

Think Ahead

ACCA

SME development in ASEAN



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As the 10 Association of Southeast Asian Nations (ASEAN) member states move towards closer economic integration, SMEs in the region are meeting new opportunities and challenges.

As the 10 Association of Southeast Asian Nations (ASEAN) member states move towards closer economic integration, SMEs in the region are meeting new opportunities and challenges. This discussion paper highlights the key measures being developed – and what more needs to happen – to help SMEs thrive in this new environment. It gathers insights from policymakers, economists, industry representatives and professional accountants, as well as drawing on European experience.

ASEAN RECOGNISES THE VITAL IMPORTANCE OF SMES

SMEs make up the vast majority of business enterprises across ASEAN and they create most of the region's employment opportunities. Even so, there is huge scope to increase the contribution they make towards ASEAN member states' GDP and the growth of the region as a whole.

SME participation in international trade is also generally low. Increasing SME cross-border activity would boost economic growth and development in ASEAN, while also helping to increase the competitiveness of the SME sector.

ASEAN member states have been cooperating to support SME development since 1995. The ASEAN Secretariat's five-year Strategic Action Plan for SME Development 2010–2015 (ASEAN Secretariat 2010) resulted in a number of achievements, including an ASEAN SME

Policy Index to help member states benchmark their own SME policies and prioritise areas for action. Initiatives for supporting SMEs directly have also been launched, such as a Web portal to provide SMEs with information to help them expand regionally and internationally, and an e-learning platform offering a range of business training courses.

ASEAN ECONOMIC INTEGRATION CREATES OPPORTUNITIES AND CHALLENGES FOR SMES

The creation of the ASEAN Economic Community (AEC) in December 2015 was the next step towards closer integration across the region's markets. It is intended to support the free flow of goods and labour, encourage cross-border investment flows and reduce trading costs. It also creates a huge potential market that ASEAN businesses, including SMEs, can access.

On the other hand, further opening of borders creates challenges as well as opportunities for SMEs. There are some concerns that larger businesses, having the resources to invest in expansion plans and take advantage of more mobile labour, will benefit most from the AEC.

There is general recognition that the less-well-developed ASEAN economies (Cambodia, Lao PDR, Myanmar and Vietnam) face the biggest challenges from deeper economic integration, and therefore so do their SMEs. For example, SMEs may face particular difficulties in



SMEs may need to adjust their strategies to participate: for example, growing in size in order to scale up production and attract more skilled labour, or joining industrial clusters to pool resources.

obtaining technology support or accessing finance. Policies to promote and provide entrepreneurial education in these countries also tend to lag behind those in more advanced ASEAN economies, while regulatory burdens on SMEs may be greater.

MEASURES ARE NEEDED TO SUPPORT SME DEVELOPMENT

ASEAN member states appreciate that SMEs need more targeted support to help them develop and succeed in the context of the AEC. The latest Strategic Action Plan for SME Development, running from 2016 to 2025 (ASEAN Secretariat 2015a), outlines five strategic goals. These include promoting productivity, increasing access to finance, enhancing market access, enhancing the policy and regulatory environment, and promoting entrepreneurship and human capital development.

For example, a number of recommendations have been made for improving access to finance. These include the establishment and strengthening of credit risk management systems, such as credit rating and credit guarantee schemes. There is also an appreciation of the need to support bank funding with innovative and alternative forms of finance, such as equity funds, venture capital finance and internet-based crowdfunding platforms for SMEs.

Global value chains are increasingly seen as an important route for developing SMEs. Some businesses may enter the value chain as a tier-two supplier (a supplier to a supplier to an exporter), before over time becoming a tier-one supplier and ultimately an exporter themselves. Participation in global value chains brings a variety of benefits, including higher standards, increased competitiveness and an increased public profile. SMEs may need to adjust their strategies to participate: for example, growing in size in order to scale up production and attract more skilled labour, or joining industrial clusters to pool resources.

Professional support is also vital for supporting SME development and participation in the AEC. Professional accountants have important roles to play as business advisers, particularly in advising SMEs on cost-effective accounting packages and in raising the quality of management reporting to support business decisions. ACCA as a professional association can also offer support for SME policy development and effective market liberalisation.

THE EU CAN SHARE ITS EXPERIENCE

The European Union has achieved a relatively advanced level of economic integration and also recognises the vital importance of SMEs to member states' economies. EU experience, particularly the initiatives developed to support its own SMEs, may therefore be helpful to ASEAN policymakers.

The EU has also identified access to finance as a particular challenge for SMEs and encourages financial intermediaries such as banks and venture capital funds to offer financial products targeted at European SMEs. Some specific funding initiatives are targeted on research and innovation projects.

Accessing information on foreign markets is also a particular challenge for SMEs. The EU has therefore invested in developing comprehensive online resources. SMEs can find detailed information on foreign markets, including tariffs and export procedures, and follow links to experts who can advise them on how to make their businesses international. A key development has been the creation of the Enterprise Europe Network, the world's largest support network for SMEs, which helps ambitious SMEs find advice and develop new business partnerships.

Similarly, there are a number of initiatives to help SMEs identify and create business opportunities in the ASEAN region.

THE ROLE OF PROFESSIONAL ACCOUNTANTS

Accountants are the most trusted advisers to SMEs and, as such, have been playing and continue to play a crucial role in assisting SMEs in their efforts to internationalise. The ASEAN integration will provide completely new opportunities to the region's SME sector and professional accountants will need to ensure that awareness levels of these opportunities are adequately matched with the skills and resources necessary to take advantage of them and to allow their SME clients to make the most of the potential. From greater formalisation of the SME sector, to ensuring SME awareness of ASEAN developments and the impact on their organisations and clients, professional accountants have an important and wide-ranging role to play, and the profession should support SMEs in diversifying their skills and services in this direction.

The Association of Southeast Asian Nations (ASEAN) is entering an exciting period in its history as member states move towards closer economic integration.

The Association of Southeast Asian Nations (ASEAN) is entering an exciting period in its history as member states move towards closer economic integration. Together, the 10 states – Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – are seeking to enhance the opportunities for all their businesses by freeing up cross-border trade, investment and labour mobility.

The establishment of the ASEAN Economic Community (AEC) in 2015 has created particular challenges and opportunities for small and medium-sized enterprises (SMEs), which form the backbone of all ASEAN economies. The more successfully SMEs can grow and trade internationally, the better will be the future gross domestic

product (GDP), employment and growth figures achieved by ASEAN member states and the region as a whole.

This discussion paper therefore focuses on the importance of SME development in ASEAN and the challenges and opportunities the AEC creates for such businesses. It shares the views of policymakers, economists, industry representatives and professional accountants, including participants in a joint meeting of ACCA's Global Forum for ASEAN and its Global Forum for SMEs in June 2016 (ACCA 2016a). It aims to encourage further discussion on the key actions needed to help SMEs take advantage of increased economic integration in ASEAN and support the region's economies in maximising their potential.



As highlighted in many academic studies, SMEs play important roles in supporting economic growth in both developed and developing countries (eg Iqbal and Rahman 2015).

As highlighted in many academic studies, SMEs play important roles in supporting economic growth in both developed and developing countries (eg Iqbal and Rahman 2015). This is largely because they generate most employment opportunities, but also because of the contributions they make to innovation, gross domestic product (GDP) and export activity. Studies focusing on the ASEAN economies have concluded that SME development is integral to achieving long-run sustainable economic growth (eg Iqbal and Rahman 2015).

SMEs make up more than 96% of all enterprises in the ASEAN region. Within individual member states, they account for the vast majority of all businesses, ranging from 88.8% (in Myanmar) to 99.9% (in both Indonesia and Lao PDR). They also create the majority of employment opportunities, from 51.7% in Vietnam, to 97.2% in Indonesia (ERIA 2014).

In terms of their contribution to GDP, ASEAN SMEs' impact is somewhat more muted. SMEs' share of GDP ranges from 23% (in Brunei Darussalam) to 58% (in Indonesia) (ERIA 2014).

Encouraging SME development is therefore important for supporting strong GDP growth across the ASEAN region: 'Because the region's business players are preponderantly SMEs (including micro enterprises), the pursuit of SME development is in fact not just for equitable development in the region...it is also for the strengthening of the competitiveness and robustness of the region's economies which depend, to a large extent, on the competitiveness and robustness of the region's SMEs' (ERIA 2014).

ASEAN SMEs have so far played a relatively minor role in international trade. Across the ASEAN countries, the share of total exports attributable to SMEs ranges

from just 10% (Philippines) to 29.9% (Thailand) (ERIA 2014). A small, snapshot, online survey conducted by ACCA in May 2016 among SMEs and small and medium practitioners (SMPs) found somewhat higher levels of export activity: 56% of SME respondents said their organisation was currently exporting to other ASEAN markets. Of those that were not, 23% said they were looking to start doing so in the next three to five years. It should be noted, however, that the majority of survey respondents were based in Malaysia and Singapore, two of the more developed ASEAN economies, so these findings are perhaps not representative of the region as a whole. In addition, 52% of SMP respondents said that fewer than 25% of their SME clients were exporting to ASEAN markets, while another 12% reported that none were doing so.

