

CHALLENGES OF SMES IN THE NEW ECONOMY

I WAYAN DIPTA

Deputy Minister of Research and Development
for Cooperative and SME Resources,
The Republic of Indonesia

Main Regional FTAs

NAFTA

Population: 445 million
GDP: US\$15.857 trillion

EU

Population: 491 million
GDP: US\$ 14.38 trillion

CHINA

Population: 1.330 billion
GDP PPP: US\$ 6.991 trillion

JAPAN

Population: 127 million
GDP PPP: US\$ 4.29 trillion

FTA Canada – Chile 1997
FTA : Chile – Mexico 1999
FTA : USA – Chile 2004
FTA : USA – Singapore 2004
FTA : USA – Australia 2005
FTA : Mexico – Japan 2005
FTA : Chile – Brunei – NZ – Singapore 2006

Japan-Korea-China FTA
(under negotiation)

Japan-Korea FTA
(under negotiation)

Japan-Mexico EPA
(signed agreement)

ASEAN-Japan Comprehensive Economic Partnership (AJCEP)

Japan's Bilaterals:

- Japan-Singapore EPA
- Japan-Philippines EPA
- Japan-Thailand EPA
- Japan-Malaysia EPA
- Japan-Indonesia EPA

NAFTA
U.S.A.,
Canada,
Mexico

EU-MEXICO FTA

EU

25 countries

expanding to
Eastern Europe

ACP-EU
Countries in Africa
and the Caribbean
(approx. 70
countries)

expanding to
Latin America

under negotiation

SAPTA

Bangladesh, Bhutan,
India, Maldives,
Nepal, Pakistan, Sri
Lanka

AFTA

Indonesia, Malaysia,
Philippines, Singapore,
Thailand, Brunei, Vietnam,
Laos, Myanmar, Cambodia

FTAA

(by 2005)

