
- (f) Creation of suitable conditions for changing over to an industrialized state.

Tasks of 9 Sub-committees under MIDWC are:

- Production of Agricultural Machinery & Equipment
- Drafting of Industrial Laws
- Small Scale Industries Development
- Industrial Information
- Human Resource Development
- Motor Vehicles Production Supervision
- Iron and Steel Development
- Industrial Research Development & Dissemination of Technology Information and
- Standardization & Quality Improvement

#### **4.5 Agency involvement in SMEs**

Although there is neither agency nor organization specifically assigned on SMEs development, agencies or organizations currently involved in SMEs, the following organizations are supporting to develop private industrial firms including SMEs in Myanmar:

- a) **Small scale Industries Development Sub Committee (Myanmar Industrial Development Committee)**

The MIDC is concerned with the development of private industries in the industrial zones. The SMEs Sub-committee had been formed to attend to matters relating to the promotion of small and medium enterprise.

**b) Directorate of Industrial Supervision and Inspection (Ministry of Industry 1)**

The main activities of Directorate of Industrial Supervision and Inspection are to promote, encourage and foster the development of private industrial enterprises by identifying and responding to their needs and business requirements; to inspect industrial enterprises in accordance with the Industrial Enterprise Law; to register and supervise the steam boilers in accordance with the Boilers Law; and to inspect and supervise electric power generation, transmission and distribution system in private, co-operative and public sectors in accordance with the Electricity Law.

**c) UMFCCI (Union of Myanmar Federation of Chambers of Commerce and Industry)**

The main activities of UMFCCI are: participating in government-formed working committees; consultation and dialogue with the businessmen in the private sector; issuing commercial documents and certificates of origin for export goods; publishing newsletters, magazines, business directories and business information; organizing HRD activities such as seminars, workshops, meetings ;representing business interest and views to the government; organizing and participating in local and foreign trade fairs and exhibits; dissemination of trade and market information; providing arbitration services to settle business disputes; supervising and coordinating rice marketing (local and export); It provides the Business community with services.

It has 16 state and division chambers as well as 9 border trade chambers. It acts as organization for most of Myanmar's business associations such as Myanmar Agriculture & Fisheries Association, Myanmar Computer Industry Association, etc.

In order to promote the SMEs activities, UMFCCI provides entrepreneurship and business capacity building training (Human Resource Development) for cottage (micro) industries/ businesses and SMEs and consultancy services on business and Business and market information.

**d) Ministry of Science and Technology**

The Myanmar Science and Technological Research Department (MSTRD) offers other government departments, private enterprises, individuals and NGOs technical services such as sample analysis and issuance of certification, fine mechanics ( maintenance, repair and fabrication of laboratory instruments), standard testing, technical information resource, maintenance and repair of processing equipment. In

addition, MSTRD has 10 Research and Development Departments that support various industries.

- e) **Directorate of Myanmar Industrial Planning (Ministry of Industry 2)**
- f) **Myanmar Industries Association (Union of Myanmar Federation of Chamber of Commerce & Industry)**
- g) **Small and Medium Enterprise Committee (Myanmar Engineering Society)**

Myanmar Engineering Society (MES) provides: Human Resource Development program for Young Engineers (YE); Research and Development on Environmental Pollution Control; Seminars and meetings with SMEs owner from Industrial Zones. Technical sub-committees such as Electrical, Metal, Food, Chemical, Energy, Environmental, and etc. are formed under Industrial Development Committee of MES to transfer technical know-how to SMEs and Publishing of Tech Digest Journal.

- h) **Cottage Industries Department (Ministry of Cooperatives)**

It renders technical services to industrial cooperative societies to promote private cottage industries according to the Cottage Industries Promotion Law. Services like technical training, extension (visits), advisory (technical, financial and management), and product exhibitions (through the Myanmar Arts and Handicrafts Centre) are provided too.

Under the Cottage Industries Promotion Law (October 10, 1991), Cottage Industries Department (CID), Ministry of Cooperatives, provides following knowledge and expertise consultancy service:

- 1) Technical know-how
- 2) Entrepreneurship and skill training
- 3) Survey and Development Analysis
- 4) Training on various trade/technical assistance
  - Myanma Lacquer ware College (Bagan)
  - Saunder's Weaving School (Amarapura)
  - 8 High Level Weaving Schools and 5 Basic level Weaving Schools in States and Divisions
- 5) Technical Services and Technology Transfer to Private Industries and Producers Cooperative Societies to promote private cottage industries according to the Cottage Industries Promotion Law.
  - i. Training at the wood shop and metal shop

- ii. Quality check and chemical analysis techniques for food and beverage processing / production
- iii. Welding and metal works
- iv. Product exhibitions at the Myanmar Arts and Handicrafts Centre (MAHC), Central Cooperative Training Centre, Yangon.

i) **Myanma Science and Technological Research Department (MSTRD)**

The technical services that the MSTRD offers to government departments, private enterprises, individuals and NGOs are sample analysis and issuance of certification, fine mechanics (maintenance, repair and fabrication of laboratory instrument), standard testing, technical information resource, maintenance and repair of processing equipment. In addition, there are 10 Research and Development Departments in the MSTRD, which have been supporting various industries at different levels.

Apart from these, the Ministry of Education supports human resource development to local businesses through training of the SME workforce in technical and vocational schools that are under the Ministry.

#### **4.5.1 Cooperation with Foreign Agencies**

1. UNDP on Micro-Financing Project since 1997 (Micro Financing Institution is expected in the future)
2. JETRO on natural dyed fabrics and introduction of Japanese design for export to Japan (Theoretical-cum-practical training courses)
3. Myanmar - Japan Association on the development of hand woven textile-wares, rattan-wares, bamboo-wares, lacquer wares, handmade-papers.
4. OISCA International or Myanmar Lacquer ware Industries: Japanese lacquer ware techniques and skill transfer.

#### **4.5.2 Legislation to Promote Enterprises Activities**

The State Law and Order Restoration Council set out to transform the former socialist economy into a market-oriented economy. The first measure it took was to remove all the existing proclamations, orders and notifications that had barred the private sector from pursuit of businesses and services in the past. An import-export business registration office and a companies registration office were established under The Ministry of Trade on October

29, 1988, so as to enable private sector and co-operatives to pursue commissioned agencies, import and export businesses and legally set up business enterprises and organizations.

To improve the economy of the country, the government took measures to bring out the fullest participation of the private sector and seek investments from abroad to mutual benefit. At that time companies and individual entrepreneurs from abroad also make inquiries to do businesses in Myanmar for mutual benefit.

Therefore, in order to handle matters concerning foreign investment by means of legislation, the State Law and Order Restoration Council enacted the Foreign Investment Law in November 1988.