ASEAN SME INITIATIVES

ASEAN member states have long recognised the importance of SMEs to their economic health. They first began cooperating to encourage SME development in 1995, through a policy group that in 2000 gained permanent status in the form of the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME). More recently, the SME Working Group (SMEWG) has been elevated to committee status, which means that it can now report directly to ASEAN Economic Ministers.

With a membership drawn from all ASEAN member states' SME agencies, the SMEWG (now Committee) has been responsible for SME development and promotion in ASEAN. It serves as a consultation and coordination forum, formulating policies and programmes and spearheading the implementation of initiatives to support SME development and cooperation in the region.

96%

of all enterprises in the ASEAN region are SMEs

WHAT IS AN SME?

One of the challenges in assessing the impact of SMEs is that ASEAN countries do not use consistent measures for their definition. For example, some use numbers of employees, as in Brunei Darussalam, where entities employing up to 100 members of staff are deemed to be SMEs. Some use financial metrics. For example, in Indonesia business assets and annual turnover are both considered – and both criteria must be met. In Malaysia, however, companies can be defined as SMEs on the basis of either sales turnover or numbers of full-time employees. It is also notable that among the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand), Malaysia is the only country to use the term 'full-time employees' (Iqbal and Rahman 2015).

ASEAN member states have long recognised the importance of SMEs to their economic health.

Recent work by the SMEWG (now Committee) focused on the goals of the Strategic Action Plan for SME Development (SAP SMED) 2010–2015. This has resulted in a number of achievements.

ASEAN SME Policy Index

The development of the SME sector in the ASEAN region depends on both ASEAN agreements and initiatives, and national policies and programmes. The *ASEAN SME Policy Index 2014*, adapted from an OECD template, therefore aims to track policy development and identify gaps in policy elaboration and implementation at national and regional levels (ERIA 2014).

Its objectives include structured evaluations for assessing countries' performance in key reform areas and targeted support for improvement by prioritising regional and country-level policy priorities and support needs. It also aims to encourage regional collaboration and public/private partnership and support effective planning and resource allocation.

The ASEAN SME Policy Index 2014 specifically monitors progress in eight policy 'dimensions':

- institutional framework
- access to support services
- cheaper and faster start-up and better legislation and regulation for SMEs
- access to finance
- technology and technology transfer
- international market expansion
- promotion of entrepreneurial education
- more effective representation of SMEs' interests.

Variations between the different ASEAN economies, as identified by the ASEAN SME Policy Index 2014 (ERIA 2014), are considered later in this report.

ASEAN SME Service Centre

The ASEAN SME Service Centre is a Web portal with regional linkages, providing information crucial for SMEs to help them penetrate regional and international markets. It includes information on free trade agreements and SME service providers, as well as online forums where SMEs can ask questions and seek advice (ASEAN SME Service Center 2015).

ASEAN SME Academy

The ASEAN SME Academy is a self-paced e-learning platform specifically developed for SMEs. Topics covered in online training courses include selling online, obtaining funding, and customer relationship management (ASEAN SME Academy n.d.).

One Village One Product Guidelines

The ASEAN One Village One Product (OVOP) Guidelines aim to transform local and rural products so that they can become competitive products suitable for export markets.

Common Curriculum for Entrepreneurship in ASEAN

The entrepreneurship curriculum is designed to provide students with real business experience, thus aiding the development of micro businesses and SMEs as well as triggering new business development. The common curriculum sets out the subject areas to be covered by students seeking a Bachelor's Degree in Entrepreneurship, with the potential to major in either Corporate Venture or SME Development. All students study core subjects such as principles of accounting, human resource management and business financing (Asia SEED 2012).

‘The private sector is not that diverse. Private business was not allowed until 1991. There used to be a prejudice against the private sector here. It’s getting less, but it’s still there.’

AN INTERVIEW WITH LE DUY BINH, ECONOMIST AND POLICY ADVISER, AND MANAGING DIRECTOR, ECONOMICA, VIETNAM

Le Duy Binh believes that the AEC will benefit Vietnam’s economy by creating a larger market for businesses to access, encouraging cross-border flows of capital and enabling flows of labour between ASEAN members. SMEs should be able to benefit, because accessing other ASEAN markets should be easier than accessing markets in Japan, the US or Europe. This is owing to the proximity of the markets and lower standard barriers for market entry.

Nonetheless, Binh suggests that Vietnamese SMEs are at a disadvantage to other ASEAN SMEs. ‘We have the disadvantage of being small and we have long been a command economy and [an] agricultural [one]’, he says. ‘The private sector is not that diverse. Private business was not allowed until 1991. There used to be a prejudice against the private sector here. It’s getting less, but it’s still there.’

Binh considers some ASEAN initiatives for supporting SMEs as more useful than others. For example, the ASEAN SME Policy Index for benchmarking SME-focused policies across ASEAN is helpful. ‘Policymakers in Vietnam use it quite a lot for the policymaking process’, he says. The One Village One Product initiative is also successful in helping producers of traditional specialist goods, such as ceramics or bronze, to meet necessary standards for export. Binh says:

‘Support is provided to local entrepreneurs so they can increase standards. They also receive support in branding and making the products more visible to the market.’

On the other hand, the online ASEAN SME Academy is less successful, in his view. ‘Few people are aware of the platform and how they can access it’, Binh says. ‘Most of it is in English, but it needs to be in the local language if it’s to be of use to most SMEs in Vietnam’.

Looking ahead, coordinated action by ASEAN states to simplify their business regulations for SMEs, making them more consistent and understandable, would be helpful. ‘Simplifying procedures in tax administration, investment procedures, accounting standards, customs procedures, the forms used for customs and the forms used for collecting tax – simplifying these and making them more consistent would be a helpful first step’, Binh says. ‘This would ease the burden on SMEs. We can learn from Europe. Each country may have a different system, but they try to do something similar so there is not a huge difference’.

Access to finance in Vietnam is improving, with new services and financing products being offered by the commercial banks. Even so, most SMEs still rely on their own capital or on borrowing from friends and partners.

One of the key ASEAN initiatives adopted by ASEAN member states (AMS) was the streamlining of customs clearance procedures.

AN INTERVIEW WITH TED TAN, DEPUTY CHIEF EXECUTIVE OFFICER AT SPRING SINGAPORE

Ted believes that it is crucial for SMES that the ASEAN Economic Community creates a good policy environment and fruitful activities to build capacity for their development and the facilitation of trade in the region

One of the key ASEAN initiatives adopted by ASEAN member states (AMS) was the streamlining of customs clearance procedures into the ASEAN Single Window, which is an automated system used to monitor the movement of goods across intra-regional borders. This simplifies the administrative process for SMEs, allowing them to secure the flow of goods and services across intra-ASEAN borders and save on financial costs and time incurred otherwise.

Another salient initiative launched was the harmonisation of standards across ASEAN and establishment of Mutual Recognition Arrangements (MRAs) for various products traded within the region. The adoption of similar international standards among the AMS removes the need to comply with varying national standards in different markets and eases the movement of goods within ASEAN. MRAs, on the other hand, facilitate mutual acceptance of test reports and certificates issued by competent Conformity Assessment Bodies (CABs) based in any ASEAN member state. This minimises duplicative testing and reduces time-to-market for SMEs when moving products within ASEAN. As of November 2015, ASEAN has harmonised some 300 standards and will continue to do more.

More recently, in May 2016, the *ASEAN SME Guidebook Towards the AEC 2015* (ASEAN Secretariat (2015b)) was launched to highlight key information on the benefits and implications of the measures, standards, regulations and agreements implemented by various sectoral bodies under the purview of the AEC. The guidebook gives a good head start for SMEs intending to expand into the region, to know what to look out for and other useful resource references.

Moving forward, in Singapore, in future more efforts will be channelled towards helping SMEs to tap into opportunities by using a more targeted approach, such as by industry-specific SME initiatives. For example, International Enterprise (IE) Singapore and the Singapore Manufacturing Federation (SMF) recently initiated a programme titled 'Working in Partnership', which facilitates pooling of resources by local food manufacturers and marketing their products under a collective Singapore brand, helping these SMEs reduce distribution costs overseas and easing their entry into regional ASEAN markets. Besides industry-specific efforts, emphasis on assimilating SMEs into the international supply chain is also an important area, because logistics is a core function in cross-border trade.

The increased openness of the ASEAN market adds more pressure on SMEs with higher production costs to innovate and improve productivity to remain competitive in the region.

THE CHALLENGES AHEAD FOR SMES

Despite the initiatives already undertaken across ASEAN, SMEs in the region still face a number of challenges, including difficulty in accessing finance and technology and the competitive nature of markets. Other reported problems include entrepreneurship, difficulties of compliance with standards, and lack of marketing and management skills (ERIA 2014).

‘The strengthening of ASEAN SMEs requires improvement in human resources, provision of access to finance, technology and innovation, and markets as well as internationalisation through policy support measures, supplementary activities and appropriate communication. In particular, providing access to finance for start-up SMEs is important for strengthening the SME development in ASEAN’ (ERIA 2014).