MERCOSUR

Argentina, Brazil,
Paraguay, Uruguay

India - ASEAN FTA

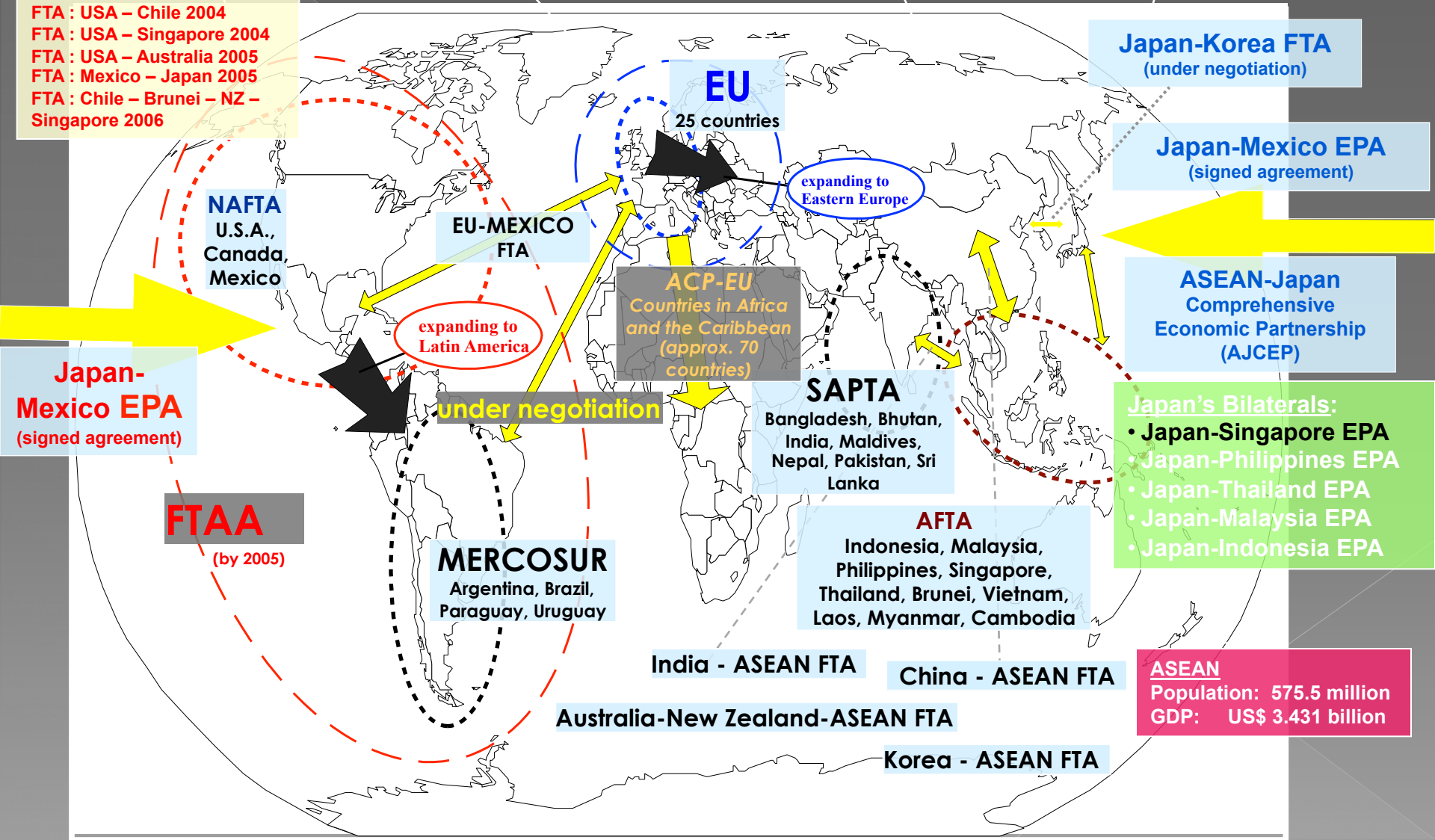
China - ASEAN FTA

Australia-New Zealand-ASEAN FTA

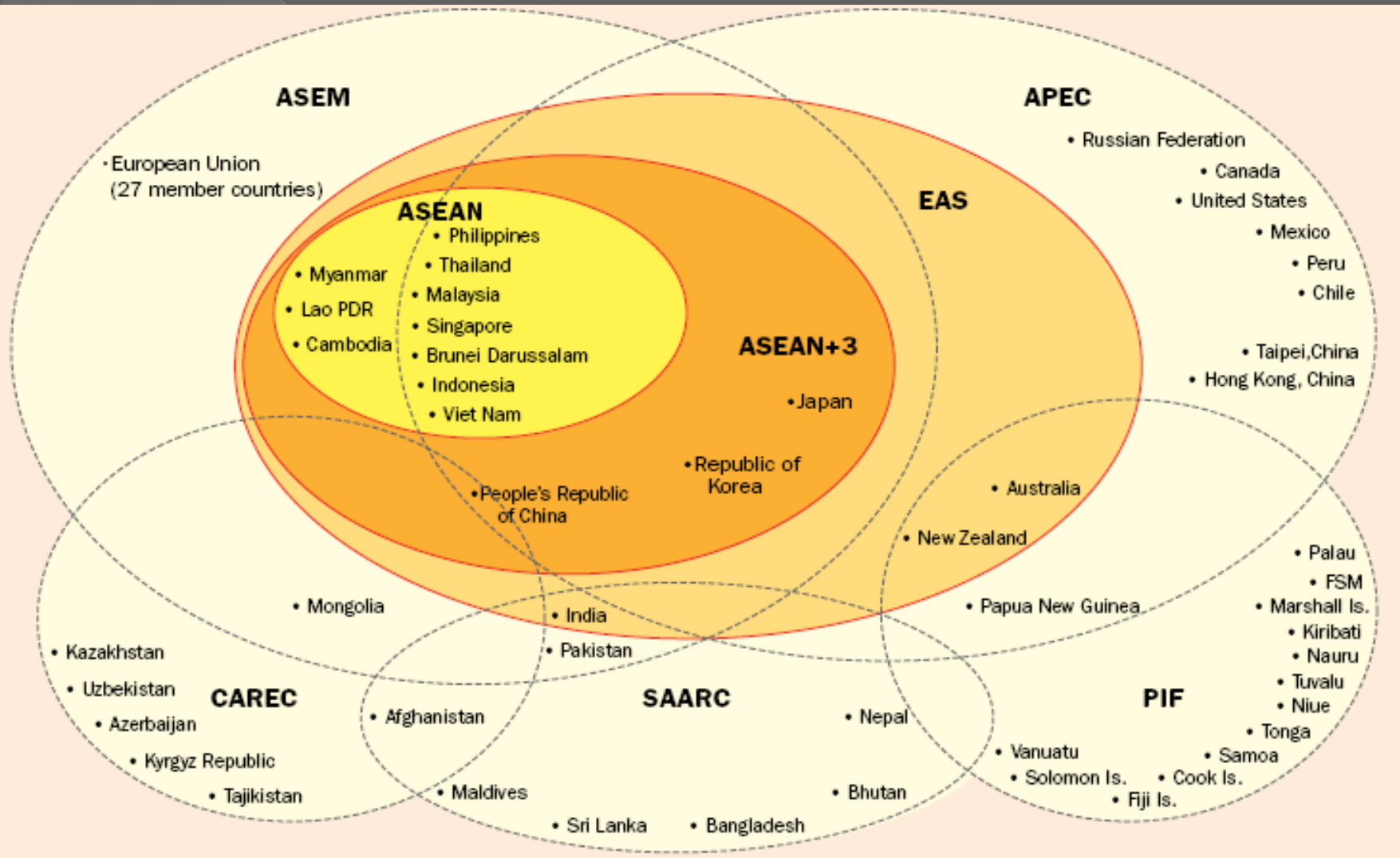
Korea - ASEAN FTA

ASEAN

Population: 575.5 million
GDP: US\$ 3.431 billion



ASEAN IN THE GLOBAL LANDSCAPE

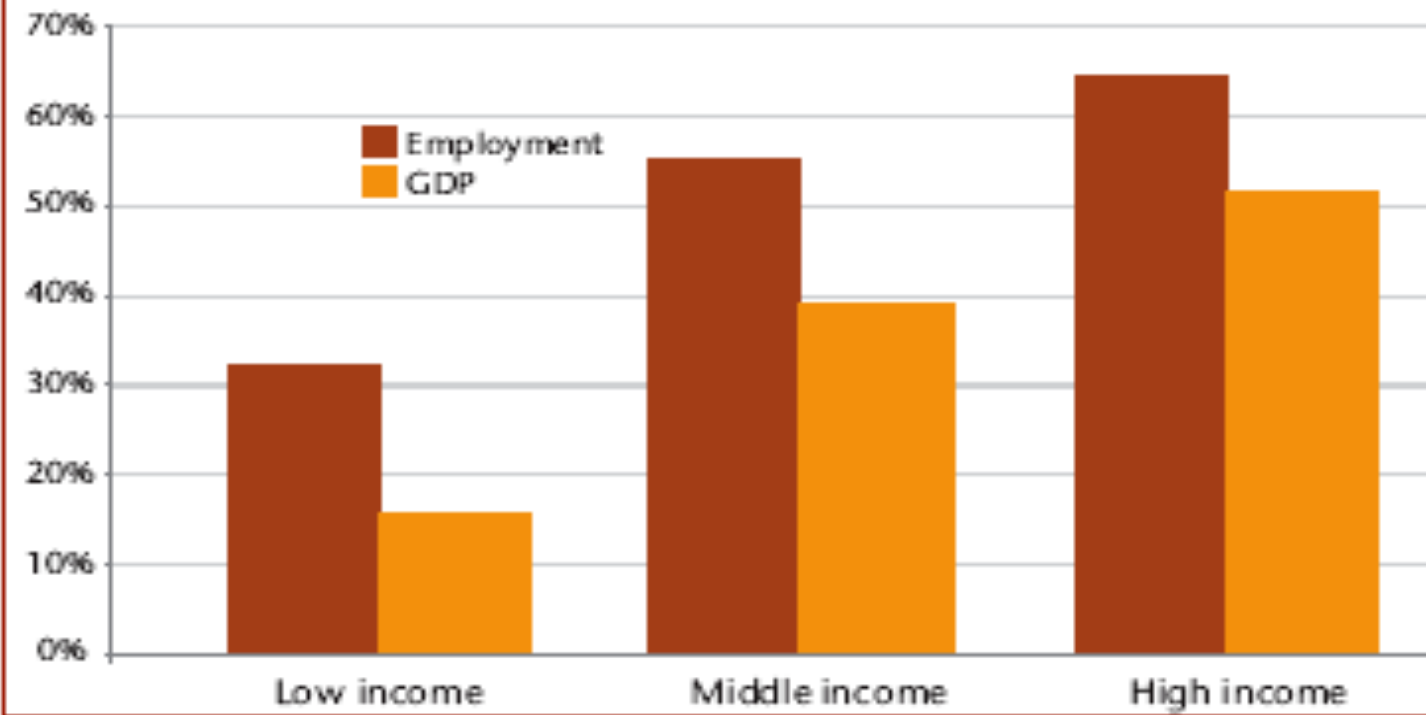


TRENDS OF NEW ECONOMY

- ◉ Market characteristics:
 - > Dynamic
 - > Global competition
 - > Organizations tend to create networking
- ◉ Industry with production organization tends to be more flexible with the growth driven by:
 - > innovation/knowledge;
 - > Supported by digital technology;
 - > Competency based on innovation, quality, time and cost;
 - > Priority on research and development; and
 - > Develop alliance and collaboration with other businesses.
- ◉ Position of labor forces with:
 - > High wages and income,
 - > Wide skills and various disciplines,
 - > Never ending on human capacity building, and
 - > Collaborative labor organization

The Importance of SMEs

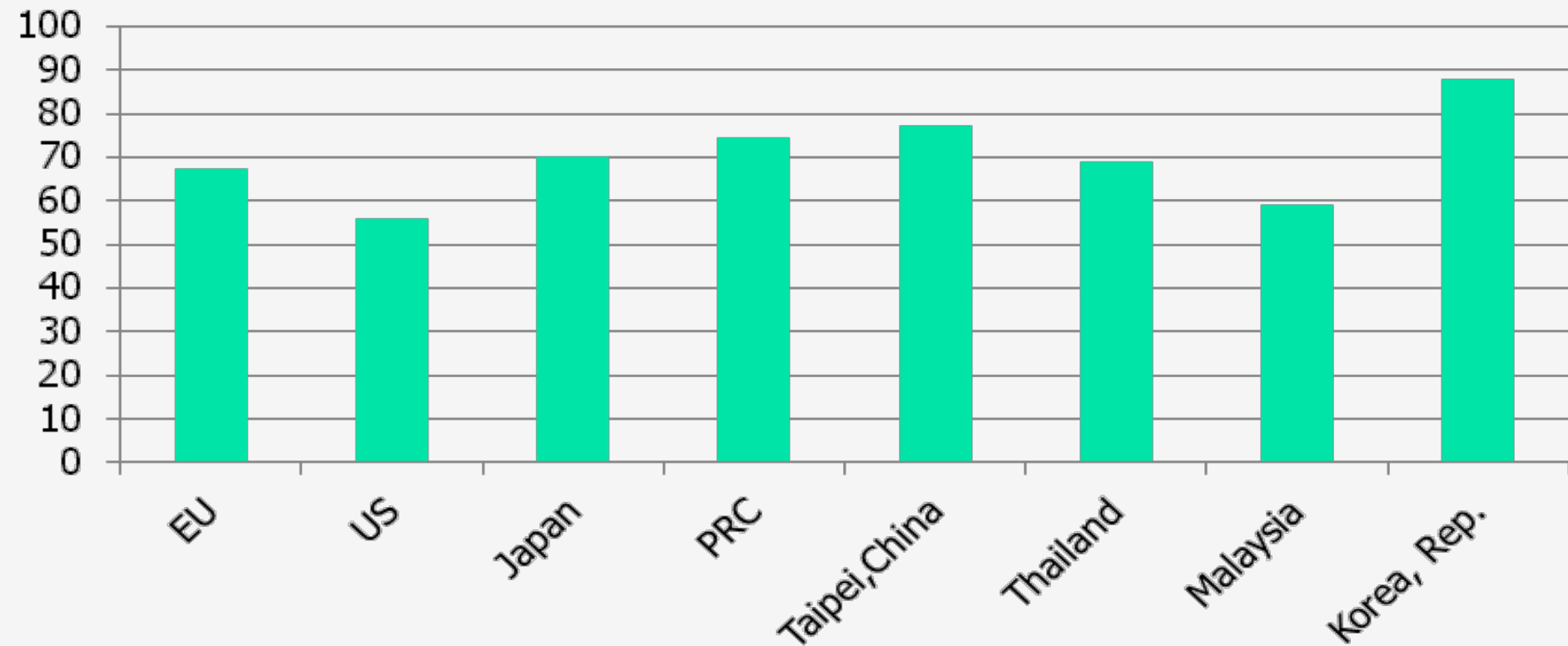
Figure 1: SME contribution to employment and GDP (median values)