The law prescribes that foreign investment shall be made in accordance with the following basic principles:-

- (a) promotion and expansion of exports;
- (b) exploitation of natural resources which require heavy investment;
- (c) acquisition of high technology;
- (d) supporting and assisting production and services involving large capital;
- (e) opening up of more employment opportunities;
- (f) development of work which would save energy consumption;
- (g) regional development.

Foreign investment may be made in any of the following forms:-

- (a) investment made by a foreigner to the extent of one hundred per cent foreign capital;
- (b) joint-venture made between a foreigner and a citizen.

After that, the State Law and Order Restoration Council enacted the State-owned Economic Enterprises Law in March 1989. The law prescribes as follows:-

The Government has the sole right to carry out the following economic enterprises as State-owned economic enterprises:

- (a) Extraction of teak and sale of the same in the country and abroad;
- (b) Cultivation and conservation of forest plantation with the exception of village-owned firewood plantations cultivated by the villagers for their personal use;
- (c) Exploration, extraction and sale of petroleum and natural gas and production of products of the same;

- (d) Exploration and extraction of pearls, jade and precious stones and export of the same;
- (e) Breeding and production of fish and prawns in fisheries which have been reserved for research by the Government;
- (f) Postal and Telecommunications Service;
- (g) Air Transport Service and Railway Transport Service;
- (h) Banking Service and Insurance Service;
- (i) Broadcasting Service and Television Service;
- (j) Exploration and extraction of metals and export of the same;
- (k) Electricity Generating Services other than those permitted by law to private and co-operative electricity generating services;
- (l) Manufacture of products relating to security and defense which the Government has, from time to time, prescribed by notification.

Myanmar's overall restructuring and development policy is based on three main components, namely, adoption of the market economy for allocation of resources, encouragement of private investment and entrepreneurial activities and opening of the economy for foreign trade and investment.

The first step in price and market reforms was taken with dissolution of price control in agriculture sector, and the next step was taken with the dissolution of price controls on products of the State and co-operative sectors.

In one of the measures taken for evolvement of the market economy, the State economic enterprises were granted operational autonomy in procurement of inputs, production as well as pricing. In procurement, procedures were relaxed so that they could raise the price of inputs to be competitive with the private sector. With regard to production they were allowed to engage in such schemes as buy-back arrangements, counter-trade, consignment basis, etc.

Other notable reforms involved leasing out factories to private entrepreneurs, entering into joint ventures with local and foreign investors. Moreover, a privatization scheme was launched on an extensive scale.

In the process of transforming the economy into a market-oriented one, measures were also taken to develop the financial system and improve efficiency of financial activities.

The State Law and Order Restoration Council thus enacted the Central Bank of Myanmar Law in June 1990 and the Financial Institutions of Myanmar Law in July 1990. The Monetary policy was streamlined and banking services were extended. Myanmar citizens were permitted to set up banks and foreign banks were permitted to open representative offices in Myanmar. To consolidate and promote large, medium and small-scale private industries, the State Law and Order Restoration Council enacted the Private Industrial Enterprise Law in November, 1990. To promote inducement of domestic investment to bring about increase in commodity production and exports by the private sector, the State Law and Order Restoration Council enacted the Myanmar Citizens Investment Law in March 1994.

Now, Myanmar has become a full member of the Association of South-East Asian Nations and there have come to be greater possibilities for more extensive business links with other member countries and there may also be greater investments coming into Myanmar with its very favorable conditions.

With more extensive business activities within the region involving Myanmar, the forces of the market-oriented economy will come to play a stronger role in the domestic economy and as much as Myanmar business people can come abreast and work well together to mutual benefit with those in the more developed member countries of ASEAN, the market-oriented economy in Myanmar will further develop well and bring greater benefits to the business world and the people in general of the Union of Myanmar.

Even though there is no proper SME Laws in Myanmar, all Laws, Notifications, Regulations and Directions issued by the government can be considered as pertaining also to the development of SMEs. In fact, there is still no difference between SMEs and the large enterprises. The reason may be there is little or no linkage between SMEs and large enterprises. In the process of transition towards the market economy after 1988, the private sector is becoming obviously growing because of trade liberalization. Many private firms emerged and registered as import and export firms. Up to the end of 1998, there were 10927

registered exporters and importers, 2107 business representative and 11983 companies limited.<sup>113</sup>

For industrial promotion, the government issued the following Laws and Notification.

**Table 4.9 Major Economic Reforms since 1988**

Years	
1988	Introduction of Myanmar Investment Law
1989	Decontrol of prices Regularization of border trade Introduction of State-owned Economic Enterprises Law delineating the scope of the state sector Revocation of the 1965 law that established the socialist economic system
1990	Introduction of Myanmar Tourism Law Allowing 100 percent retention of exports earnings Introduction of Private Industrial Enterprise Law Introduction of the Central Bank of Myanmar Law Introduction of Financial Institutions of Myanmar Law Introduction of Myanmar Agricultural and Rural Development Law Introduction of Commercial Tax Law
1991	Initiation of industrial zones in Yangon Announcement of the Central Bank of Myanmar Rules and Regulations Introduction of Promotion of Cottage Industries Law Reestablishment of Myanmar Chamber of Commerce and Industry
1992	Announcement to lease inefficient state-owned factories Announcement of denationalization of nationalized sawmills Announcement of the establishment of four private banks Introduction of Tariff Law Introduction of Savings Bank Law
1993	Introduction of US\$ denominated foreign exchange certificate (FEC) Introduction of Myanmar Insurance Law
1994	Introduction of Myanmar Citizens Investment Law Licensing of representative offices of 11 foreign banks Introduction of Science and Technology Development Law
1995	Announcement of the formation of Privatization Committee Announcement of permission to establish joint venture banks between local private banks and foreign banks Opening of the licensed foreign exchange center for FEC trading in Yangon
1996	Permission given to local private banks to conduct foreign exchange business and to pay interest on foreign currency deposit Establishment of the Myanmar Securities Exchange Centre Co. Ltd., a joint venture between Japan's Daiwa Research Institute and the state-owned Myanmar Economic Bank Introduction of law on development of computer knowledge Official rate of exchange for levying custom duties changed to K 100 per US\$ accompanied by reduction of tariffs to a fraction of previous values

<sup>113</sup> Kyaw Htin. SME development in Myanmar- Policies and Strategies, UMFCCI, p.9

1997	Announcement of paddy procurement through a tender bid system.
1998	Announcement of leasing of fallow and virgin land for paddy and cash-crop cultivation or livestock breeding by private entrepreneurs including foreigners
2000	Across the board increase of public sector salaries by 5-6 times to be in line with private sector wages

Sources : Kudo, Toshihiro. Transformation and Structural Changes in the 1990s. Industrial development in Myanmar. IDE, Bangkok, 2001

#### 4.5.3 Promoting SMEs in the ICT Sector

In January 2002 and February 2003, two IT software parks were opened in Yangon and Mandalay, respectively. They have been set up for the development of the ICT sector, particularly small and medium-sized IT companies. They are largely responsible for developing, promoting and providing the tools needed to implement e-business in Myanmar. Training, seminars and workshops promoting ICT applications in business are enumerated in the table. A sample of in-country training, seminars and workshops related to e-business development are;

- Managing e-Commerce and Internet Trade sponsored by Myanmar-Singapore Training Centre in March 2002
- The National Workshop on Human Resource sponsored by Ministry of Commerce in October 2002
- E-business Workshop for Myanmar Entrepreneurs under the GMS Business Forum sponsored by UNESCAP, GMS Business Forum UMFCCL, GMSARN, JICA in March 2003, etc....

