Small and Medium-Sized Enterprises in the Mekong Subregion

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Small and medium-sized enterprises (SMEs) play an important role in sustaining growth and helping to distribute it more equally amongst people in a country. They are part of the building blocks of a country’s economic structure, contributing significantly to job creation and employing a large portion of the labour force. This is also true for SMEs in the Association of Southeast Asian Nations (ASEAN) Member States (AMS) in the Mekong Subregion, especially those that are moving toward middle-income status and starting to join more sophisticated industrialisation in the context of greater East and Southeast Asian economic integration.

This chapter focuses on SMEs in the Mekong Subregion and tries to come up with ideas on how to help SMEs in the region contribute to the region’s sustainable and inclusive growth. The next section briefly describes the relevant implemented SME policies by AMS in the subregion and the SME sector in each of these AMS. It is followed by the section that outlines the major challenges faced by the SMEs and the general ideas (recommended strategies) on how to overcome these challenges in the context of achieving the overall subregion sustainable and inclusive growth.

1. SME Policies of AMS in the Mekong Subregion

The ASEAN SME Policy Index 2018 (OECD/ERIA, 2018) depicted the scope and depth of SME policies implemented in the AMS. The following section summarises it for AMS in the Mekong Subregion, covering the policies which are most relevant to innovative and sustainable growth.

1.1. Productivity Measures

Policy to improve productivity is critical for SME development, as it is typically embedded in national SME development plans. Thailand has a stand-alone strategic plan on productivity enhancement that consolidates various programmes and policies in this area. In the Lao People’s Democratic Republic (Lao PDR), productivity enhancement is included as the first pillar of the country’s new SME Development Plan, 2016–2020.

Public–private dialogue is regularly conducted during the implementation of productivity enhancement programmes in all the subregion’s AMS except Cambodia and the Lao PDR. However, in terms of frequency of dialogue, some countries have large gaps between targets and the actual activities conducted. In Myanmar, for example, while public–private dialogue is conducted every 2 months, it only takes place in three to four out of seven regions.
All member states in the Mekong Subregion, as in other AMS, have instruments for enhancing SME productivity. These instruments tend to be mostly financed by the government, although organisations such as the Asia Productivity Commission often provide support. In all member states except Thailand, instruments can also be co-financed by development partners. In Myanmar, for instance, programmes are run by the United Nations Industrial Development Organization and the Japan International Cooperation Agency. Where programmes rely on donor support, stakeholders should ensure that they are sustainable in the long run.

SME business development services (BDS) are crucial to facilitate productivity upgrading for SMEs. Institutional development of BDS has been remarkable in the past 10 years or so. More and more private BDS providers are available in AMS in the Mekong Subregion as well as in the other AMS, reflected in the high growth of BDS such as incubators, accelerators, and co-working spaces. Many of these BDS are run by private sector providers.

Various types of BDS delivery channels are available for AMS. However, for the Lao PDR, Myanmar, and Viet Nam, these have traditionally been developed through government agencies such as SME development centres, where services are delivered through donor-driven programmes, non-governmental organisations, and public employees. This is often necessary due to a lack of private sector providers and insufficient awareness or resources amongst SMEs to obtain external support. Such services are often delivered free of charge or for a nominal fee by SMEs. While these mechanisms create awareness amongst SMEs, they often have to provide standardised services, which have limited impact and often lack sustainability.

With increased development, ASEAN governments are increasingly turning to private suppliers to deliver BDS. While market-oriented channels are generally seen as preferable for the provision of BDS, policymakers should recognise that a certain stage in economic development is necessary for this to be effective. Many AMS use a hybrid model in which the government provides a number of services free of charge, but also collaborates increasingly with private sector providers. Thailand has implemented this hybrid model, through the establishment of a ‘One Stop Services Centre’ even at the local level. SMEs can access some services free of charge at this centre, but they have to turn to private sector providers for more customised support.

1.2. Productive Agglomerations and Cluster Enhancement

Critical policy instruments to promote the participation of SMEs in industrial clusters are generally well placed amongst AMS in the Mekong Subregion. Fiscal incentives to support business cluster zones (e.g. corporate income tax, value-added tax, and withholding tax) are typically well defined. Examples include financial incentives in economic zones, such as special economic zones (SEZs) or export processing zones (EPZs), such as tax-deductible expenses for investment in the construction, operation, or lease of apartments and social infrastructure facilities servicing employees (Viet Nam), and tax reductions and subsidies for innovation and human resources development by firms (Thailand).
Equally important, AMS in the region have the facilities to encourage networking amongst innovative companies, such as science/industrial parks, competitive clusters, or technology centres. However, disparities exist in terms of the level of development and the sufficiency of facilities relative to the needs of the country.