Source: World Bank

Where are these jobs to come from: mostly from SMEs

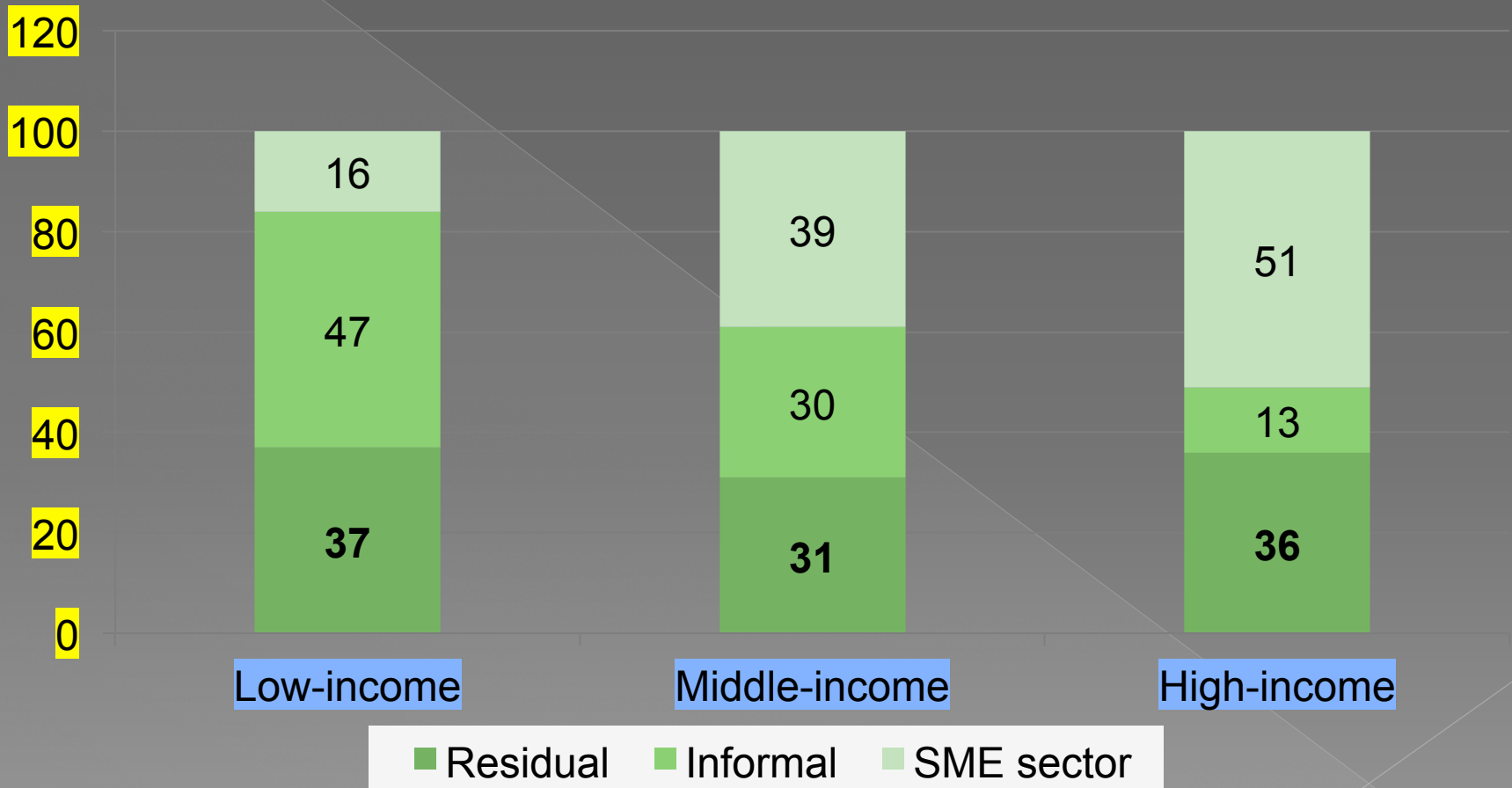
SME share in total labor force, various years in 2000-2009, %



Recent data show about 70% of the labor force are employed by SMEs in EU countries, Japan, Thailand. This figure is even higher in Republic of Korea, PRC, Chinese Taipei, and Indonesia (97.3%).