Tan cautions that although ASEAN could be perceived as a regional block of countries with relatively similar characteristics, given its strong Asian centricity, its social and geo-political diversity should not be underestimated:

‘ASEAN comprises 10 economies, each with its own set of laws and regulations to comply with, varying stages of economic development and differences in business cultures and social norms. The ASEAN economic integration could prove to be challenging for SMEs, which may lack the capabilities or resources to navigate through the changing landscape effectively.’

‘In my view, besides understanding and appreciating the diversity of ASEAN, recruiting the right talent also remains a salient challenge for SMEs. As there would be greater labour mobility across intra-regional borders within ASEAN, competition for the best talent available is expected to intensify. SMEs would need to be able to attract potential employees who are not just familiar with both the business and the target markets that they seek to venture into, but willing to work in different economic environments and take up business development challenges. Attractive compensation packages would

also need to be carefully considered to bring in the right talents.

‘Last but not least, another challenge that SMEs will have to face is the inevitable competition from rival companies in neighbouring ASEAN countries, with cost advantages in developing products. The increased openness of the ASEAN market adds more pressure on SMEs with higher production costs to innovate and improve productivity to remain competitive in the region.

‘All in all, while SMEs may experience several challenges along the way, regional expansion into the ASEAN market offers valuable opportunities to grow their businesses. Success for SMEs venturing along this route does not come without market understanding, a proper execution plan and a differentiated offering to a wider target audience.’

‘When venturing overseas in ASEAN, it is crucial for SMEs to establish close business relationships with established regional partners in order to bridge cultural differences. Industry partners such as trade associations and chambers (TACs) can play an important role in catalysing this process of fostering strong business networks within ASEAN.

‘Besides getting connected to the right partners with the right skills that meet SMEs’ business needs, I must emphasise that our SMEs must always first prepare themselves before taking the next leap. By preparation, I mean understanding the external landscape well, having a clear go-to-market strategy, and knowing the strengths of your business and the areas requiring stronger capabilities.

‘Building internal capabilities and operational capacities are important for SMEs so that they can better withstand challenges when venturing overseas and stay sustainable. Economic development agencies such as SPRING Singapore and IE Singapore have put in place various initiatives to support local SMEs in their growth journey and achieve success in the long run.’

The establishment of the ASEAN Economic Community (AEC) in 2015 marked a major milestone in the region's economic integration agenda.

The establishment of the ASEAN Economic Community (AEC) in 2015 marked a major milestone in the region's economic integration agenda. The AEC represents a market of US\$2.6 trillion with over 622m people. Data from 2014 show that the AEC was the third-largest economy in Asia and the seventh largest in the world (Association of South East Asian Nations n.d.)

The first AEC Blueprint, signed in 2007 and covering the period up to 2015, charted the journey toward the formal establishment of the AEC. It also led to other significant achievements, including the following.

- A more liberalised market: intra-ASEAN import tariffs have been almost eliminated and formal restrictions in the services sector are being gradually removed.
- Reduced trade costs: cross-border trading processes have been simplified, including those for customs procedures and rules of origin, harmonisation of technical regulations and mutual recognition arrangements.
- Improved investment regimes: the ASEAN region has become a more attractive investment destination for both international and domestic investors.
- Enhanced mobility of skilled people: cross-border movement of skilled people and professionals has been facilitated.
- Free trade and comprehensive economic partnership agreements: ASEAN businesses now have more opportunities to expand their reach in external markets, and strengthen their role in regional and global value chains.
- A business-friendly and innovation-supportive environment, achieved through the adoption of common

frameworks and standards, and cooperation in areas such as agriculture and financial services, and in competition policy, intellectual property (IP) rights, consumer protection and SME development.

- Physical improvements in transportation and other infrastructure networks supporting cross-border transportation and contributing to lower business costs.
- Narrowing the development gap: along with the process of regional integration, initiatives that help narrow the development gap among and within ASEAN member states have also been put in place.

(ASEAN Economic Community 2015a).

Looking ahead, the *AEC Blueprint 2025* (ASEAN Economic Community 2015b) sets out the AEC's future strategic direction, aiming to achieve an economic community with the following characteristics:

- a highly integrated and cohesive economy
- a competitive, innovative and dynamic ASEAN
- enhanced connectivity and sectoral cooperation
- a resilient, inclusive, people-oriented and people-centred ASEAN, and
- a global ASEAN.

The Blueprint aims to ensure that the 10 ASEAN member states are not only economically integrated among themselves, but also sustainably and gainfully integrated in the global economy.

‘SMEs are the backbone not only for the individual countries but also for the ASEAN region itself. Their contribution is not only towards GDP. It is also quite significant in terms of share of total export and total employment.’

AN INTERVIEW WITH ISHAM ISHAK, DEPUTY SECRETARY GENERAL (TRADE), MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY, MALAYSIA

The Malaysian government considers SME development to be highly important.

‘SMEs are the backbone not only for the individual countries but also for the ASEAN region itself’, Ishak says. ‘Their contribution is not only towards GDP. It is also quite significant in terms of share of total export and total employment’. In Malaysia’s case, SMEs’ share of total employment is about 65.5% while their share of GDP has reached around 36.3% and share of total exports 17.6%. ‘That’s why Malaysia became a pioneer in...setting up a blueprint for SME development and was the pioneer for establishing the ASEAN Strategic Action Plan for SME Development’, Ishak says.

He believes that SMEs in ASEAN face common issues: accessing finance, marketing their products, accessing information on doing business in other ASEAN countries and accessing markets. Ishak says:

‘The biggest difficulty here is non-tariff barriers, because in ASEAN, tariff barriers are now zero per cent for most products. The markets are liberalised in terms of tariffs. But there are non-tariff barriers such as standards and certification.’

Initiatives are under way to tackle these issues. For example, Ishak refers to e-commerce as one route for tackling the marketing challenge. ‘Physically opening a shop overseas is expensive, so online business is the way to go’, he says. ‘E-commerce is the cheapest way for SMEs to market their products. We know in ASEAN a lot of the Generation Y, the younger consumers, are tech savvy. So the ASEAN SME Service Centre – a single website for SMEs to access information on doing business in ASEAN – also has a marketplace where ASEAN SMEs can do business online and source products’.

As Ishak explains, the private sector is also getting involved in similar ways. ACASIA Communications Sdn Bhd, a collaboration between seven leading telecommunications providers in the region, has launched ASEAN Market Place. ‘ASEAN SMEs can register online to do business and showcase their product’, Ishak notes.

36.3%

SMEs share of Malaysia’s GDP



‘We want to encourage ASEAN companies to take students [from other member countries] so they can have an exchange of culture and information. We have to deepen integration, so we have to start with the youth.’

42%

of respondents thought the AEC was having a positive impact on SMEs’ internationalisation strategies

Increasing understanding

Increasing understanding between business people in the region is seen as important for the success of the AEC. ‘Deepening integration is not only about liberalising goods and services and liberalising the movement of natural persons, but also deepening understanding of other ASEAN cultures’, Ishak explains. ‘It’s important for us to understand each other. So Malaysia has introduced a new initiative called My ASEAN Internship programme. We want to encourage ASEAN companies to take students [from other member countries] so they can have an exchange of culture and information. We have to deepen integration, so we have to start with the youth’. Students from Malaysia and other ASEAN countries are being placed in Malaysian companies across ASEAN. The Malaysian government is encouraging other ASEAN countries to set up similar programmes. In another initiative focused on youth, at the end of July 2016 Malaysia hosted the ASEAN Young Entrepreneurs Carnival. Around 300 successful ASEAN entrepreneurs came to Malaysia to share their experiences with other young entrepreneurs interested in doing business in ASEAN.

Optimism for the future

Ishak is optimistic about the potential for SMEs to benefit from ASEAN economic integration. ‘I am optimistic because, number one, we have the close relationship between private and public sectors in moving towards the development of SMEs – that’s important’, he says. ‘Secondly we have the SME Strategic Action Plan, which goes all the way to 2025, so there’s some guidance on where SME development should be going. Number three, we are currently negotiating RCEP [Regional Comprehensive Economic Partnership] – the free trade agreement among ASEAN countries and our dialogue partners. That’s another initiative that will be important for the development of SMEs’.

HOW MIGHT THE AEC AFFECT SMEs?

Research conducted in the run up to the formal creation of the AEC found some uncertainty about how businesses in general, and SMEs in particular, might be affected. For example, a 2014 survey among ASEAN employers found that most enterprises appeared ‘uneducated’ about the potential gains and drawbacks of

ASEAN integration (ILO 2014). ACCA’s online survey among a sample of ASEAN SMEs and SMPs in May 2016 generated similar results: 69% of SMEs surveyed and 71% of SMPs thought that SMEs’ awareness of ASEAN economic integration was limited. Only 30% of all respondents thought that SMEs fully understood how the AEC would affect their competitiveness, while just 38% thought SMEs were aware of the ASEAN free trade agreements. Given that the majority of survey respondents were based in Malaysia and Singapore, two of the more economically advanced ASEAN members states, it is likely that levels of understanding are lower across the region as a whole.