Despite these factors, linkages in the cluster zones amongst SMEs and between SMEs and large enterprises are still not well established, except for Thailand. In this respect, Thailand has a more highly developed SME infrastructure than the other countries. The major implementation issue is typically lack of linkages amongst institutions within the clusters. This contrasts with the foreign direct investment (FDI) policy in the countries, which is relatively open even compared with the other AMS. Implementation issues in linking the institutions are therefore unlikely to maximise the benefit of FDI.

1.3. Integration into Global Value Chains

Policies to deepen and widen the engagement of SMEs in global value chains (GVCs) through production networks across East and Southeast Asia are related to the policies on cluster development. Policies and programmes on integrating SMEs in GVCs are generally well established across the AMS in the Mekong Subregion, but they vary widely. Thailand is the most advanced country in this respect. Its Bureau of Supporting Industries Development under the Ministry of Industry, and the Board of Investment Unit for Industrial Linkage Development, have played a major role in fostering SME participation in GVCs. Associated initiatives have included a free sourcing service provided by the Board of Investment Unit for Industrial Linkage Development, helping both Thai and foreign buyers source parts in Thailand, and business matching activities by the Bureau of Supporting Industries Development in coordination with SME banks.

Viet Nam has moved closer to Thailand, with a mandate from the Vietnamese government to support linkages between multinational enterprises and SMEs, for SMEs engaged in ancillary industries. These measures include business matching through specialised industrial parks and FDI incentives. They are part of a strong political commitment to deepen Viet Nam’s participation in regional production networks, which has become particularly pronounced following the country’s accession to the World Trade Organisation in 2007. Programmes under these policies are not yet fully operational.

Policies in the other AMS in the region (Cambodia, the Lao PDR, and Myanmar) are gradually being developed, as the countries slowly integrate further along the path to industrial development.

1.4. Technology and Innovation Promotion

As in the other countries, AMS in the Mekong Subregion have highlighted the importance of innovation in their strategic documents. Innovation policy is well articulated in dedicated national innovation policy (Thailand and Viet Nam) or industrial policy (Cambodia, the Lao PDR, and Myanmar). While the policy is clear, coordination between institutions is challenging, as the nature of innovation policy involves various agencies or ministries.
Another challenge for many AMS, especially newcomers, concerns intellectual property. Amongst the AMS in the Mekong Subregion, only Thailand is fully compliant with international standards to date. The other AMS still face a lack of resources and difficulties in enforcing intellectual property legislation, while Myanmar has not yet established laws and regulations governing intellectual property.

The AMS have implemented considerable efforts in the region, despite quite a large variation in the depth and coverage of such efforts. For instance, while Viet Nam has built many high-tech business incubators throughout the country, other AMS (i.e. Cambodia, the Lao PDR, and Myanmar) face credible issues in providing the infrastructure necessary to set up similar business incubators.

AMS in the Mekong Subregion have developed programmes to support SMEs in innovation and to promote collaboration between academia, the private sector and, in some cases, the public sector, although this is evident in Thailand and to some extent in Viet Nam. These programmes include dedicated business support services as well as training, coaching, or business-matching support. The other countries have yet to enter this phase. Financial assistance is available for all AMS in the region, except Thailand. Types of financial assistance include research and development grants and subsidies, capital risk coverage or guarantee schemes, and innovation vouchers.

In short, Cambodia, the Lao PDR, and especially Myanmar have a long way to go to catch up with Thailand and Viet Nam with respect to the coverage and depth as well as the implementation of technology and innovation promotion policy. Nonetheless, these countries could adapt strategies quite quickly and at a much cheaper cost by learning from the success stories of Thailand and Viet Nam as well as the other more advanced AMS.

### 1.5. Entrepreneurial Skills

All AMS in the Mekong Subregion implement concrete initiatives to upgrade entrepreneurial skills for micro, small, and medium-sized enterprises (MSMEs) in the region. The following are key observations on initiatives being implemented in some AMS in the region.