#### 4.5.4 Policy Incentives Granted to Local SMEs in Myanmar

As direct tax (Income taxation) companies are given:

- (a) Basic allowances for individual firms (excluding companies)
- (b) Depreciation allowance for building plants and machinery  
(Depreciation allowance at scheduled rates)
- (c) The right to set off loss against other sources of income during the year.
- (d) The right to carry forward of loss to the subsequent years.

For Small Enterprises, direct tax is given as follows:

- (a) Small enterprises not covered by the Income tax Law are subject to pay under the Profit tax law

- (b) Profit tax is charged on income from small scale owners who do not keep proper book of accounts

Concerning the indirect Tax (Others), SMEs established in industrial zone that produce commodities are required to pay only 20 percent of actual Commercial Tax due. The relief was given to the local SMEs with intent that finished goods produced by SMEs could be competitive with imported goods in the market.

#### 4.6 Field-based Research on the Current Situation of SMEs in Myanmar

To understand the current situation of the Small and Medium Enterprise, "A Survey of selected Small and Medium Enterprises in Myanmar" was conducted.

##### 4.6.1 Design and Scope of the Survey

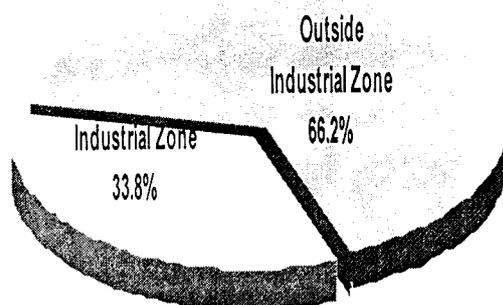
A survey on 68 SMEs in Yangon and Meikhtilla was conducted using a structured questionnaire, followed by in-depth interviews with private entrepreneurs. Firms were selected based on Simple Random Sampling Method. According to the method, 34 firms were interviewed in Yangon and Meikhtila each. Twenty three firms are located in the industrial zone, and 45 are in non-industrial zone.

#### 4.7 Findings of Empirical Study

##### 4.7.1 Location of the Surveyed SMEs

A couple of surveys have been done not only in Yangon but also in Meiktila because it is essential and vital to make survey in Yangon, which was the capital of the country in urban area while Meiktila is a rural area, where the types of SMEs may be different from those in the urban area. As seen in Figure 4.13, 33.8 percent of the SMEs are located in industrial zones and 66.2 percent are outside the industrial zones.

Figure 4.13 Location of the SMEs



Source : Survey Data

According to the above Figure, almost of SMEs are situated not in industrial zones in Yangon since they are far from the city, sufficient power supply is not available, the innovation of he plots is costly, the roads to those zones are not good for transportation, etc.. Apart from these, a lack of communication facilities such as difficulty to install telephone and fax is a weakness in infrastructure. Probably, SMEs owners could not obtain the plots directly from the government and have to buy then from some opportunists, who could secure the land for resale, not to make own investment. Because of this kind of misconduct, the price of land for the plant for SMEs may become high and give trouble and barrier for the businessmen, who are eager to make real investment with small amount of capital.

#### 4.7.2 Type of Ownership Forms of Selected SMEs

In this study, 70.6 percent of the respondents mentioned that they solely own their businesses. It can be remarked that ownership goes to mostly one but if not so, it belongs to the family members, which is common practice in Myanmar to do business as the entrepreneurs.

Table 4.10 describes three kinds of ownership forms in SMEs in this study. Out of the total firms, 72 percent are doing business in the form of sole proprietorship, 16 percent are limited companies and the rest can be seen as partnerships. According to this Table, there are only a few SMEs with partnership while most ones are sole proprietorship.

**Table 4.10 Type of Ownership**

Ownership Forms	No	Percent
Sole proprietorship	49	72
Partnership	8	12
Company Limited	11	16
Total	68	100

Source: survey data

**Table 4.11 Relationship of partnership firms**

Relationship	Percent
Friends	67
Family members/ Relatives	22
No response	11
Total	100

Source: survey data

Table 4.11 presents the types of partners in partnership firms. Among the partnership firms, 67 percent are doing their businesses with friends and 22 percent are doing with the cooperation of relatives. According to this Table, even the partnership business is run, most are made among intimate friends and the close relatives, who trust each other by establishing up on the trustworthiness and loyalty. The sharing not only of the investment but also of the profit sharing is being formally favored 50 by 50 in general.

#### **4.7.3 Type of Industry**

According to Table 4.12, the highest percentage of this survey, 25 percent, are found in the industry of food and beverage. The second highest percentage, 11.8 percent, are in the kind of general store/ super market/ cloth shop industry and services industry respectively. The third percentage, 8.8 percent are involved in the industry of computer services and textile/ garment respectively. The fourth highest percentage, 7.4 percent, is doing in the type of the business of car workshops and construction materials shops respectively. Firms doing business as tailoring and pharmaceutical shops are 4.4 percent each. Firms in the type of electrical product and repair shops and printing firms are 2.9 percent each. The rest of firms are doing business in the type of wood-based, metal and mining.

Among the 13 types of manufacturing, the business in line with computer servicing shops is more favored and popular in public while the business in the fields of automobile garage, recycling paper reproduction, metal processing, pharmaceutical firming in western style are not done deeply and widely. It is better to evaluate from the point of view of the domestic supply side as all SMEs emphasize the local market only. It looks there is prospective market for the products of the SMEs, but the SMEs are not beneficial for the industrial development in the long run. Of course, local market is good for the SMEs indeed, but they should try to penetrate the international market.