Despite low levels of understanding, businesses generally have expressed optimism about the impact of the AEC. In the run up to the AEC’s creation, ASEAN employers widely thought that businesses would benefit from the ensuing increase in workforce mobility, lesser trade barriers and liberalised investment flows (ILO 2014). Reduced trade barriers were expected to have greatest potential impact on ASEAN companies in general, because it was assumed this would reduce the cost of imported goods. Large multinational companies were expected to benefit most, however, and were observed to be ‘already starting to plan their regional supply chains’. SMEs were not expected to benefit on the same scale. Similarly, there was some sense that, while large, established companies might benefit from increased labour mobility in the ASEAN region, SMEs would not necessarily gain the same degree of benefit.

Similarly, in ACCA’s May 2016 online survey of SMEs and SMPs (ACCA 2016b), 61% of all respondents agreed that SMEs thought large businesses would benefit more from regional integration than SMEs. Just under half (47%) of all respondents thought SMEs would be more competitive in the context of the AEC. Only 42% thought the AEC was having a positive impact on SMEs’ internationalisation strategies.

ACCA’s survey also asked how respondents thought SMEs perceived ASEAN economic integration – whether as a threat or an opportunity, or neither. The majority (63%) claimed that SMEs saw it as an opportunity, while 31% opined that SMEs saw it as a threat to their business.

‘The government is giving a major boost to innovation development among SMEs so they become more competitive in ASEAN.’

AN INTERVIEW WITH SAREEYA DO AMARAL, DIRECTOR OF THE FEDERATION OF THAI INDUSTRIES ASEAN CENTRE THAILAND (FACT)

Sareeya do Amaral believes that SMEs in Thailand can benefit from greater economic integration in the ASEAN region in a number of ways. For example, it can take advantage of investment opportunities in nearby countries such as Indonesia and the CLMV nations (Cambodia, Lao PDR, Myanmar and Vietnam). Abundant resources and low labour costs should also reduce manufacturing costs, so helping SMEs increase their competitiveness. ‘In addition, the free flow of skilled labour under the ASEAN Agreement on the Movement of Natural Persons (MNP) provides a legal framework to ease temporary cross-border movements of people engaged in the trade in goods, services and investment’, do Amaral says.

Do Amaral also sees further scope for Thai SMEs to increase their international trade. ‘The export in the CLMV countries is growing continuously, around 20% per year during the past 10 years’, she says. ‘This has shown a significant opportunity for Thai SMEs to expand investment into these countries. Even though the level of direct exports by SMEs in CLMV countries is still considerably lower than Thailand’s, the CLMV countries have increased production that indirectly connects with exports, especially among medium-size[d] companies in Vietnam and Laos. This shows the ability of SMEs to build production networks, especially in the form of subcontracting for multinational corporations. This specialisation seems likely to increase, resulting in more clustering of SMEs in industries with sizeable exports’.

Alongside the opportunities, SMEs in Thailand face many challenges that could prevent them from making the most of the AEC. Do Amaral refers to issues such as a lack of national agenda for SME development and slow progress in fostering the capability and marketability of SMEs. ‘There has also been a lack of collaborative effort with the financial sector to facilitate improved SME financing, such as the establishment of a credit rating system for SMEs and a credit information reference and referral system’, she says. She is also concerned that SMEs currently have low levels of managerial, accounting and IT skills, as well as financial literacy.

FACT, which was founded in November 2014, is trying to support SMEs through access to information. ‘FACT has come with the belief that all information and access to the information would build up new prospects and business opportunities for the country, as well as serve as a linkage for better connectivity among agencies concerned in their work to reach out to the ASEAN regional market’, do Amaral explains. ‘As the significant information has been collected separately by respective agencies in a haphazard manner, FACT has been established to facilitate an effective information system. FACT’s roles are to act as an information hub to provide ASEAN countries’ economic, trade and investment information for FTI’s¹ members and to create a collaborative mechanism among government agencies involved with ASEAN through activities and projects with the objective to support, promote and strengthen the Thai industrial sector’s potential for trade and investment in ASEAN.’

The government also has a role to play. Do Amaral believes helpful initiatives would focus on improving business efficiency (for example, by increasing productivity), building labour capacity, strengthening the market (for example, by promoting top Thai brands and products) and through supporting innovation technology and research development. ‘The government is giving a major boost to innovation development among SMEs so they become more competitive in ASEAN’, she says. ‘For example, the government launched the “innovation coupon” scheme and has allocated a fund of 500 million baht in the form of innovation coupons for SMEs interested in developing their projects and stimulating their competitiveness. Apart from the innovation coupons, participating SMEs will also be provided with knowledge and counselling services from experts in various fields’.

1 FTI is the Federation of Thai Industries.

We expect that as more SMEs explore overseas market, many would also adopt a collaborative approach to find reliable foreign partners to help them navigate unfamiliar territories.

Ted Tan observes that, with greater economic integration and freer flow of goods, services and skilled labour in the region, the AEC presents SMEs with numerous opportunities for investment and access to new markets. For example, Singapore invested up to a total of S\$118 billion in 2014 alone and exported approximately S\$141 billion-worth of goods and services in the ASEAN region in 2015.² This shows how important the ASEAN market has been and will be for SMEs, owing to its high growth potential.

'ASEAN remains a key market of interest for SMEs throughout the region. According to a recent survey,³ 8 out of the top 10 countries that Singapore SMEs intend to venture into originate from ASEAN, with Myanmar and Indonesia achieving the top two positions (25% and

23% respectively). This reflects a strong motivation among local SMEs to venture overseas in the AEC region. By tapping on the opportunities presented from greater economic integration in the region, SMEs will be able to access a larger market and enlarge their businesses.

It is common knowledge that venturing overseas to seek new growth opportunities is a natural step for those pursuing growth beyond a limited domestic market. We expect that as more SMEs explore overseas markets, many would also adopt a collaborative approach to find reliable foreign partners to help them navigate unfamiliar territories. This was also highlighted in the same survey,⁴ indicating that SMEs are seeking to diversify their risks and deepen overseas linkages as they search for new business prospects abroad.'



2 Figures are based on statistics provided by Singapore Department of Statistics and IE Singapore.

3 Figures are based on the results from the SME Development Survey (SMEDS) 2015 conducted by DP Information Group (Singapore).

4 Results from the SMEDS 2015 show that 25% of SME respondents in 2015 favoured collaborating with new overseas partners as the dominant overseas strategy.

The AEC's ambitions for SMEs are addressed in the AEC *Blueprint 2025's* fourth goal – creating 'a resilient, inclusive, people-oriented and people-centred ASEAN' (ASEAN Economic Community 2015b).

The AEC's ambitions for SMEs are addressed in the *AEC Blueprint 2025's* fourth goal – creating 'a resilient, inclusive, people-oriented and people-centred ASEAN' (ASEAN Economic Community 2015b). The Blueprint outlines the ambition of strengthening the role of micro, small and medium-sized enterprises (MSMEs). The AEC intends to do this through a more structured and targeted MSME programme to 'enhance MSME competitiveness, resilience and to enable greater benefits from ASEAN integration' (ASEAN Economic Community 2015b).

A NEW STRATEGIC ACTION PLAN

According to the AEC's new *Strategic Action Plan for SME Development* covering the 10-year period up to 2025 ('SAPSMED 2016–2025') (ASEAN Secretariat 2015a), the establishment of the AEC is expected to benefit MSMEs. ASEAN's integration and openness to the global economy through its free trade agreements should attract investment from multinational corporations and large indigenous enterprises, providing opportunities for MSMEs 'including those wrought through value-chain integration'. Nonetheless, the Strategic Action Plan also emphasises that this competitive environment requires local MSMEs to enhance their productivity if they are to participate in regional or global value chains.

SAPSMED 2016–2025 has a clear mission to 'create globally competitive, resilient and innovative MSMEs' that are seamlessly integrated into the ASEAN community and participating in inclusive development in the region.

In order to help achieve this mission, SAPSMED 2016–2025 outlines five strategic goals:

- promoting productivity, technology and innovation
- increasing access to finance
- enhancing market access and internationalisation
- enhancing policy and regulatory environment
- promoting entrepreneurship and human capital development.

Key actions are identified to support the achievement of the strategic goals. For example, actions identified to help increase access to finance include:

- improving understanding and strengthening traditional financing infrastructure
- improving policy environment and measures to foster alternative and non-traditional financing through increasing availability of diversified sources of private financing
- strengthening export financing facilities
- enhancing outreach to promote financial inclusion, to increase access to both traditional and alternative financing.

(ASEAN Secretariat 2015a).



‘Financing started becoming less of an issue about 10 years ago. Gone are the days the banks are only interested in lending to big shops or multinationals. Banks have moved towards partnering SMEs as well.’