In Viet Nam, the agencies responsible for these activities are identified, but no concrete programmes have yet been implemented. In the Lao PDR, the Five-Year National Socio-Economic Development Plan, 2016–2020 outlined measures to enhance the capacity of entrepreneurs, but few concrete programmes appear to be in place. However, some activities are incorporated into donor-backed projects, such as the Regional Economic Integration of the Lao PDR into ASEAN, Trade and Entrepreneurship Development project, which is being implemented with German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). Meanwhile, in Myanmar, entrepreneurship camps and incubators are run by the country’s Young Entrepreneurs Association. In Cambodia, the government is setting up a committee to develop entrepreneurship programmes. The country also has several private sector initiatives to nurture entrepreneurs, e.g. those organised by the Young Entrepreneurs Association of Cambodia.
There is a rather large gap in the policy initiatives between countries which are newcomers to ASEAN and the more advanced older members of ASEAN. A typical challenge in the implementation of such initiatives is to integrate entrepreneurial learning programmes into their national education systems, which tend to face greater resource constraints than those of more developed AMS.

2. SME Sector of AMS in the Mekong Subregion

2.1. Thailand

In the aftermath of the Asian Financial Crisis in the late 1990s, which started in Thailand, the government placed SME policies as a top priority as they considered SME development to be of utmost importance and urgency during the recovery period. The policy shift was to stimulate innovative activities and decrease exposure to large enterprises operating in ‘sunset (declining) industries’, while SME interventions had only been occasionally featured before the crisis.

In 2000, the SME Promotion Act established the Office of SME Promotion (OSMEP) and the National Board of SMEs Promotion as part of promoting SME development. Since then, SME policies have adopted a sectoral approach, prioritising several sectors to be developed while relegating others to a lower degree of importance and urgency.

According to OSMEP (2013), 99.7% of the more than 3 million enterprises in the country in 2016 were SMEs – with only 0.5% of enterprises medium-sized – and only about 0.3% were large enterprises. This signalled a ‘missing middle’ in the country’s production structure. SMEs in Thailand accounted for a significant share of employment (78.5% of total employment) but only 42.2% of gross domestic product (GDP).

During 2007–2012, SMEs contributed an average of 33% of total exports and 38.8% of total GDP at current prices (OSMEP, 2013). Almost one-third of the SMEs were in the manufacturing sector over 2007–2012. Manufacturing SMEs employed around 27.1% of the private sector workforce on average over the same period, and their contribution to total SME GDP was 28.7%.

Other SMEs operated in the wholesale and retail trade sector, which is estimated to account for 41.7% of all SMEs. Hospitality services also account for a high share of SMEs (39.6%), whereas the manufacturing sector only accounts for a 17.3% share. These 2016 numbers showed a shift in the sectoral distribution of SMEs in Thailand from 2013, when almost one-third of SMEs were in the manufacturing sector (OSMEP, 2013). SMEs in Thailand were highly concentrated around Bangkok metropolitan area (27.6% of SMEs), whereas the second highest concentration of SMEs was found in Chonburi (3.4%) and Chiang Mai (3.2%).

Previous studies pointed out several barriers preventing Thai SMEs from increasing their contribution to GDP. Amongst those limitations are a lack of management capabilities, limited support from the government to access broader market and financial resources, inadequate access to skilled labour, and uncertainties regarding government support programmes (Punyasavatsut, 2010).
The contribution of exports to growth and development continues to remain important to the Thai economy, constituting 57%–64% of total GDP over 2007–2012. In terms of the contribution to total exports, Thai SMEs’ contribution was equivalent to 18% of GDP by 2012. Large enterprises play a leading role in the country’s international trade, but many manufacturing SMEs contributed to this through becoming suppliers in the production networks of large companies.

2.2. Viet Nam

Following the 6th National Congress of the Communist Party of Viet Nam in 1986, a series of radical reforms to liberalise the country’s economy began to take place. Private enterprise was permitted from 1990 via the Law on Companies and the Law on Private Enterprises, yet FDI was embraced as a motor to drive industrialisation. After being badly affected by the Asian Financial Crisis of 1997, the country’s constitution was amended in 2001 to ease the setting up of businesses, and a series of policies aimed at SME development began to emerge.

A decree on support for SME development was enacted in 2001 (No. 90/2001/ND-CP) to provide a definition of SMEs and a legal basis for the establishment of a dedicated SME agency (the Agency for SME Development) and an SME Development Promotion Council. These institutions are responsible for elaborating, coordinating, and implementing SME policies. In 2006, the country’s first five-year SME development plan was implemented. It was followed by a new government decree (No. 39/2018/ND-CP) on SME support in 2009, before the Law on Support for SMEs was passed in 2017 to replace all previous decrees on SME support.