SMEs are the largest contributor to GDP in middle- and high-income countries

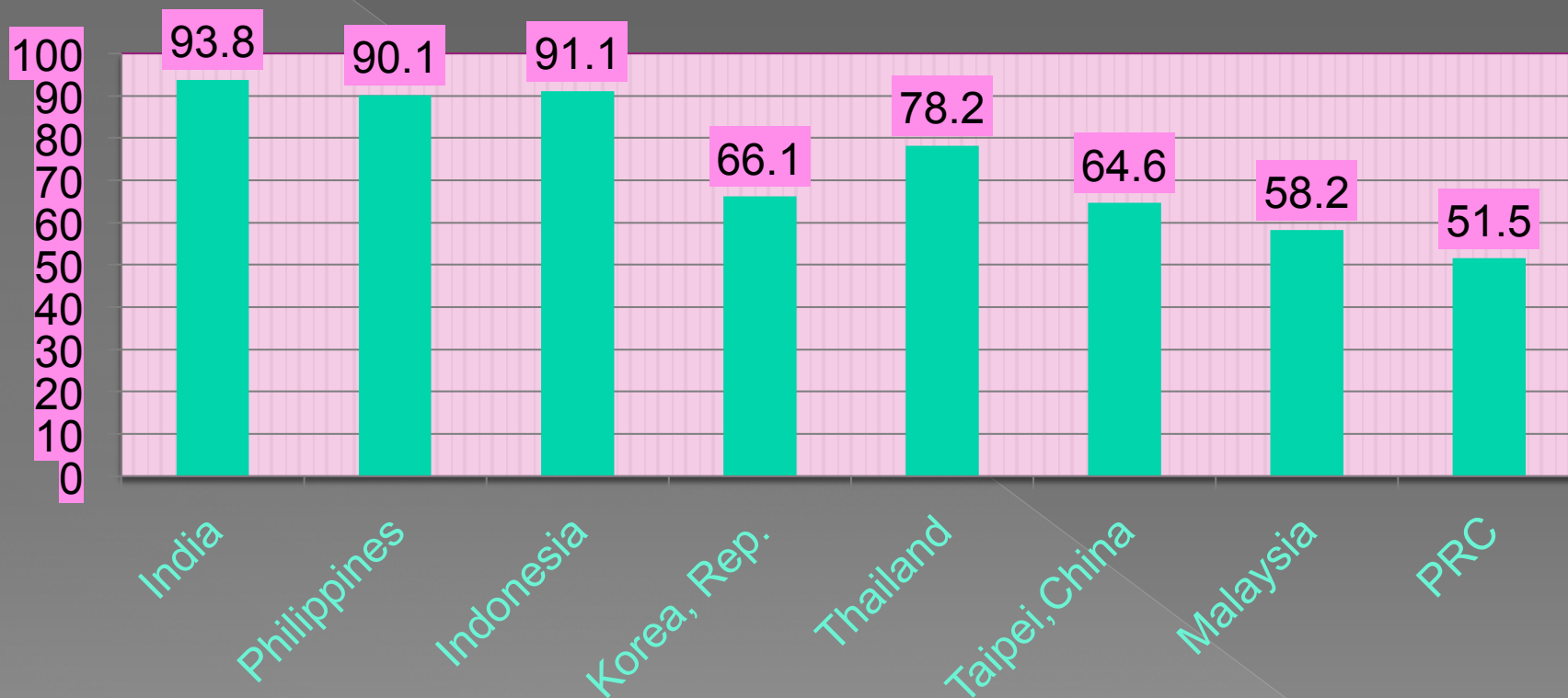
GDP contributions of SMEs by countries grouped by income level (%)



Source: Ayyagari, Beck, and Demirguc-Kunt, 2003. Residual refers to large enterprises and the public sector

In many Asian countries, SMEs are dominated by small- and micro-enterprises

SME employment: Share of small- and micro-enterprises (%)