KURT WEE, PRESIDENT OF THE ASSOCIATION OF SMALL AND MEDIUM ENTERPRISES (ASME) IN SINGAPORE

‘The AEC is still a work in progress. It will take time because the ASEAN grouping always tries to find common ground where everyone can agree and then come up with a group-level initiative. They don’t push in an aggressively confrontational manner. Where they can agree, they will liberalise and achieve alignment.’

‘The framework is there but it’s not easy to have an operative alignment in different regime markets, whether in customs or taxation or even local shareholding preferences. The political will is a start, but it needs to filter down to the operative level. For example, the decision is to open up certain goods markets and make sure they are free of tariffs, but sometimes there are non-tariff barriers. For example, in some countries customs procedures can be not very transparent or [are] troublesome – you have to have the right connections to get you through. These barriers need to collapse so they don’t impede the free flow of goods.’

‘Singapore companies have always been quite open to competition, not just locally but within the region as well. But when we go overseas we are structurally disadvantaged because of local protectionist measures.’

‘Singaporean SMEs have been through various phases to drive towards better productivity [including] better training in the workforce, and we have a regime that is established in terms of intellectual property [IP] protection. SMEs are conscious of IP, brands and how you capture this in building a business. Singaporean companies have also moved from support industries towards value adding and are now moving towards value creation. They are evolving. They have good brands that are expanding outside Singapore. They are well positioned for competition and will become better competitors and contenders within the AEC market. The Singapore market is quite small and Singaporean SMEs can benefit from the greater market which the AEC opens up.’

‘Financing started becoming less of an issue about 10 years ago. Gone are the days the banks are only interested in lending to big shops or multinationals. Banks have moved towards partnering SMEs as well. Where we could develop further is in equity financing. How do you finance small business amalgamation or if an SME wants to acquire a foreign competitor? It requires a more sophisticated level of funding than pure trade funding. If you can access equity funding from financial institutions, that might foster a new level of sophistication in how Singaporean companies can grow.’

‘In terms of functional roles such as the accounts and finance department, often SMEs are moving towards cloud and shared solutions. Accountancy professionals would be well placed by positioning themselves to be able to work with shared solutions when they serve SMEs. There will only be more and more transactions online, more and more digital solutions. Digital solutions allow professionals to focus on the skill in the work they do, and a single person can serve more companies. The accountancy profession could use the digital spectrum to expand its capacity. As markets open up, professional accountants would be able to quite easily extend themselves cross border with technology. Technology will give them the bandwidth to do so.’

The biggest gap between the ASEAN-6 and the CLMV countries can be seen in their policies for promoting technology and technology transfer.

ADDRESSING NATIONAL NEEDS

The SAP SMED 2016–2025 appreciates that some member states are more advanced than others in their level of industrialisation and global competitiveness. It notes that those more advanced member states need to continue improving, while developing member states continue their transition from traditional to more industrial economies.

The *ASEAN SME Policy Index 2014* (ERIA 2014) shows uneven levels of performance in the implementation of SME development policy at national level. The ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) are generally further advanced than the four less-developed ASEAN countries – the CLMV countries. Brunei Darussalam is the exception among the ASEAN-6, generating an index score lower than that of Vietnam.

The biggest gaps between the ASEAN-6 and the CLMV countries occur in relation to:

- technology and technology transfer
- access to finance
- promotion of entrepreneurial education
- cheaper, faster start up and better regulations
- access to support services.

The biggest gap between the ASEAN-6 and the CLMV countries can be seen in their policies for promoting technology and technology transfer. This has been due to factors such as a lack of a strategic approach to innovation policy for SMEs, poor provision of information on innovation support services, lack of technology support in universities, and little linkage between SMEs and R&D labs and incubators. Other factors included poor protection and promotion of intellectual property rights, lack of broadband infrastructure, underdeveloped science or industrial parks, lack of competitive clusters and insufficient financial incentives in technology development and R&D activities.

There is also a substantial policy gap between the ASEAN-6 and CLMV countries in their approach to providing access to

finance. This was found to be due to the poor functioning of the cadastre system, stringent collateral requirements and inadequate protection of creditor rights. In addition, credit risk guarantee schemes and central bureaus for credit information were not well established and functioning successfully. Legal frameworks and policies to promote alternative finance and diversified financial markets (including microfinance, leasing, factoring, venture capital, equity funds, business angels and stock markets) were also lacking.

Average ASEAN performance in promoting entrepreneurial education was found to be relatively low. This was for a number of reasons, including lack of articulation of an entrepreneurial promotion policy, failure to introduce key entrepreneurial competencies into the education system, and lack of active collaboration with the private sector to develop curricula, training and coaching.

CLMV countries substantially lag behind the ASEAN-6 in terms of ease of business start-up and SME friendly regulations. In general, business registration and overall business processes for SMEs were found to be simpler, faster and cheaper in more advanced member states. Most of the ASEAN-6 can provide online registration, one-stop-shop services and varieties of financial support for start-ups.

Factors hampering SME access to support services particularly in CLMV countries included lack of action plans, poor services provided by business development service centres, underuse of e-commerce and e-government services and unreliable online portals for SMEs.

Alongside these key areas, the ASEAN SME Policy Index 2014 found that export promotion programmes and the provision of advice and high quality information were better structured in the ASEAN-6 than in CLMV countries. They were therefore better positioned to provide support to SMEs for international market expansion. The ASEAN-6 have also developed more export capacity-building programmes and have more financial facilities in place (such as trade credit, grants and insurance schemes) to encourage SME export activity.

‘SMEs in many ASEAN countries have to deal with cumbersome business requirements, including [those] for setting up a company. Streamlining business regulations and processes would achieve time and cost savings.’

INTERVIEW WITH GANESHAN WIGNARAJA, ADVISER, ECONOMIC RESEARCH AND REGIONAL COOPERATION DEPARTMENT, ASIAN DEVELOPMENT BANK

Wignaraja explained: ‘The ASEAN Economic Community is important for giving access to a bigger market and preferential access to that market. It’s a stimulus, but it’s not enough. We have to address issues at country level.’

‘We have to deal with the basic problems affecting ASEAN. First, productivity of labour. In 2015, labour productivity in ASEAN was equivalent to only 31% of US labour productivity. But there is variation – in Singapore it was 112%; in Cambodia it was 5%. Training within firms would help boost labour productivity to levels needed to become suppliers in global value chains. Governments could consider providing tax breaks for technical education and to attract training-minded multinationals.’

‘Second, business regulations. We need to streamline regulations in ASEAN. SMEs in many ASEAN countries have to deal with cumbersome business requirements, including [those] for setting up a company. Streamlining business regulations and processes would achieve time and cost savings. SMEs could also benefit from simplified customs procedures, tax administration and local government regulations.’

‘A third problem area is infrastructure. We need to increase spending on physical and IT infrastructure, from roads, railways and ports, to internet and digital infrastructure to support the development of e-commerce.’

‘The Philippines has emerged as a global centre for business process outsourcing, with SMEs playing a strong role. This is partly due to a ready supply of English-speaking graduates and tax and fiscal incentives, but above all good quality IT infrastructure.’

‘Fourth, we need to boost financial access. SMEs typically have little start-up capital and are underserved by the banking system. Encouraging the entry of reputable foreign financial providers, stock and bond market development and better regulation of commercial banks is vital for increasing the supply of SME finance. The introduction of better credit rating systems, expansion of partial credit guarantees, alternative collateral schemes and financial education would be useful complementary measures.’



Inadequate access to finance is a common barrier to SME growth. One significant constraint affecting ASEAN SMEs is their limited access to finance from commercial banks.

BUILDING LOCAL PRESENCE FIRST

When asked to identify the main reasons for SMEs' failure to export to other ASEAN economies, 37% of SMEs participating in ACCA's May 2016 online survey (ACCA 2016b) cited the need to focus on their local market. This was the second most popular reason given by SMEs (after a lack of knowledge of cross-border opportunities).

The need to focus on local markets was also highlighted in the June 2016 ACCA Combined Forum for ASEAN and SMEs (ACCA 2016a). One participant referred to Vietnam, where many SMEs are family businesses and need to build up their local brand presence before looking to export. These businesses need to increase spending on marketing and to improve product packaging, strengthening their local customer base before trying to attract foreign buyers.

The *ASEAN SME Policy Index 2014* (ERIA 2014) recommends that the region should focus on a number of actions to improve SMEs' access to finance. These include:

- providing technical assistance by setting legal frameworks, system building and sharing good practices with less-developed member states
- establishing and strengthening credit risk management systems (credit guarantee, rating and information) and more flexible collateral provision
- promoting innovative and alternative finance, such as domestic and regional networks of equity funds, venture capital finance, angel capitalists and internet-based crowdfunding platforms for SMEs.

Improving SME capacity for preparing business and financial plans would also be helpful (Wignaraja 2015). Many ASEAN SMEs use a single-entry accounting system, whereas banks expect to see something more complex. Investing in financial literacy programmes (in high schools and universities, and short courses for SME managers) could be helpful.