When the new Enterprise Law was enacted in 2000, SMEs accounted for 94.6% of the total 41,964 enterprises (GSO, 2001), and the establishment of new enterprises has been rising rapidly since then. In 2015, around 98% of 442,486 enterprises recorded in the country were MSMEs (GSO, 2015) and 72.8% were microenterprises. Meanwhile, the share of large enterprises remained relatively constant, at around 2% since 2007, while medium-sized enterprises constituted an even smaller portion, with only 1.7% of total enterprises in 2015, indicating a missing middle in the production structure. These statistics show that most of the newly established enterprises in Viet Nam are MSMEs (GSO, 2016).

In terms of job creation, MSMEs demonstrated that they have been increasingly dominant in the country’s economic structure, increasing from 35% of total employment in 2000 to 51% in 2012 and 64% in 2015. MSMEs also contributed 45% of GDP and around 14.1% of exports, according to customs data. It is important to note that 97% of the total SMEs in Viet Nam were non-state enterprises in 2011 and the ratio of SMEs in non-state enterprises has continuously increased since 2000. This is particularly significant given Viet Nam’s past of banning private enterprise from 1976 to 1985 before beginning to transform the country into a market-oriented economy in 1986 (Tran, Le, and Nguyen, 2008).
2.3. Cambodia

After the introduction of a comprehensive privatisation programme in the early 1990s, the number of registered manufacturing SMEs had grown from zero to 24,000 by the late 1990s with the support of a largely stable macroeconomic framework and the development of the basic institutions and infrastructure of a market economy (OECD/ERIA, 2018). The country then started to launch strategic documents and institutions to accelerate private sector development, particularly of SMEs.

In 2004, the government launched its Rectangular Strategy, outlining 13 pillars – one of which is SME development – to promote private enterprise, economic growth, job creation, and productivity enhancement. The strategy also established an SME development framework and an SME subcommittee, chaired by the Minister of Industry and Handicraft. The framework was implemented over two phases: the first ran from 2005 to 2007, while the second ran from 2008 to 2010 and focused on regulatory reform. Meanwhile, the SME subcommittee worked to increase the coherency of SME development measures.

Aside from the Rectangular Strategy, the government formulated the Industrial Development Policy, 2015–2025 to achieve its long-term vision of reaching middle-income status by 2030. One of the policy objectives involved capacity enhancement of SMEs to promote manufacturing and agro-processing sectors in the country, and to integrate the manufacturing sector into GVCs. On that note, one pillar of the Industrial Development Policy is focused on developing and modernising SMEs in the manufacturing sector, specifically in the agro-industrial sector.

According to the last economic census by the National Institute of Statistics of Cambodia, 99.8% of Cambodian enterprises in 2014 were MSMEs, mainly microenterprises which employed less than 10 workers (97.6%). However, in terms of job creation, SMEs only accounted for around 71.7% of employment, with microenterprises accounting for 58.3% of employment (National Institute of Statistics, 2015).

Microenterprises in Cambodia tend to be new (61.7% are 1–5 years old), which might indicate a positive signal about the economic development in the country, providing more opportunity and ease for microbusinesses to emerge. Most of the MSMEs are found in the largest economic centres, such as Phnom Penh (23.1%), Siam Reap Province (18.5%), and Battambang Province (8.5%). Based on the 2014 census, microenterprises were mostly concentrated in wholesale and retail activities (60.7%), followed by manufacturing (14.0%) and accommodation and food service activities (10.9%). Meanwhile, SMEs are mostly found in education (33.7%) and manufacturing (13.5%) activities. MSMEs are also more likely to be owned by Cambodian nationals, while a significant portion of large enterprises (47.4%) are owned by foreigners, particularly Chinese nationals (who own 24.4% of large enterprises) (National Institute of Statistics, 2015).
2.4. Lao PDR

Like its neighbouring countries, commercial activity by individuals and private enterprises was banned in the Lao PDR until 1979. Following the introduction of the New Economic Mechanism in 1986, the Lao PDR began to move towards economic liberalisation. Under the Enterprise Law enacted in 1994, a legal definition and foundation for private enterprise, including SMEs, were laid down.

A breakthrough in terms of policy focus on SME development occurred in 2004, with the Decree on the Promotion and Development of Small and Medium Sized Enterprises (No. 42/PM), along with the establishment of the SME Promotion and Development Committee and the SME Promotion and Development Office. From 2007 to 2009, the Lao PDR implemented a project on private sector development, focusing on SMEs, supported by the Asian Development Bank (ADB).