**Table 4.12 Type of Industry in Surveyed SMEs**

Type of Industry	Percent
Food & Beverage	25.0
General store/ Super market/ Cloth shop	11.8
Services	11.8
Computer services	8.8
Textile/ Garment	8.8
Car workshops	7.4
Construction Materials Shops	7.4
Tailoring	4.4
Pharmaceutical shops	4.4
Electrical product & repair shops	2.9
Printing	2.9
Wood-based (Furniture)	1.5
Metal	1.5
Mining	1.5
Total	100

Source: survey data

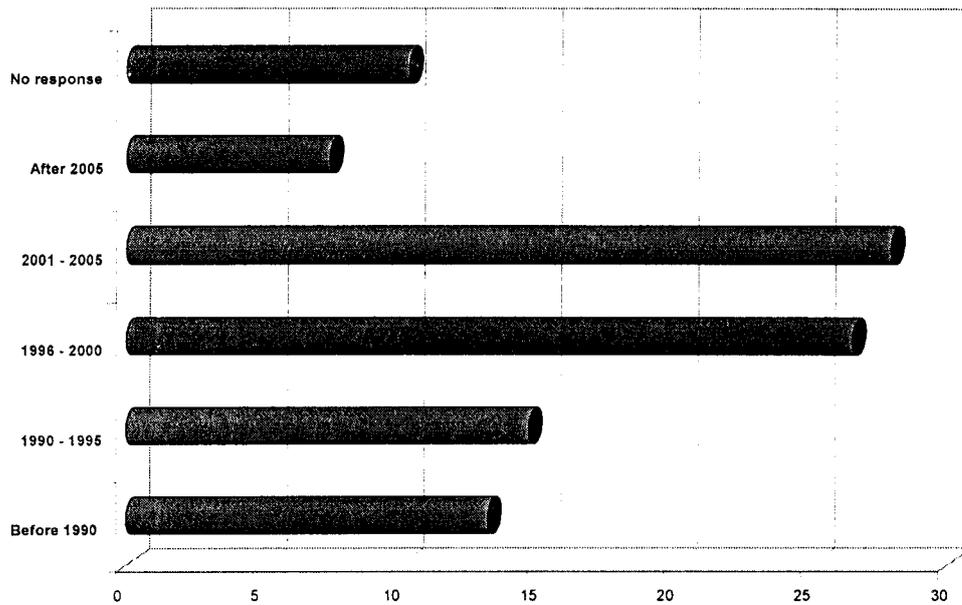
#### **4.7.4 Main Products produced by SMEs**

Main products produced by surveyed SMEs general services, clothes, snacks, foods, ice, medicines, ice, construction materials, automobile spare parts, cakes, paints, stationeries, purified drinking water, fabricated jeep car production, iron bars, cosmetics, oil, sugar, electronic goods, household goods, furniture, spectacles, fan, paper, consumer goods, alcohol, beer, coffee, machineries for plants and offices.

#### **4.7.5 Years of Establishment and Operation of Surveyed SMEs**

Almost all of SMEs in this study were established as well as operated in 1990s. It is normal for the SMEs, not to take time to be established. Almost all SMEs in Myanmar did not start immediately after the time the military took power in 1988. Such a time, at least 8 years, was needed to evaluate to make investment.

Figure 4.14 Year of Operation

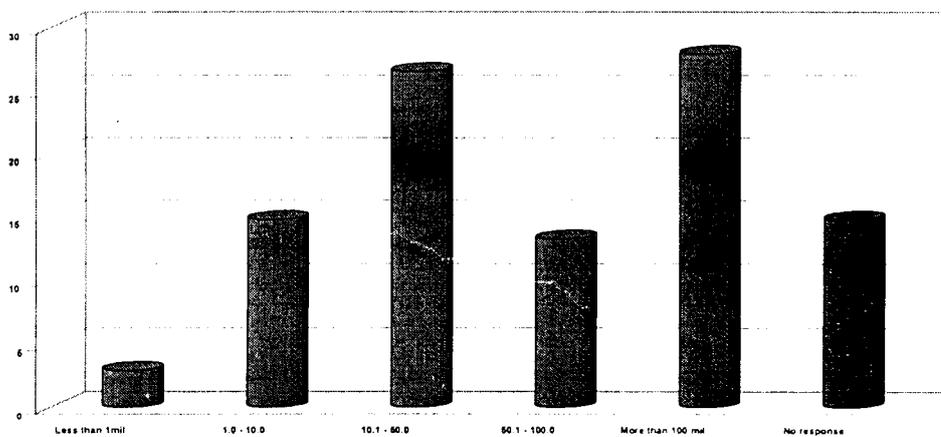


Source: Survey Data

#### 4.7.5 Capital Needs

Due to the experience of conducted surveys, the **capital needed** is too much different among the SMEs especially in Yangon. Some firms need only less than 10 millions Kyats while other few ones need nearly 500 millions kyats, depending on the nature of business. It is doubtful whether the manufacturing is real SME or not. However, most investment could not be fully made according to the necessity.

Figure 4. 15 Amount of Capital

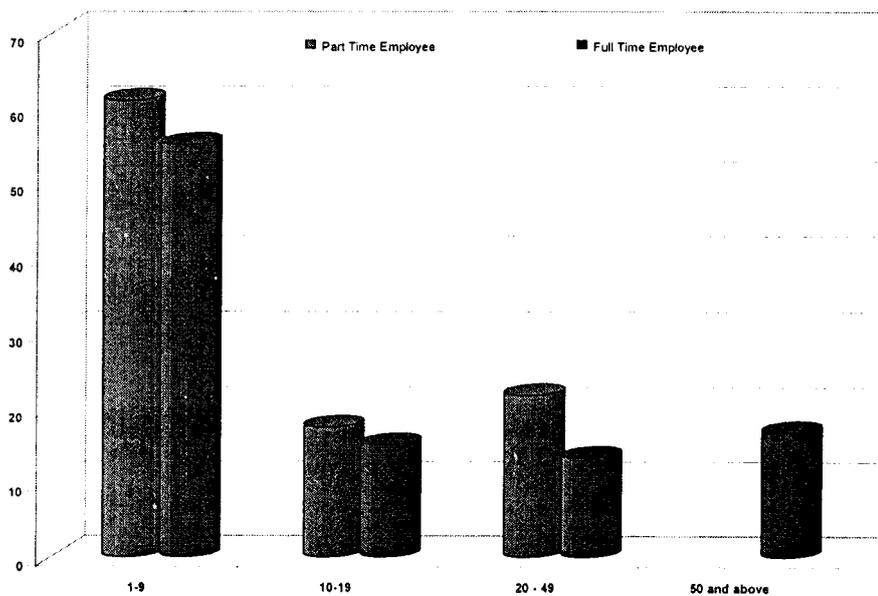


Source: Survey Data

#### 4.7.7 Number of Employees working in SMEs

Regarding the employees, the majority of SMEs in this study are employing less than 10 workers. The maximum number of employees employed in SMEs are 50 and above. Employees hired in SMEs can be seen as two types of labour, part-time and full-time at their work places. According to this Figure, it could be noticed that the bigger the size of SMEs, the more full-time employees needed. It was also found that the total number of employees is about 1-8 in more than half of the SMEs and the total number of part time and full time employees in small enterprise is nearly the same.