ENABLING ACCESS TO FINANCE

Inadequate access to finance is a common barrier to SME growth. One significant constraint affecting ASEAN SMEs is their limited access to finance from commercial banks. The total credit gap – the difference between formal credit provided to SMEs and estimated SME financing needs – is as much as \$52.8bn (Wignaraja 2015). Banks lend little to SMEs partly because they do not know how to evaluate SMEs' working capital requirements and investment projects. They therefore use stringent collateral requirements that extend beyond a company's fixed assets to include the personal assets of SME entrepreneurs.

In ACCA's May 2016 online survey among ASEAN SMEs and SMPs (ACCA 2016b), 37% of respondents thought government action to enable better funding for cross-border activities would be one of the best ways of improving the competitiveness of SMEs in other ASEAN economies (respondents were asked to pick one or two options). This was the second most popular policy action, behind the standardisation of rules and regulations (chosen by 40% overall). Among the small to medium-sized accountancy practitioners (SMPs) surveyed, 37% thought that lack of access to capital was one of the main reasons SMEs were failing to export to other ASEAN economies (although only 15% of SMEs themselves saw this as a main reason).

GLOBAL VALUE CHAINS

According to ACCA's May 2016 online survey among ASEAN SMEs and SMPs, 61% of respondents thought that access by SMEs to global value chains would be improved through ASEAN integration (ACCA 2016b). The survey also asked what one or two governmental actions would be most beneficial for increasing the competitiveness of SMEs in other ASEAN economies. Among SME respondents, 38% thought that improved access to global value chains would be particularly beneficial, making it their second most popular policy behind standardised rules and regulations (selected by 45% of SMEs).

ASEAN has already benefited from global value chains. ASEAN's entry into supply chains – led by Singapore, Thailand and Malaysia – partly accounts for its growth since the 1980s. More developed ASEAN economies, such as Malaysia and Thailand, have larger shares of their SMEs in supply chains than Indonesia, the Philippines and Vietnam (Wignaraja 2015).

61%

of respondents thought that access by SMEs to global value chains would be improved through ASEAN integration

‘SMEs can also club together in industrial clusters in order to become part of a value chain. For example, SMEs in clusters can pool together to hire a technical specialist to upgrade skills.’

Building financial capabilities in SMEs would help them take advantage of global value chains. Rosanna Choi, chair of the ACCA Global Forum for SMEs and a partner in CWCC, Certified Public Accountants Hong Kong, has highlighted that financial capability helps SMEs succeed generally (BIAC et al. 2016): ‘SMEs with well-developed financial capabilities are much more likely than others to be growing rapidly and sustainably. While the impetus for finance function development often comes from investors or supply chain partners, most of the value stays with the business itself. In other words, a well-resourced finance function is a source of competitive advantage’.

Choi believes that a strong finance function is particularly important in the global value chain (GVC) context, where SMEs face more complexity when developing complete and accurate costings. They have to take account of long lead times, multiple trading partners and service suppliers, international duties, tariffs, taxation and increased risks. They need financial controls and appropriate management processes not only to meet these challenges, but also to satisfy the risk management demands of larger buying organisations. A strong finance function can also help SMEs to maintain a healthy cash flow, which can support their credit worthiness and make them more investment-ready (BIAC et al. 2016).

Ganeshan Wignaraja agrees that it is important to involve more SMEs in global supply chains – or global value chains. ‘SMEs generally account for some 21% of direct exports from ASEAN countries. So the large firms drive the trade, but SMEs have a role as subcontractors to the large firms. They might initially become a supplier to a supplier to an exporter – a tier-two supplier. Then they may graduate to become a supplier to an exporter – a tier-one supplier. And finally over time they may graduate to become an exporter.’

‘SMEs themselves need to adjust their strategy to achieve this. They have to become bigger, because larger firms can achieve larger-scale production, have better access to technology from abroad, and can pay higher wages for skilled labour and spend more on marketing. So mergers, acquisitions and forming business alliances with multinationals or large local businesses are rational approaches.’

‘SMEs can also club together in industrial clusters in order to become part of a value chain. For example, SMEs in clusters can pool together to hire a technical specialist to upgrade skills. Business associations can help by encouraging cooperation among SMEs and coordinating action for cluster formation. For example, major industrial clusters are located in Vietnam near Hanoi and Ho Chi Minh City, with large firms surrounded by thousands of SME suppliers and subcontractors.’

Isham Ishak also agrees with the importance of involving SMEs in GVCs. ‘[The] GVC is being actively promoted’, he says. ‘We need to identify which companies have potential to become future OEMs [original equipment manufacturers] or future suppliers to the multinational companies. We have to identify them, provide capacity building and assist them to ensure they are able to acquire international certification, so that they can provide the right quality produce and sustain increasing orders from multinationals. We are working closely with the OECD in trying to promote the importance of [the] GVC in ASEAN’.

Measures to improve SME access to support services were proposed by the ASEAN SME Policy Index 2014, including the provision of integrated business development and advisory services to SMEs (ERIA 2014). The report also called for the establishment of an ASEAN SME Portal and Trade Repository to act as an online database, sharing information on trade-related regulations, events and company profiles and supporting business networking. A certain amount of online information is now available through the ASEAN SME Service Centre (noted earlier).

Research by ACCA suggests that such measures would be beneficial. In ACCA’s May 2016 online survey among ASEAN SMEs and SMPs, lack of knowledge of cross-border opportunities was seen by both respondent groups as the main reason for SMEs’ failure to export to other ASEAN economies (ACCA 2016b). ACCA’s survey also found strong support for better information sharing as a government action to improve SME competitiveness among ASEAN economies. When asked to identify which one or two actions would be most beneficial, over a third (35%) of all respondents opted for better information sharing, while 41% of SMP respondents did so – making it their top policy preference.

21%

of direct exports from ASEAN countries are accounted for by SMEs

‘Our government fully supports SME development, recognising that it is important for SMEs to compete with other organisations.’

FOCUS ON MYANMAR: AN INTERVIEW WITH U MOE KYAW, MANAGING PARTNER, WIN THIN & ASSOCIATES, CERTIFIED PUBLIC ACCOUNTANTS IN MYANMAR

U Moe Kyaw primarily works with larger businesses and multinationals as his clients, but is highly aware of the focus on SME development in Myanmar.

The year 2015 marked the introduction of the SME Development Law in Myanmar. ‘Our government fully supports SME development, recognising that it is important for SMEs to compete with other organisations’, Kyaw says. An SME Development Department has been established under the Ministry of Industry. The department handles SME registration, liaises with international organisations and provides finance and training to SMEs. Kyaw says:

‘The department is providing capacity building and training, because SMEs are generally small and owner-managed and have no international knowledge.’

Myanmar has also established a Central Committee for Development of SMEs, chaired by the country’s president, whose responsibilities include formulating laws, regulations and procedures to support SME development and encouraging the development of SMEs in a variety of other ways. An SMEs Development Working Committee, chaired by the vice president, has complementary duties and responsibilities, including drafting relevant laws, regulations and procedures, collecting and analysing data for encouraging SMEs, and removing obstacles to SME development.



The Vietnamese government is taking action to help SMEs by reducing their administrative burden.

FOCUS ON VIETNAM: AN INTERVIEW WITH CHI CAM NGUYEN, AUDIT PARTNER, RUSSELL BEDFORD KTC, VIETNAM

Chi Cam Nguyen sees opportunities and challenges for SMEs, including her accountancy firm, as a result of closer integration through the ASEAN Economic Community.

‘We have to take advantage of this’, she says. ‘We have low labour rates in Vietnam, and maybe the cost of goods we produce is lower and so competitive with other countries. But in Vietnam, students and labour use Vietnamese as their first language – the quality of English is not good. If labour from other ASEAN countries comes to Vietnam, maybe they will do a better job than our Vietnamese employees and that could impact SMEs. We may also have to pay more because if foreigners come to work here, we may have to pay their housing allowance’. Increased free trade across ASEAN borders could also increase the competition faced by Vietnamese SMEs.

The Vietnamese government is taking action to help SMEs by reducing their administrative burden, having introduced new regulations on tax and law to help SMEs operate more effectively. ‘For tax and national insurance we now have online processing, so the time we spend on it has decreased a lot’, Nguyen says. She sees scope for further efficiency improvements: for example, by introducing online company registration.

Nguyen would also like government action to improve the standard of university education in Vietnam, so that graduates can compete better with graduate employees from other ASEAN countries.

Professional accountants can help Vietnamese SMEs to succeed in the more integrated ASEAN marketplace, particularly following the removal of tariffs. ‘This means we have to control cost better to reduce processes so we can retain a company’s competitiveness’, Nguyen says. Professional accountants can help by focusing more on management accounting so that company directors have the information they need to be able to control costs effectively. She believes, however, that there is a shortage of high-quality professional accountants in Vietnam. Accountancy firms in ASEAN countries with more highly trained professionals could provide a strong competitive challenge.

Accountancy firms are already being affected by the AEC. Nguyen says:

‘We provide consulting and auditing. We have had to train staff to provide services not only in Vietnam, but also in other ASEAN countries where many companies have expanded and opened branches. So we have to study to understand the law, the tax law, in those ASEAN countries.’