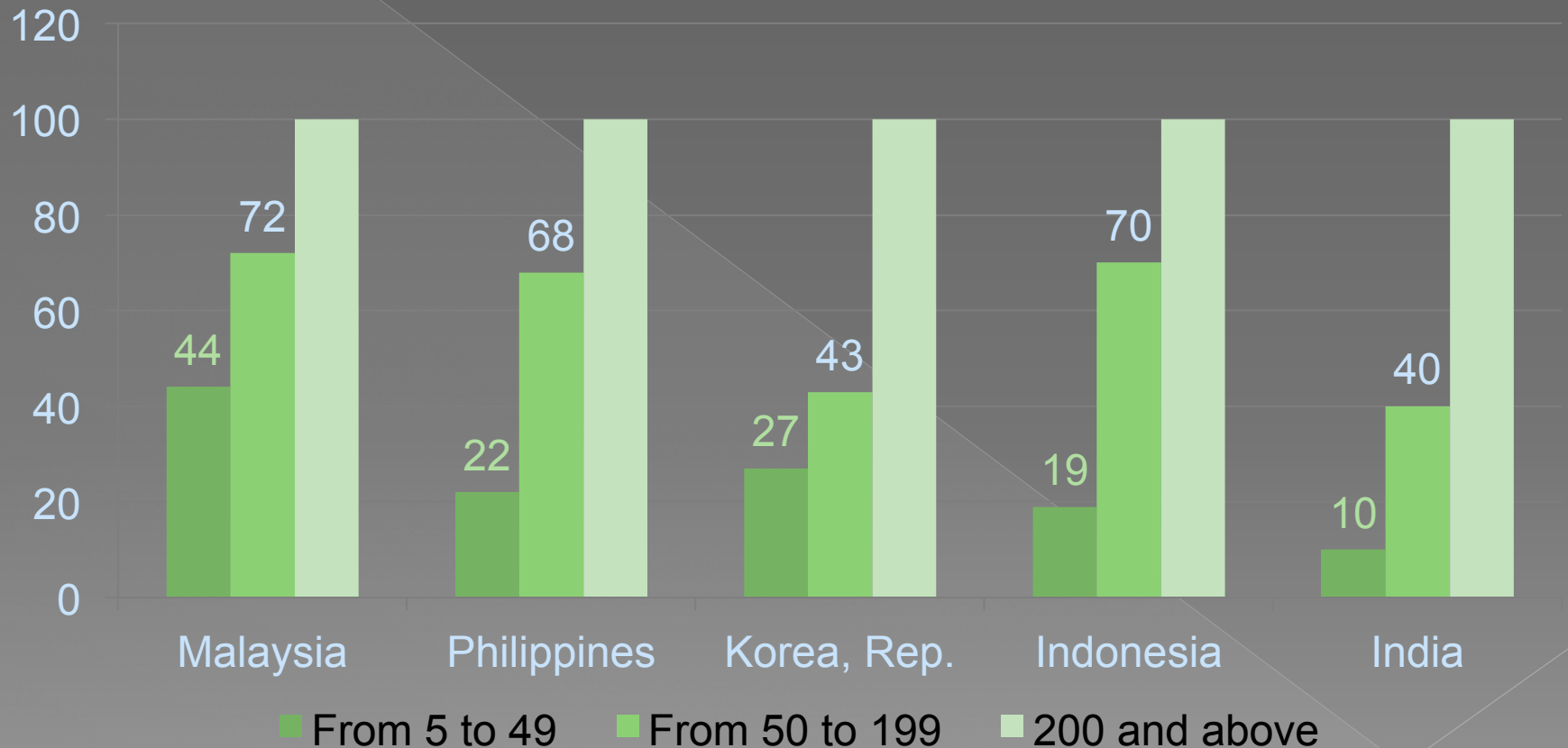


Note: Micro- and small-enterprises refer to those employing 1-50 workers for Thailand and 1-49 for all other economies.

Source: KI 2009, ADB

SMEs are less productive than large enterprises and hence pay lower wages

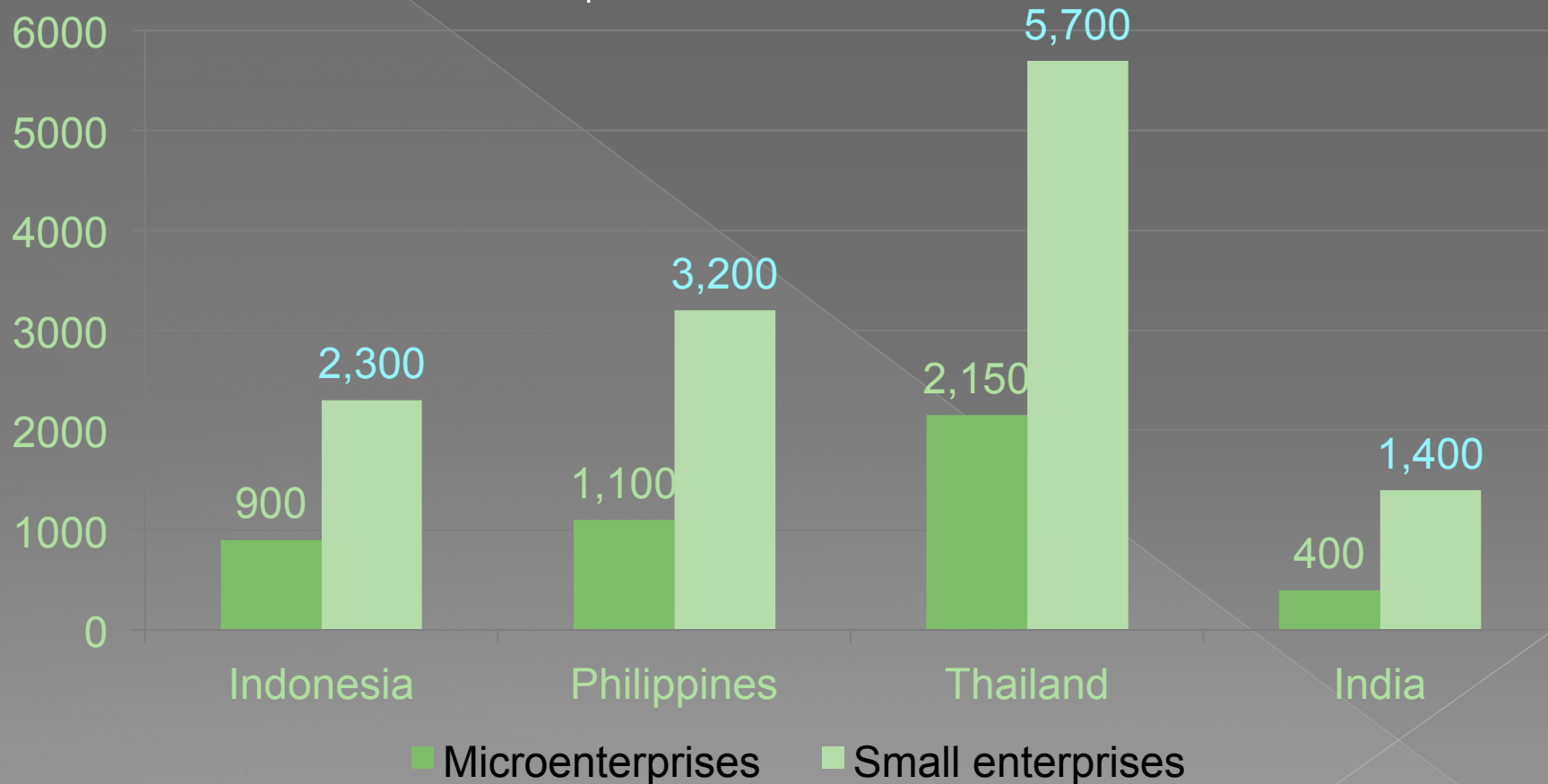
Labor productivity (value added per worker) by enterprise size in number of employees, large enterprises = 100