Figure 4.16 Number of Employees Employed in Surveyed Firms



Source: Survey Data

#### 4.8 Profile of Owners of Surveyed SMEs

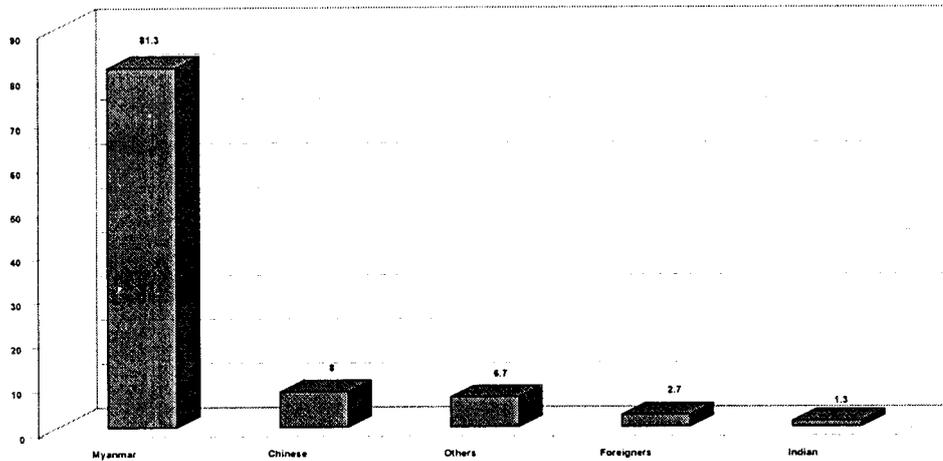
##### 4.8.1 Gender and level of education SMEs firm owners

According to the findings of field-based research, 68 percent of the entrepreneurs are men whereas 32 percent are woman entrepreneurs. Among them, 65 percent of the owners are well-educated at least with first degree but elementary level education is found among some entrepreneurs even in urban area as Yangon.

#### 4.8.2 Ethnicity of Owners

Concerning the race of the owners, 81.3 percent are Myanmar, which matches the policy of the investment laid down by the government, i.e. the businesses have to be in the hand of Myanmar citizens. The rest are in the hands of foreigners such as Chinese and Indians.

Figure 4.17 Ethnicity of Owners

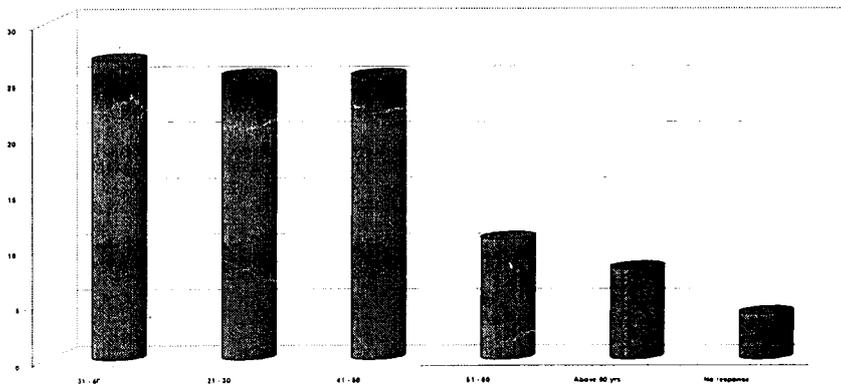


Source: Survey Data

#### 4.8.3 Marital Status and Age of Owners

It was found that 64 percent of owners of surveyed SMEs are married but the marital status of the investors does not play a significant role here. Their average age is 33, which seems to be enough to make investment as decision-makers for starting own business. [Figure 4.18]

Figure 4.18 Age Group of Owners



Source: Survey Data

#### 4.8.4 Previous Jobs of the Founders of SMEs

It is found that the previous experience may be one of the key factors to do business. Also it encourages the founders to dare to take risks under the uncertain circumstances relating not only to politics but also to business policy in addition to the basic essential requirement of infrastructure. Therefore, it is found that out of the firms in this study, 53.3 percent of the founders had previous job experience.

#### 4.8.5 Main Sources of Idea for Starting their Own Businesses

The emergence of SMEs is usually done according to individual founder's own idea and way of independent thinking. In conducting interviews, founders were requested to give their reasons for going into business. Their responses fell into five categories as shown in Table 4.13. Out of all the firms in the survey, 42.6 percent of owners started their firms because of their own interest, 25 percent found their business due to the advice of family members, 10.3 percent started firms according to their friends' idea, 7.4 percent of firms carried out their traditional family businesses, the rest of firms were found because of the ideas of their relatives, suggestions of existing firms' owners and advertisement from media. More than half of owners conducted their businesses due to their own interest.

**Table 4.13 Main sources of idea to start the own business**

Sources	Percent
Own idea	42.6
Family members' advice	25.0
Friend idea	10.3
Inherited business	7.4
Relative idea	5.9
No response	5.9
Idea from merchant	1.5
Advertisement from media	1.5
Total	100

Source: Survey Data

#### 4.8.6 Reasons for Choice of Businesses

When all respondents are asked why they chose this type of business, 1 out of 5 respondents answered that because of their interest in this business. Their responds can be seen in Table 4.14.

**Table 4.14 Reasons for Business Choice of SMEs' Founders**

Reasons of business choice	Percent
Interested in this business/ Hobby	20.0
Practiced by tradition	18.6
Market demand	8.6
Relevant related conditions accordance with their background	7.1
Reasonable business	5.7
Previous job related to the business	4.3
Preferable development	2.9
This business is potential to develop	2.9
To support for their lives	2.9
Modernization	1.4
Essential services	1.4
Computer business will play in vital role	1.4
Availability in raw materials	1.4
Not availability in good taste food shop	1.4
To support other business	1.4
To prosper with self education	1.4
Practiced by relatives	1.4
Because of profit	1.4
There is no supermarket in this place	1.4
To get regular income	1.4
Necessary of good quality product in this country	1.4
Getting good communication with abroad	1.4
Total	100