Adopting the same accounting standards across the ASEAN region would also be helpful, she argues. At present, Vietnam uses its own accounting standards rather than International Financial Reporting Standards.

The European Union has progressed further down the track of economic integration than has been achieved so far in ASEAN.

The European Union (EU) has progressed further down the track of economic integration than has been achieved so far in ASEAN. The EU has also focused for some time on the development of SMEs, recognising their importance to European economies. The experience of the EU could therefore be useful to ASEAN countries as they seek to implement the goals of the AEC and develop their own SME sector.

Similarities in the challenges faced by ASEAN and European SMEs were identified during the June 2016 ACCA Combined Forum for ASEAN and SMEs (ACCA 2016a). For example, SMEs in both regions need to increase productivity, maximise the benefits of technology, become more innovative and have better access to finance. Increasing productivity depends on increasing skills, particularly digital skills. Similarly, it was noted that policymakers in both regions appreciate that excessive red tape can place a disproportionate administrative burden on SMEs, and that SMEs need considerable help if they are to internationalise their businesses and access foreign markets. There is also a strong focus among policymakers in both regions on encouraging and promoting entrepreneurship.

There are, however, perceived differences between the EU and ASEAN. The ACCA Global Forum for SMEs noted that 'the level of integration between the 10 ASEAN countries is much weaker than in the EU'.

There are also substantial differences between ASEAN economies, particularly between the more developed and less developed members. This is evidenced by the fact that the EU abandoned its initial plan of negotiating a single EU-ASEAN free trade agreement. The EU is now negotiating on a country-by-country basis.

European experience suggests that access to an EU-style single market with a set of unified rules is itself beneficial to SMEs. For example, the Late Payment Directive is a legal text, applicable across the EU, which requires public authorities to pay for the goods and services they procure within 30 days. Late payment can cause particular problems for SMEs by disrupting their cash flows. The Late Payment Directive provides a guarantee that, when they do business with public entities across the EU, SMEs will be paid relatively quickly.

Another benefit of EU integration is that each member state applies SME-friendly principles. In 2008, the EU adopted a Small Business Act (SBA). Although this is not a legal text, it contains a set of 10 principles that national governments in member states should apply in order to develop SME-friendly policies. These principles relate to issues such as facilitating access to finance, developing public administration that is responsive to SME needs, reducing regulatory burdens and, when designing new regulations, immediately thinking about the impact on small businesses.



Support for EU SMEs arises from a number of different levels – from the EU, at state level, at regional level and at local level. Attention is given to supporting SME access to finance, as well as SME innovation, growth and international market expansion.

Above all, the SBA requires governments to apply the ‘think small first’ principle. The EU conducts an annual SME Performance Review for each member state, assessing how it has implemented the 10 principles of the SBA. In turn, this helps in establishing an SBA profile, acting as a good benchmark for public administrations to see where they can improve their overall SME environment.

LAYERED EU INITIATIVES

Support for EU SMEs arises from a number of different levels – from the EU, at state level, at regional level and at local level. Attention is given to supporting SME access to finance, as well as SME innovation, growth and international market expansion. Current initiatives include the following.

European Investment Fund (EIF) for SMEs

The EIF does not provide funding or guarantees to individuals or companies directly. Instead, it cooperates with a wide range of financial intermediaries (such as banks, guarantee institutions, private equity and venture capital funds) that offer financial products targeting SMEs and small mid-cap companies across Europe. Its activities cover both equity and debt products (EIF 2016a).

SME Initiative

The SME Initiative is a joint financial instrument of the European Commission and the EIB Group (the European Investment Bank and European Investment Fund (EIF)) which aims to stimulate SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions. Via the SME Initiative, the EIF offers selected financial intermediaries (such as banks, leasing companies, guarantee institutions and debt funds) loss protection and potential capital relief at an advantageous cost. In return for this risk-sharing, the financial intermediaries undertake to provide SME loans, leasing and/or guarantees at favourable terms (for example, reduced interest rates and collateral requirements for the final recipients) (EIF 2016b).

Horizon 2020

Horizon 2020 is the biggest EU Research and Innovation programme to date, making nearly €80bn of funding available from 2014 to 2020. It actively supports SMEs by providing both direct financial

support and indirect support to increase their innovation capacity. It therefore aims both to support research and innovation by SMEs and to create a favourable environment for SME innovation and growth (Horizon 2020 n.d.a).

SME Instrument

The SME Instrument provides funding and support for innovative projects that will help SMEs grow and expand their activities into other countries, within the EU and beyond. A total of around €3bn in funding is available from 2014 to 2020, to help high-potential SMEs to develop groundbreaking innovative ideas for products, services or processes that are ready to face global market competition (Horizon 2020 n.d.b).

Invest Horizon

Invest Horizon, an EC-funded initiative, aims to close the gap between entrepreneurs and investors. It offers online courses to help entrepreneurs improve their business and finance knowledge in preparation for seeking investment. It also provides investment-readiness coaching academies to prepare entrepreneurs to maximise their potential for raising funding. Selected businesses can also pitch to potential investors through investment forum events (Invest Horizon n.d.).

PayPlug

PayPlug, a company founded in 2012, provides a simple and secure means for micro businesses to collect online payments, enabling them to more efficiently and cost-effectively access Europe’s e-commerce market. The company benefited from funding from the EU’s Horizon 2020 programme (PayPlug n.d.).

European Small Business Portal

The portal gathers together all the information provided by the EU on and for SMEs, ranging from practical advice to policy issues. It also provides useful links, such as a link to the SME Internationalisation Portal, designed to help SMEs find experts with the know-how and experience to expand their businesses into international markets (European Small Business Portal n.d.).

The Market Access Database

The Market Access Database (MADB) gives companies exporting from the EU information about import conditions in

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of the European economy is represented by SMEs

third-country markets. For example, it covers tariffs, procedures and formalities, trade barriers and rules of origin. It also has a specific section on services for SMEs (Market Access Database n.d.).

Enterprise Europe Network

The Enterprise Europe Network is the world's largest support network for SMEs with international ambitions. It has 3,000 experts across 600 member organisations in more than 60 countries. Member organisations include chambers of commerce and industry, regional development agencies, technology centres and research institutes. The Network helps ambitious SMEs innovate and grow internationally. It helps SMEs to find advice on market opportunities and innovation, and manages a database of business opportunities to help SMEs forge business partnerships (Enterprise Europe Network n.d.).

EUROPEAN INITIATIVES TO BUILD LINKS BETWEEN THE EU AND ASEAN BUSINESSES

EU Business Avenues in South East Asia

This EU-funded initiative aims to help European companies (of all sizes) to establish long-lasting business collaborations in South East Asian markets through matchmaking and business

support services, using Singapore as a hub. It organises sector-specific missions to South East Asian countries. Following the completion of a successful pilot programme to Singapore, Malaysia and Vietnam in 2014 and 2015, the expanded programme now covers three additional markets: Indonesia, Philippines and Thailand (EU Business Avenues in SE Asia n.d.).

Business networks

The EU supports a number of networks designed to help European SMEs find business opportunities in ASEAN. These include, for example, the EU-Indonesia Business Network (EIBN), EU-Philippines Business Network, EU-Vietnam Business Network (EVBN) and other bodies such as the European Chamber of Commerce in Singapore (EuroCham Singapore), EuroCham Cambodia, EuroCham Myanmar, the EU-Malaysia Chamber of Commerce and industry and the European Chamber of Commerce and Industry in Lao PDR. Information on all these networks and bodies is available to SMEs via the EU Asia Business Link, another EU-funded project, serving as a platform to help European businesses develop commercial relations in Asia. It is supported by a consortium including EUROCHAMBRES, the Association of European Chambers of Commerce and Industry (EU Asia Business Link n.d.).

INTERVIEW WITH DIRK VANTYGHM, DIRECTOR OF OPERATIONS, EUROCHAMBRES, THE ASSOCIATION OF EUROPEAN CHAMBERS OF COMMERCE AND INDUSTRY

'SMEs are the backbone of the European economy. They represent 99% of the economy of Europe. They have been the major job creators and it's proven that a lot of recent innovation has come more often from SMEs than large corporates.'

'Analysis has shown that SMEs that engage in internationalisation will typically become more competitive. There is a correlation between internationalisation, innovation and competitiveness. So it is now a mantra that we should get more SMEs going abroad. The statistics show that 25% of SMEs undertake international trade within the EU single market and around 13% go beyond the EU. These numbers should ideally go up. And given that most economic growth is not in Europe, we need to push SMEs to go where the growth is – into the ASEAN region, for example.'

'There are many different types of EU resources designed to help European SMEs grow and develop international businesses. These include resources to help them find funding, such as Invest Horizon, and to access market and sector information, such as the Market Access Database and the Enterprise Europe Network [see details in previous sections]. This is a huge network that provides a lot of information and support to SMEs, for example, on internationalisation and innovation strategies. It is gradually expanding beyond Europe and, for example, looking into Asia. It is seeking linkages with Asia-based counterparts and organisations to join the network and work together to develop joint activities.'