This project ushered in many of the Lao PDR’s institutions and policies on SMEs. Its successor project, the Second Private Sector and Small and Medium-Sized Enterprises Development Program, implemented from 2009 to 2011, established a monitoring and evaluation unit within the SME Promotion and Development Office to assess the implementation of the Office’s strategy. Under the same project, the Law on the Promotion of Small and Medium Sized Enterprise was also enacted in 2009. Since then, SME policies have increasingly become a priority in policymaking, in collaboration with external development partners such as ADB, the World Bank, and GIZ. Nevertheless, several challenges remain to be addressed. A survey by GIZ (2014) pointed out that the most significant external constraint for enterprises in the Lao PDR is high taxes and duties, whereas the most important internal constraint is lack of capital (GIZ, 2014).

According to the country’s 2013 Economic Census, which covered around 75% of registered enterprises, almost all of them (99.8%) were classified as SMEs. Around 86% of these SMEs were microenterprises, employing not more than five workers. This and data from other surveys (GIZ, 2014) indicated a missing middle in the country’s production structure, which might have significantly hindered SMEs from expanding. Surveys suggest that very few private Laotian enterprises export, exacerbating the fact that Laotian enterprises have access only to a small domestic market for goods and services (GIZ, 2014).

Although data are not collected on SME contributions to common economic measures such as GDP or value added, the available statistics show that Laotian SMEs have played quite a significant role in terms of job creation, accounting for around 82.2% of total private sector employment, according to the 2013 census conducted by Lao Statistics Bureau (2013). When it comes to geographical distribution, SMEs appear to be concentrated in the country’s three most populous regions – Vientiane prefecture, Savannakhet Province, and Champasak Province – which together accounted for almost 50% of MSMEs in the Lao PDR (Lao Statistics Bureau, 2013). Most SMEs tend to be concentrated in wholesale and retail trade (46% of small enterprises and 69.4% of microenterprises), followed by manufacturing activities (19.4% of small enterprises and 11.2% of microenterprises) and accommodation and food services (17.5% of small enterprises and 11.2% of microenterprises).
2.5. Myanmar

Myanmar is at a very early stage of developing SME policies, and the institutional framework for SME policy is still rather fragmented. After lifting the private enterprise ban in 1990 through the Private Industrial Enterprise Law, a few targeted SME policies were implemented during 1990–2010, one of which led to the establishment of the Small and Medium Industrial Development Bank in 1996. Under President U Thein Sein, a Central Committee for SME Development was set up in 2012, followed by the enactment of SME Development Law in 2015. From the end of 2015 until 2018, however, SME development policies did not appear to be amongst the top priorities. The SME committee is required by law to meet twice a year, but it has met only once since it was established. On a brighter note, the government is close to finalising an institutional structure for SME policy in Myanmar (OECD/ERIA, 2018).

Although the government does not have a working strategy for SME development in place, several SME policies and programmes have emerged – albeit often embedded in a more general framework. For example, in 2015, the Ministry of Commerce launched a National Export Strategy to foster export-led growth under which export-oriented SMEs could obtain favourable consideration. In the absence of specific government interventions to tackle SME development issues, initiatives have usually emerged through support from external development partners such as the United Nations Industrial Development Organisation, which conducted a project in 2014 to boost SME competitiveness through business linkages establishment, and a European Union-funded project during 2016–2019 called SMART Myanmar (SMEs for Environmental Accountability, Responsibility and Transparency) to help local garment SMEs export their products to European Union countries. Limited government budget and a high degree of informality are amongst the main impediments faced by the government in developing more coherent and strategic measures for supporting SME development.

Data are scarce on MSMEs in Myanmar, but the latest available statistics have indicated that MSMEs are also dominant in Myanmar, with 99.4% of around 127,000 registered enterprises counted as MSMEs in 2016, while some 620,000 unregistered firms are estimated to be operating in the country (Bernhardt, De, and Dickenson-Jones, 2019). Amongst the firms which were registered with the Ministry of Industry as of 2017, 87.1% of them were micro and small enterprises and 18.9% were medium-sized firms, which was a relatively high proportion. Some estimates on the contribution of SMEs to the economy accounted for around 80% of employment (OECD/ERIA, 2018).