Source: KI 2009, ADB

Many micro-enterprises operate in informal sector with very low productivity and earnings for their owners and employees

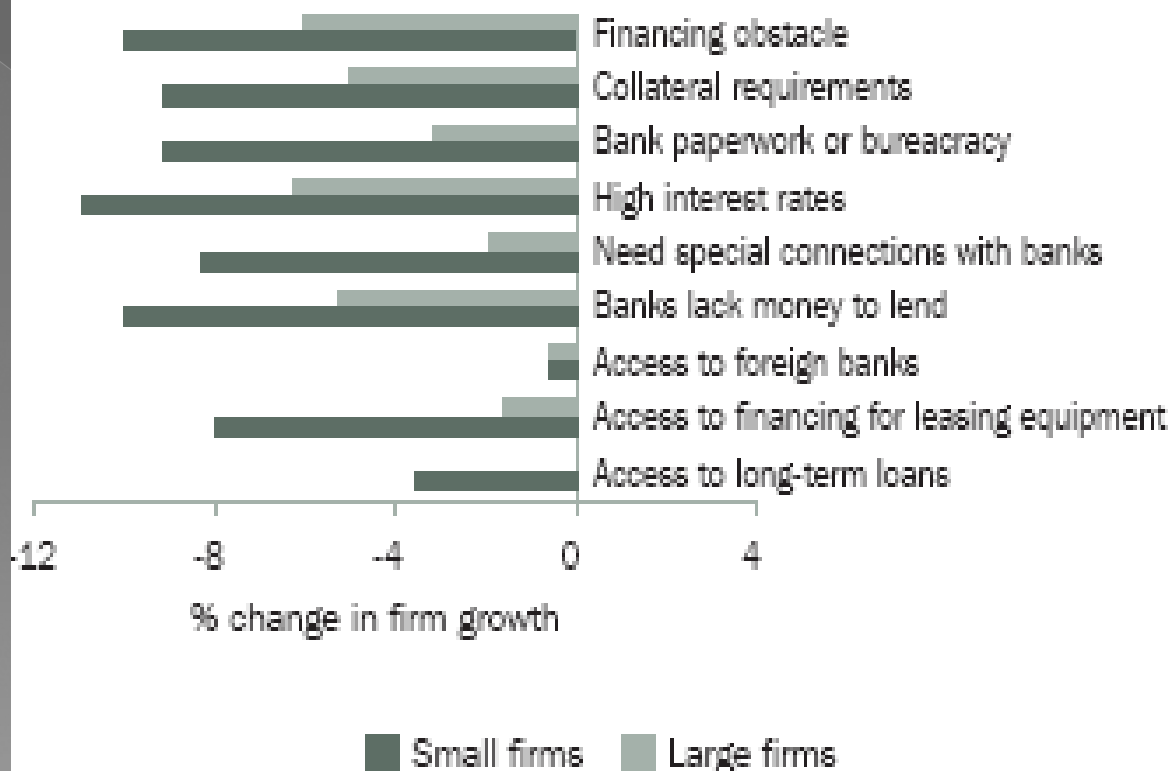
Labor productivity of micro- and small-enterprises, value added per worker, in 2005 US dollar



SMEs in Asia face many constraints: Finance, skills and technology, access to market and infrastructure, regulatory burden, ...

- Almost in all Asian countries, SMEs are reported to face constraints in access to credit.
- Negative impact of credit constraints on growth potential of small firms is found to be 65% greater than that of large firms.

Figure 6.1 Effect of Financing Constraints on Growth



Source: Beck, Demirgüç-Kunt, and Maksimovic (2005) as cited in World Bank (2008) pg.67.

SMEs in Asia are much less likely to undertake innovation

Asian firms that undertake innovation, by firm size, %

	East and Southeast Asia			South Asia		
	Small	Medium	Large	Small	Medium	Large
Developed a major new product line	32.4	45.6	56.9	36.2	49.3	60.8
Ungraded an existing product line	53.4	63.3	72.2	58.3	70.9	75.4
Introduced new technology that has substantially changed the way that the main product is produced	27.0	41.3	54.3	12.9	25.9	37.3

The European Small Firm Context

- ◉ SMEs dominate the economy of the European Union with more than 20.8 million firms
 - > 92.3% of these firms have less than 10 employees belongs to the micro firms.
 - > Their 'small' counterparts have only a 6.9% share
 - > Medium sized firms account for only 1.1%.
- ◉ Only 0.2 % of all firms in Europe are large firms
- ◉ Account for 2/3rds of employment,
- ◉ Create 2 in 3 new jobs,
- ◉ Increasingly involved in high impact, network-centric value creation
- ◉ jobs and turnover growth together with technological excellence and innovation)
- ◉ More creative and innovative during economic recession

What are they up to after the Crisis?