Source: Survey Data

In this study, nearly 20 percent of the respondents mentioned that they started own businesses with own interest or hobby. 18.6 percent of respondents informed that they succeeded to their family businesses. Out of 68 firms, 8.6 percent is doing business because of market demand, 7.1 percent had relevant related conditions for founding their firms, 5.7 percent replied that

they thought doing own business is reasonable for current situation in Myanmar, 4.3 percent started theirs due to working experience acquired from their previous jobs. The rest of firms responded that they had other reasons to do own business because of the preferable development of their businesses is - having potential to develop: being able to support for their families, get regular income and make profits; getting good communication with abroad, etc.,

#### 4.8.7 Essential Factors for doing business in Myanmar

After that, all respondents are questioned that what factors are really essential for them to start own firms. The essential factors responded by surveyed SMEs' owners to do business in Myanmar are shown in Table 4.15. All their responses are wonderfully same such as making profit is the first priority for doing business. No businessman realises that how to maintain not to get loss should be taken into account though it is the first and most favorable theme they should know. Most investors in SMEs do their businesses in accordance with their background which is relevant to the present condition as well as environmental situation. Capital is thought individually to be most important item to do SMEs while infrastructure is not considered to be taken place as a key role. Moreover, owner's knowledge, skills and experience are also critical factor to do business even in small-sized ones. In addition to capital investment, skills and experience, establishing good communication and building networks between suppliers and customers are also important factors for starting own business. Like communication and network, there are other factors, namely, location, having good ideas, honesty, environmental conditions, raw material supply, infrastructure, customer awareness, and so on.

Table 4.15 Essential Factors for doing the business in Myanmar

Essential Requirements for doing business	Percent
Capital	23.6
Skill/ Techniques	7.2
Knowledge & Experience	6.7
Ability to communicate effectively/ good communication	6.7
Location	5.6
Having good idea	4.6
Environmental condition	2.6
Raw material	2.6
Human resource	2.1
Trust/ Self confidence/ Capacity	2.1

Honesty	2.1
Sociality	2.1
Education	2.1
Market demand	1.5
Infrastructure	1.5
Customer awareness	1.5
Persistence, diligence and effort	1.5
Price	1.5
Awareness of Trade policy, rule and regulation	1.5
Risk	1.0
Goodwill	1.0
Quality	1.0
Market condition	1.0
Skillful worker	1.0
Management	1.0
Believed friend/ accomplishment	1.0
Myanmar culture	0.5
Income rate	0.5
Supply	0.5
Ingenious	0.5
Machine	0.5
Cleaning	0.5
Work-time	0.5
Advertising	0.5
Decoration	0.5
Accounting skill	0.5
Sprit	0.5
Creativity	0.5
Hobby	0.5
Transportation	0.5
To get good quality raw materials	0.5
Electricity	0.5
Marketing plan	0.5
Organization	0.5
Tax law	0.5
Import License	0.5
Distribution	0.5
Electricity	0.5
Adoptable	0.5
Good employees	0.5

Source: Survey Data

#### 4.8.8 Awareness about Policies for SMEs

It is noticeable that only 11.8% of the respondents are aware of the policy of SMEs in Myanmar. It means that awareness of the policies of SMEs is poor. It may be because there is neither agency nor organization specifically assigned on SMEs development.

As seen in Table 4.16, some respondents consider import substitution and creating more job opportunities as policies. And then, more than one third of the respondents believe that the policies are inappropriate for their business because the policies are not in conformity with the real productive process and not accurate with what it is meant.

**Table 4.16 Knowledge of Founders on the SMEs Policies**

<b>Knowledge of SMEs' Owners</b>	<b>Percent</b>
To change from import substitution industries to export oriented	14.3
Tax	14.3
To increase twice in productivity	7.1
Business has at least 4 workers	7.1
Municipal Tax	7.1
One day holiday a week for labour	7.1
To do in order with government law and tax	7.1
Co. regulation	7.1
Export, import regulation	7.1
Create more job opportunities	7.1

Source: Survey Data

However, they recommend what kind of policies should be required for the development of SMEs and then their suggestions differ from each other and idea and way of thinking depend on their respective experiences and knowledge.

**Table 4.17 Suggestions for Policies of SMEs**

<b>Suggestions for SMEs Policies</b>	<b>Percent</b>
No idea	63.2
Demand in banking sector especially for long-term loan	5.9
Open Economic policy/ Trade-free	4.4
Should be reasonable price for every products/ Little intervention	4.4
Should reduce tax	4.4
Clear policy on Trade/ Banking, Import & Export, Tax, Revenue	4.4
Policy is supporting the basic needs of business	2.9
Demanding in banking sector especially for long-term loan of	2.9
FDI	2.9
Setting loan policy respectively to their type of business	1.5
Policies must be reasonable	1.5
Policies must be compete with other countries	1.5
Demand in policy stability	1.5
Demand in policy stability, foreign exchange rate and tax	1.5
Technology supporting system	1.5
Demand in policy procedures of export and import must be easy	1.5
Market Economic system	1.5
Should invite technicians and investment more from abroad	1.5

Quality limitation	1.5
Should be reduce the limitation	1.5
To control inflation	1.5
Require policy to check expired date	1.5
To minimize the procedure of paper work	1.5
Require law, rule and regulation should be formulated	1.5

Source: Survey Data

Most requirements are common in being the stability of policies, including market foreign exchange rate, tax determination and procedures of import and export, on which various manufacturing processes rely to gain smooth and fast achievement. Apart from these, it is better to have reasonable, sound and solid policies to compete with other foreign investors. They point out that it is also the reason why foreign investors for FDI left their businesses in the country neglecting the initial investment already made. On the other hand, some SMEs do need to be backed them strongly in financial atmosphere by means of long term loan system under the banking infrastructure and some are eager to be offered transfer of technology from abroad.

#### 4.9 Problems of SMEs for Development

There are several of serious problems, which may cause the barriers not to be convenient to do business even locally. Some are related to individual requirements respectively in micro level and some are widely dealing with the macro economic structure. It means that it is necessary to overcome the obstacles existing currently to make innovation the whole economy matching the basic and fundamental requirements for the industrialization such as banking system, infrastructure and foreign trade policy.

The shortage of electricity is the greatest obstacle to productivity for almost all firms. The second main problem is relevant to the raw materials, which are being used to reproduce the finished goods for the distribution in the local market, where export earning FE is definitely needed to import the semi finished goods or raw materials. Very often it happened to be in crucial and critical conditions. Because of the export earning money, the prices of raw materials are not stable and fluctuate all the way not only in the manufacturing process but also in the market distribution. Other constraints and others factors mentioned in responses consist of difficulties in high inflation rate and poor human resource management. Barriers directly related to production processes include the shortage of spare parts and raw materials,

a low level of technology, and insufficient machines and equipment. Lack of capital and lack of proper banking system are cited as financial barriers.