In terms of sectoral distribution, it was estimated that around 78% of MSMEs in Myanmar operated in the manufacturing sector (cottage handicrafts) and about 21% in the service sector in 2015. MSMEs outside cottage industries accounted for about 90% of food processing SMEs while an additional 7.6% of the total SMEs operated as construction material producers, followed by 5.1% as mineral and petroleum producers and 4.5% as garment firms (ADB, 2015). Nonetheless, a survey by the German Institute for Development Evaluation (DEval, 2015) on SMEs in Myanmar suggested that only 54% of firms were engaged in the manufacturing sector, while the remaining 46% were in the
services sector – mainly in restaurants and hotels (16%) and retail (14%). Within manufacturing, most SMEs were found in machinery and equipment, vehicles and metal production (12%), food and beverages or tobacco production (12%), and textile and/or shoes production (10%) (DEval, 2015). However, this survey did not cover the agricultural sector, so the picture was incomplete.

3. Challenges and Policy Recommendations to Achieve Sustainable and Inclusive SME Development

The description of the SME sector and SME policy of the Mekong Subregion countries above highlights two major challenges for all countries in the region to achieve sustainable and inclusive growth with the adoption of information and communication technology and digital connectivity.

The first is the distinct variation in the level of SME sector development amongst the countries in the subregion. Micro and cottage industry enterprises still dominate the sector in Cambodia, the Lao PDR, and Myanmar – typically with a lower degree of sophistication than those of microenterprises in Viet Nam and Thailand (as stated above, microenterprises are also dominant in the SME sectors of Viet Nam and Thailand). Many of these micro and cottage industry enterprises typically operate in the low-skill services and low-technology agriculture sector. Arguably, only SMEs in Thailand are relatively well connected with large companies’ parts of regional or global production networks in manufacturing. SMEs in Viet Nam are catching up in terms of participation in the production networks, followed by SMEs in Cambodia. Consequently, SMEs in Thailand and Viet Nam, especially those engaged in manufacturing operations, are more sophisticated and technology-intensive than those in Myanmar, the Lao PDR, and Cambodia. Overall, there will also be a different pace in the development of SMEs amongst the four countries. SMEs in Thailand and Viet Nam could move faster than SMEs in the other three countries because they have accumulated more and better knowledge and technology.

Second, the difference in the structure and level of technology adoption of SMEs between the four countries underlines the difference level of the ‘unbundling regime’ between the countries. Thailand and Viet Nam to some extent are already in the second unbundling regime, while Myanmar, the Lao PDR, and Cambodia are about to engage, or have just began to engage, in the second unbundling regime, typically through the development of transport or machinery industry. This further highlights the high degree of difference in the institutional setting for industrialisation as well as for development. As described briefly, Thailand and Viet Nam to some extent have established robust agencies, laws, and regulations for receiving FDI, complemented by the establishment of institutions in the trade regime to facilitate the production network model assumed by the unbundling regimes. The other countries, meanwhile, are catching up to establish the institutions needed to engage fully in the second unbundling. Catching up may be less difficult than envisaged, as these countries have permitted private sector engagement in their SME development framework, and their participation in the ASEAN integration process helps them significantly in reducing the ‘learning time’ in establishing appropriate institutions.
These challenges clearly demand policy intervention for SMEs to be able to contribute to the outcome of sustainable and inclusive growth in the Mekong Subregion. This chapter provides the following recommendations for policy directions:

• Further liberalise the investment and trade regime in lagging countries (i.e. Myanmar, the Lao PDR, and Cambodia). This is in the context of increasing investment in SMEs to reach the level of SME development of the more advanced countries (i.e. Thailand and Viet Nam).

• Maximise the role of BDS in SME development, especially as a policy instrument to encourage the growth of micro and small enterprises.

• Provide more training for SMEs, especially to improve entrepreneurial skills which are very relevant for promoting the growth of micro and small enterprises.

• Encourage the creation of BDS by the private sector and mainstream further participation of the private sector in upgrading the productivity of SMEs. This could be done by providing incentives for private investment in BDS for SMEs.

• Invent workable programmes that can establish the linkage between SMEs and all actors in industrial clustering within industrial agglomerations. This is especially relevant for the linkage between SMEs and large corporations or multinational enterprises which are typically engaged in international production networks.

• Open up digital-related sectors, including telecommunications, retail, and logistics services. This is important to adopt a leapfrogging approach of moving up the unbundling path (Kimura, 2018), but applied locally and typically in the SME sector. The leapfrogging approach is defined as a situation whereby countries skip certain stages and directly jump to a higher level of unbundling (Kimura, 2018: 19). This policy direction is important for AMS in the region to consider in the context of applying information and communication technology and digital connectivity. A leapfrogging strategy for SME development implies that SMEs needs to adopt digital technology in their business model.
References