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Small and medium-sized accountancy practitioners (SMPs), whose client base tends to be highly representative of the SME sector, offer assistance in a variety of capacities, including advising SMEs on the varied regulatory frameworks that exist in ASEAN countries, and assisting with setting up business entities, accounting and control systems. They often also advise on cross-border mergers and acquisitions (M&A).

In ACCA's May 2016 online survey of ASEAN SMEs and SMPs, 37% of SMPs thought more targeted business advice for SMEs would be one of the best ways to improve SME competitiveness (ACCA 2016b). SMPs would be well placed to provide such advice. SMPs, particularly those with international networks and access to overseas expertise, could also

help SMEs deal with differing rules and regulations in other ASEAN countries. Difficulty in navigating these differing regulations was given by both SMEs and SMPs as one of the top three factors inhibiting SME export activity. Discussion during the June 2016 ACCA Combined Forum for ASEAN and SMEs found that there is scope for ACCA to develop its network and brand in ASEAN, positioning itself as a 'go to' expert on regional integration and supporting SME development in that context.

These issues are discussed by the ASEAN Federation of Accountants (AFA), including how professional accountants can support SME development. The AFA is also supporting the mobility of professional accountants, by agreeing to launch a new professional designation, the ASEAN Chartered Professional Accountant (ASEAN CPA). Professional accountants who gain this designation will be able to practise in other ASEAN countries, which should support the mobility of the members of the accountancy profession across ASEAN.



‘We have around 900,000 formally registered enterprises, but millions of informal household businesses.’

Ted Tan believes that in the light of the great ASEAN integration, the accountancy profession will play a critical role in assisting SMEs to venture overseas. Accountancy firms can help SMEs in the process of expanding overseas to navigate through the relevant taxation laws and financial regulations of new ASEAN markets. Accountants can also take on strong business advisory roles to assist SMEs in the fundamentals of understanding their financial needs and planning when venturing into overseas markets, as well as corporate governance, controls, compliance, foreign currency risks and other risk-management issues, as these are essential in most of the strategic decision-making processes. The demand for strong accounting practices and advice would remain, as SMEs strengthen their internal capabilities and processes when embarking on regionalisation efforts.

According to Indranee Rajah, senior minister of state for law and finance, the ASEAN Economic Community (AEC) will generate demand for thousands of skilled finance professionals and accountants who are prepared to work across borders. The rapid growth of mobile, data analytics and cloud technologies will bring about greater interconnectivity among accountants and enable them to work across ASEAN.

As SMEs continue to expand into various ASEAN member states, accountants should harness information technology systems to manage operations from multiple locations, and to upgrade communication skills and project management abilities. They could also consider participating in accountancy collaboration networks so as to learn from each other's strengths and provide higher value-added services.

Le Duy Binh agrees on the importance of the role of the accountancy profession. A major challenge in Vietnam is that the vast majority of microenterprises (household businesses) are unregistered. They therefore do not comply with any accounting standards. Binh says:

‘They can keep their books in their own way but they can't get access to finance because of it. They don't have accounting systems so the banks can't see how they performed in the last few years. It's also difficult to persuade investors to invest equity into their company because they don't have the necessary accounting systems.’

The Vietnamese government is therefore promoting the formalisation of the SME sector, trying to increase business registration rates. ‘We have around 900,000 formally registered enterprises, but millions of informal household businesses’, Binh says. ‘The government is trying to get them to register to make them part of the formal economy, so they would apply accounting standards and this would make it easier for them to get access to finance and to export. They need accounting standards and systems to export and to receive tax refunds. But accounting standards in Vietnam are complicated for SMEs. It costs them too much to get an accounting system. The government also wants everything to be done online, which can be frightening for SMEs. So accounting standards and procedures need to be simplified to make it more attractive for SMEs to comply’.

U Moe Kyaw of Myanmar describes a similar situation. One substantial barrier to the development of SMEs in Myanmar is the poor quality of their financial accounts. ‘Most SMEs are owner-managed businesses and most don't have proper accounts’, Kyaw says. ‘In most cases they are keeping two sets of accounts: their financial statements are prepared on the basis of the available documents and information furnished by the SMEs owners. When they file their financial statements with the authority, they may not be the true accounts as many of them are not keeping proper accounting records and internal control systems. So corporate governance is an issue. Because SMEs

Innovative, accounting matters need to be shared across the accountancy fraternity in ASEAN.

don't have proper financial statements, they have difficulty obtaining loans. So we accountants have to educate them. If they don't have proper accounting systems, how can they compete with large companies?'

'Poor-quality accounts also deter foreign investors. When foreign investors enter Myanmar they like to invest in SMEs. 'What's most important for them is that they [the SMEs] are honest – their integrity', Kyaw says. 'Otherwise they may not be able to invest. They [investors] will do financial due diligence, tax and legal due diligence and then form a joint venture – a new entity so that they know the accounts will be clean'.

Isham Ishak believes professional accounting associations such as ACCA could support ASEAN economic integration in a number of ways. For example, ACCA could provide input to the private sector representatives on the SME Advisory Board, which provides the strategic policy inputs on SME development to ASEAN ministers and guidance on high-priority matters to the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME) (formerly the ASEAN SME Agencies Working Group). ACCA could, for example, advise on how to promote further liberalisation of the accountancy services sector in ASEAN. 'Accounting is already liberalised in ASEAN, but we need to create more awareness', Ishak says. 'Not all the accountancy associations in the respective ASEAN countries are very open to this – they want to protect their positions, but they should see the potential in other ASEAN countries as well'.

Ishak also encourages ACCA to become actively involved in the Public Private Dialogue (PPD) for the development of SMEs in ASEAN, which involves over 100 representatives from government, policymakers, the central bank and private companies. 'The accountancy services sector were pioneers in liberalisation of the accountancy sector in the ASEAN, so should provide a leading role in trying to tell other services sectors that it's OK to liberalise', Ishak says.

'[Liberalisation] opens up markets. It helps with the mobility of accountants among ASEAN countries and provides the much-needed accountancy advice that is not available in some countries, particularly the less-developed ASEAN countries.'

Support for harmonising the various accounting standards currently adopted across ASEAN would also be welcome. 'We need to standardise so it's easier to do international business', Ishak says.

Ishak also sees a role for accountants in enabling SMEs to become more productive, for example, by helping them identify and implement innovative, scalable accounting packages. 'For SMEs to be successful in a regional bloc like ASEAN, they need to be innovative and productive', Ishak says and, therefore, 'innovative accounting matters need to be shared across the accountancy fraternity in ASEAN'.

The creation of the AEC has marked the next step in ASEAN integration and economic development.

The creation of the AEC has marked the next step in ASEAN integration and economic development. SMEs need to take advantage of the increased opportunities to trade across borders and build international businesses. The future success of ASEAN members and the region as a whole will be largely determined by the success of the SME sector.

Nonetheless, SMEs with international ambitions face many challenges. There is an urgent need to increase SME productivity to enhance competitiveness. SMEs also struggle to find information – at a reasonable cost – on foreign market opportunities. They generally still have difficulty accessing finance to support increased trade and business investment. Red tape can place a disproportionate burden on smaller companies compared with larger competitors. These challenges are similar to those faced by European SMEs seeking to take advantage of the EU single market and there are potential insights to be gained from EU policy responses.

The varying stages of economic development among ASEAN member states are a complicating factor in developing policies to support deeper economic integration and SME development. Less-developed economies have a particular need to strengthen their infrastructure, improve education and skill levels, and convert their informal business markets into formal, regulated private sectors.

As became clear during the June 2016 ACCA Combined Forum for ASEAN and SMEs, and in subsequent interviews, there is no single solution to the challenge of SME development in ASEAN (ACCA 2016a). Policymakers need to address multiple areas, including increasing SMEs' awareness of the AEC and the opportunities it presents, and boosting labour productivity, as well as simplifying and harmonising business, accounting and tax regulations.

ASEAN member states are taking a multi-pronged approach to supporting SME development, implementing a range of initiatives to encourage entrepreneurship, improve management skills and increase SMEs' access to vital information for building international businesses. Increasing attention is being given to the benefits from involving SMEs in global value chains, providing a route to growth and direct export activity, over time.

Professional accountants and ACCA itself need to play their part in supporting SME development across ASEAN. Professional accountants can support SMEs in a variety of ways, including improving their management accounting and business information, introducing them to cost-effective accounting solutions, and helping them understand overseas accounting and tax requirements. ACCA can play its part from a policy development perspective, sharing insights on regional integration and the effective liberalisation of markets.

SME development in ASEAN – Top 5 findings:

1

SME awareness of the opportunities provided by the ASEAN Economic Community needs to improve

**2**

Policy makers in the ASEAN will benefit from the insights generated by the EU policy responses to similar challenges

**3**

The varying stages of economic development among ASEAN member states present particular challenges for an integrated SME policy for the ASEAN

**4**

Growing SMEs' participation in Global Value Chains is increasingly recognised as a route to direct export activity

**5**

Professional accountants can support SMEs, improving their knowledge and understanding of how to work successfully overseas



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