The unstable prices of raw materials may cause the high prices of the finished goods in general and basic food like rice, onion, potato, egg etc. in particular. On the other hand, the quality of the raw materials is low and not available in time though its prices are high. In some areas, the scarcity of the skilled labor still exist deeply and cannot be changed in the short term period and the cost to train the unskilled laborers is expensive and takes time with no positive results sometime. There are some weaknesses in the infrastructure in the SMEs sector, such as the high price of fuel, and then it affects the selling price when the electricity is out and own generators have to be used to run the business. A few SMEs fortunately can survive and overcome the various kinds of business restrains and restrictions by their individual particular way. However it is good only for a short period because the additional cost of survival goes to the final users.

**Table 4.18 Serious Problems of SMEs**

	Percent
Electricity shortage	13.8
Needs a lot of good quality raw materials in appropriate time	9.8
Exchange rate is unflavored/ Inflation rate is high	7.3
Human resource management	4.9
Scare in skillful labor/ labor difficulty/ labor instable	4.9
Import license/ Trade permit	4.1
Prices instabilities	3.3
Policy instability	2.4
Right technology/ skill	2.4
Good communication/ relationship	2.4
Sales is not good	2.4
Lack of legal support/ weak in government regulation system	1.6
Increasing in the price of raw materials	1.6
Import business is unflavored/ import permit is difficult	1.6
Transportation cost is high	1.6
Unstable in tax rules	1.6
Capital investment requirement	1.6
Skillful staff	1.6
Waiting long time to get loan	1.6
Money	1.6
Informal products	1.6
Changing places	1.6
Competition	1.6
Lack of proper Banking system	1.6
Service sector is weak in today	0.8
Capital investment is high	0.8

Problems in open to account for export earning	0.8
Unstable in fuel prices and good prices consequently	0.8
Infrastructure problems (ie. Electronic supply, water supply	0.8
Substitution import products	0.8
Place difficulties	0.8
Difficulty in selling price that can't purchase	0.8
Credit	0.8
Compare with China products	0.8
Burglar	0.8
Customer satisfaction	0.8
Keeping regular customer	0.8
Turnover rate	0.8
Difficulties in finding market	0.8
Technology weakness	0.8
Changing import/ export procedure frequently	0.8
Machinery shortage	0.8
Not good internet access	0.8
Low market demand	0.8

Source: Survey Data

According to lack of capital and lack of proper banking system, lack of improved infrastructure and the shortage of electricity, the unstable prices of raw materials, high inflation rate and poor human resource management, the growth of SMEs in Myanmar is too low. In this decade, the numbers of SMEs increased slowly. As shown in table 4.19, average annual growth rate of SMEs is 2.5 from 1999 to 2005.

**Table 4.19 Growth Rate of SMEs**

Year	No of SMEs	Growth Rate
2000	36229	0.5
2001	37731	4.1
2002	38498	1.9
2003	39604	2.8
2004	42804	7.5
2005	41984	-1.9

Source: MIDC, 2006

It is therefore assumed that SMEs in Myanmar can be survived even there is no fully government support for SMEs developments. It is found that some SMEs can survive and overcome the various kinds of business constraints and restrictions by their individual particular way.

According to the findings of Daw Nu Nu Yin, 55 out of 132 firms were established before 1990 (42%). As their firms were established in Socialist Era, they have a longer experience of

opportunity to accumulate enough capital to enable them to enter businesses swiftly once the door was opened.

Because of traditional inheritance, they have experience and skill to overcome the constraints. Although most of the SMEs in Myanmar have lack of proper and stable government's supporting policies, they are still survive. Therefore it can be concluded that most of the surveyed SMEs are doing business without any consideration of SMEs' policies.

## CHAPTER FIVE

### CONCLUSION

( SMEs make up over 75 per cent of all business establishments of the countries, either developed or developing. They tend to employ more labour-intensive production processes than large enterprises. Accordingly, they contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. There is ample empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution more equitable. This in turn is a key contribution to ensuring long-term social stability by reducing ex-post redistributive pressure and by reducing economic disparities between urban and rural areas. Moreover, SMEs are key to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. )

It is noticed that SMEs are a seedbed for entrepreneurship development, innovation and risk taking behavior and provide the foundation for long-term growth dynamics and the transition towards larger enterprises. SMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked. Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors. SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner. With the conceptual framework of SMEs development, it is related to several factors including development of healthy competitive business environments, establishment of basic support systems, assistance through external resources and internal resources. Thus, the overall framework for fostering the development of SMEs requires sound SMEs policy, basic law enactment, financial support, technical support, marketing support and industrial linkage development. In terms of assistance through internal resources, training in various aspects would help to improve the level of performance. As it has been hypothesized "*there is a positive relationship between*

*government's supporting policies and the survival of SMEs"* countries such as Japan, Korea, Thai, Indonesia, proved through their progress in SMEs development. Their success has been highly reliant on following best policy and practices: improved / developed infrastructure, responsible body for SMEs policy, proper legal system especially basic law for SMEs, proper Taxation System, assistance for start-ups, appropriate selection of firms with growth potential, improved access to finance, establishment of financial support scheme, credit guarantee mechanism, market expansion through responding to globalization, marketing support, improved export promotion policy, supporting institution for SMEs development, technical support, establishment of industrial cluster, industrial linkage development.

Concerning with the policy and practice of SMEs development in Myanmar is the field based research findings has shown that 70.6% of the respondents are doing their own business. Only 11.8% of the respondents are aware of the policy of SMEs in Myanmar. It means that awareness of the policies of SMEs is poor. Most of the surveyed SMEs are doing business as family business without any consideration on policy issues. Because of traditional inheritance, they have experience and skill to do business. They have a longer experience of doing business in Myanmar; some are even survivors from the socialist era, having had the opportunity to accumulate enough capital to enable them to enter businesses swiftly once the door was opened. Although most of the SMEs in Myanmar have lack of proper and stable government's supporting policies, they are still striving. Thus, it can be said that the hypothesis "*most of the Myanmar SMEs are doing business as family business without any consideration of policy and other relevant issues*" has been proved.

At present, there are many problems in survival of SMEs in Myanmar. Referring to key findings of the field based research, the shortage of electricity is the greatest obstacle for almost all firms. Other constraints in responses consist of difficulties in high inflation rate, unfavoured exchange rate and poor human resource management. Barriers directly related to production processes include the shortage of spare parts and raw materials, a low level of technology, and insufficient machines and equipment. Lack of capital and lack of proper banking system are cited as financial barriers. These problems have been presented since the past period and still up to now can not be solved yet. Previous researcher, Dr. Nu Nu Yin, mentioned that the major obstacles to SME business operations were shortage of electricity, raw materials, and machine spare parts, a lack of high technology; and the difficulty of hiring

skilled labor based on her empirical studies. Mr Kudo also pointed out that the industrial development of Myanmar has long been stunted and distorted by the economic policies followed by successive governments, including the present one. He also mentioned that the industrial sector still suffers from poor power supplies, limited access to imported raw materials and machines, exchange rate instability, limited credit, frequent changes of government regulations and so forth.