Higher levels of R&D spend by SMEs in specific sectors

- ⊙ Levels of employment in small firms at 50.2% in 2012,
- ⊙ On average, SMEs across the EU employed 4.22 people in 2012, following 4.23 in 2011
- ⊙ with a continuing decline in size from 4.34 employees in 2005.
- ⊙ Gross value added by those firms of 39.7%.
- ⊙ Add 'M' in SMEs share (17.2% for employment and 18.4% for GVA)
- ⊙ Austria, Germany and Malta appeared to have recovered and improved – employment growth and to a smaller extent by way of real productivity growth
- ⊙ Countries enjoying positive GVA, such as Belgium, the Netherlands or Sweden, relied mainly on labor productivity which compensated for the loss in absolute employment.
- ⊙ SMEs in the utilities had the largest share of growth in terms of absolute number of enterprises. Manufacturing, however, showed the highest levels of decline. SMEs in transport and storage and services sectors are expected to have the best performance in terms of employment and GVA in 2012

Problems and Challenges of SMEs facing New Economy

- Strong market competition—free flow of goods and services;
- Less entrepreneurial spirit of most SMEs;
- Low productivity compare to big companies;
- Low quality and product standard;
- Limited access to finance

Constraints for SMEs on E-Commerce Implementation

- Lack of access and utilization of existing infrastructures
- Lack of knowledge and skills on on-line businesses
- Less belief on on-line businesses
- Lack of capabilities on languages, especially English
- Electronic business has yet secure
- Limited guarantee on good and secure access payment

FOCUS AND PRIORITY

- Development of Micro Enterprises approaches should be *welfare approach*
- Small and Medium Enterprises approaches can be *business approach*, through:
 - > Sectorial focus, agriculture vs. non-agricultures
 - > Select prime-mover SMEs—export potentials
 - > Competency-based guidance through export mechanism
 - > Promote strategic alliance/partnership, clustering or business networking

Strengthening SMEs

1. Improving Human Capacity Building

- Disseminate SMEs' good practices in human resource management and development:
 - using modern business tools,
 - inter-firm linkages and other arrangements to identify and bridge the knowledge and skills gaps (e.g., internship, on-the-job training, entrepreneur exchange and knowledge sharing schemes with domestic, regional and extra-regional stakeholders).
- Assess and identify key weaknesses and skills-gaps of SMEs, particularly in the organization and management within the enterprise as well as in sourcing, production and marketing, and design and/or conduct collaborative remedial training and skills-enhancing programs and schemes.
- Map out SMEs' skills training needs in priority areas for matching or strengthening existing vocational training programs to other countries.
- Conduct comparative study on certain program (incubators, clustering, etc) to developed countries .

Strengthening SMEs

2. Access to Technology and Innovation

- Disseminate SMEs' good practices in access to modern technology and firm level's creativity and innovation -- including through the use of modern business and ICT tools, and inter-firm linkages.
- Provide technology support for certain products, such as for coffee production and other agro-industry products or food and beverages, garments, automotive and electronic products
- Conduct training activities to enhance SMEs' use of modern technology tools for business -- including in:
 - the design, development and update of websites;
 - the maintenance of suppliers' and customers' database; and
 - the acquisition of cost-effective hardware and business software.
- Prepare users' friendly guidebooks and leaflets focusing on the opportunities and challenges from intellectual property creativity and innovation as the springboard of competitiveness and commercial value creation for SMEs.

Strengthening SMEs

3. Access to market and internationalization

- Conduct training for SMEs that export goods/ services.
- Conduct exhibition, trade mission to other countries.
- Disseminate SMEs' good practices in gaining access to the regional and international markets.
- Survey and benchmark SMEs' readiness for subcontracting linkages with large domestic firms and transnational enterprises, and identify gaps and needs for capacity building.

Strengthening SMEs

4. Access to Information and Advisory Services

- Disseminate SMEs' good practices in accessing information and advisory services.
- Prepare users' friendly guidebooks and leaflets focusing on
 - the opportunities and challenges from all FTAs and trade facilitation, regional integration and beyond, regional and international trade fairs, competition policy and consumer protection, etc., and
 - conduct non-technical seminars for SMEs as well as convene a series of on-the-ground insights seminars at the regional and national level for SMEs on some or all of those above topics.
- Providing experts in the areas of SME policy, trade, investment and finance, technology, innovation and marketing; and cooperate with SME resource centres and other arrangements to facilitate exchange of knowledge and best-practice, and cooperative training and learning involving SMEs.

Strengthening SMEs

5. Access to finance

- Conduct outreach and training programs to raise awareness of existing or start-up SMEs on alternative financial products and options, besides traditional bank loans, for credit and working capital needs as well as on the (supply-side) requirements for accessing such financial products and options.
- Government should provide special financial support to increase production and sales volume, especially for international trade.
- Disseminate SMEs' good practices in accessing finance and credit supplies from bank and non-bank sources, including through other mechanisms such as guarantee schemes, insurance etc.

Conclusion

- As the world becoming flat and more competitive, SMEs should be strengthened their competitiveness
 - Clustering Development
 - Partnership/Collaboration/Networking
- Development approaches
 - Micro-Enterprises through “**Welfare Approaches**”
 - SMEs using “**Business Approaches**”
- Strengthening SME competitiveness can be focused on:
 - Improving Human Capacity Building
 - Access to Technology and Innovation
 - Access to market and internationalization
 - Access to Information and Advisory Services
 - Access to finance

Thank You

TER