It is a well known fact that industrialization is neither an easy nor an automatic process. Moving up the production ladder to more capital and skill-intensive products requires better investment and business climate, a more reliable infrastructure, and more highly trained workers and managers. Once proper incentives are given in markets, they can encourage entrepreneurs to enter into new industries. Nevertheless, this does not mean there is no role for government to play in a market economy. There are actually many important roles for the government to support in implementing enabling environment for the businesses.

On the contrary, what the government has to do first and foremost is to get the fundamentals right. Sound economic fundamentals may cover a wide range of factors and policy issues: examples are macroeconomic stability, a well-established infrastructure and financial institutions, well-trained human resources, a sound legal framework, and transparent and accountable governance of regulation and tax. In short, what the government has to do is to set up a sound policy for SMEs, development together with the supporting ground in conducting business.

Based on the findings, the following suggestions are provided for development of SMEs in Myanmar.

- ( The Government should establish the healthy and competitive business environment through improvement of physical infrastructure, improved legal system, securing the private property right, macroeconomic stabilization and relaxation and abolition of restrictions. )
- Being Myanmar already endowed with rich natural resources, a large land area, an educated population, and comparatively low labor costs , these nation's advantage should be effectively utilized and the policy makers should make ensure to make the right kind of intervention.

- As macroeconomic stability, a well-established infrastructure and financial institutions, well-trained human resources, a sound and transparent legal framework, transparent and accountable governance of regulation, attractive basic law for SMEs, foreign investment law, government incentives, a good political climate, business oriented institutions, and tax seem to be major requirements of SMEs development in Myanmar, government should help the SMEs for their survive.
- Moreover development of SMEs depends on both state and private sectors to strive for rapid industrial growth, therefore the government should encourage the private sector to take the leading role while the state plays a facilitating and support role.
- Since "there is a positive relationship between government's supporting policies and the survival of SMEs", government should provide the proper supports for survival and development of SMEs.

**Appendix**

**Questionnaire**

**Policies and Practices of SMEs in Myanmar**

**Part (A)  
Profile of the Firm**

1. Firm's name -----  
 Location ----- No ----- Street -----  
 ----- Township ----- State/Division.  
 Is your firm located in an industrial zone?  
 Yes = 1, No = 2
- If yes, mention the name of industrial zone? -----

2. Type of the organization:  
 Sole Proprietorship = 1, Partnership = 2, Company = 3, Joint Venture = 4,  
 Cooperative = 5, Others (Specify) -----   
 If partnership, how many partners do your have?

No	Name	Relationship among partners				Capital investment		Profit ratio (%)
		Friend	Family member	Relative	Others	Amt. ('000)	%	

If company, how many shareholders does it have? \_\_\_\_\_

No.	Name	Capital Investment		Profit Ratio (%)
		Amt.('000)	%	

If Joint Venture,

No	Name	Nationality	Capital Investment		Profit Ratio (%)
			Amt.('000)	%	

If Cooperative, how many members are there?

No	Name	Relationship among members	Capital Investment		Profit Ratio (%)
			Amt.('000)	%	

3. Year of Establishment: 19-----/20----

First Year of operation: 19----/20----

4. Type of industry

Sr	Types	
1	Food & Beverage	
2	Plastic ( recycling)	
3	Car Workshop	
4	Computer	
5	Electrical Products Repair Shops	
6	Paper (recycling)	
7	Wood-based (Furniture)	
8	Metal	
9	Tailor	
10	Pharmaceutical Shop	
11	Construction Materials ( Selling)	
12	Printing	
13	Others (specify)	

5. Main Products

No	Products	Export	Local Market	Both

6. (a) How much capital are you required to invest your firm currently? Ks.-----

(b) How much capital did you invest? Ks-----

7. Employees

Types	Male	Female	Total
Part-time			
Full-time			
Total			

**Part (B)**  
**Profile of the Firm's Founder**

8. Are you the owner of the firm? Yes = 1, No = 2    

If no, what kind of relationship do you have with the owner/founder.

Partner	
Manager	
Family member	
Employee	
Others (Specify)	

9. If the firm has more than one owner, please fill the following table.



10. Who gave you the idea to start your own business?

\_\_\_\_\_

11. Why did you choose the type of business you are presently in?

\_\_\_\_\_  
\_\_\_\_\_

12. What are the essential factors for doing business in Myanmar? Please prioritize them.

- (1) -----
- (2) -----
- (3) -----
- (4) -----
- (5) -----

13. Do you know about the policies for SMEs in Myanmar?

Yes = 1 , No = 2

(a) If yes, please specify

- (1) -----
- (2) -----
- (3) -----
- (4) -----
- (5) -----

(b) Do you think that they are appropriate for your business?

Yes = 1 , No = 2

If No, give the reasons

- (1) -----
- (2) -----
- (3) -----

14. What kinds of policies are especially required for the development of SMEs ?

Please give your suggestions.

-----  
-----  
-----  
-----

15. What are the serious problems are you facing nowadays in your business conduct?

- (1) -----
- (2) -----
- (3) -----

16. Can you find the alternatives to overcome them?

Yes = 1 , No = 2

If yes, please state how you've done it?

.....

.....

.....

.....

.....

17. What kinds of support do you receive from any institutions? Please name them.

Institution	Type of supports
(1)	
(2)	
(3)	
(4)	

18. Do you like to have more support from any other institutions? How?

Institution	Type of supports
(1)	
(2)	
(3)	
(4)	

19. Do you have any linkage with the large company?

Yes = 1 , No = 2

If Yes, continue to ( a ) and (b), If No, go to (c)

(a) Please mention the name of the company and relationships with your business  
(e.g. to supply raw materials, spare parts, etc. , subcontractor, etc.)

Firm	Relationships for
(1)	
(2)	
(3)	
(4)	

(b) What kind of supports do they give to your firm?

Firm	Supports
(1)	
(2)	
(3)	
(4)	

(c) Do you want to do relationships with the large firm?

Yes = 1 , No = 2

Why?

-----  
-----  
-----

20. How do you get technical supports for your business?

-----  
-----  
-----

21. How do you get informational supports for your business?

-----  
-----  
-----

22. How do you get financial supports for your business?

-----  
-----  
-----

23. How do you get management supports for your business?

-----  
-----  
-----

24. Please give suggestions concerning with supporting mechanisms in order to develop SMEs in Myanmar?

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