



## **The SME Policy Framework in ASEAN and APEC: Benchmark comparisons and analysis**

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### **Abstract**

This paper examines SME (Small and Medium Enterprise) policy in ASEAN and in APEC. SMEs play a significant role in the economy. SMEs make up the overwhelming bulk of enterprises, employ around 60% of the private sector workforce, and contribute about 50% of value added. Almost all economies now face two key policy priorities; how to create jobs, and how to continually create an internationally competitive industrial structure. SMEs are widely regarded as being good at creating jobs, and as an important element in creating international competitive advantage. It has also been long recognised that SMEs require an appropriate policy and business environment if they are to make an effective contribution to these areas. As ASEAN and APEC move to greater economic integration, the issue of SME policy becomes more important. Being able to benchmark and compare policy approaches is helpful in designing a better entrepreneurial environment. This paper reports the results of a comprehensive survey of the SME policy stances adopted in 18 APEC and ASEAN economies over the period 1994 to 2001. The main conclusions of the paper are that:

- Almost all APEC and ASEAN economies surveyed in 2001 now have an explicit policy of seeking to create a business environment which encourages the development of globally competitive SMEs. Recognition of the importance of competitiveness and globalisation is now widespread. There has been a steady increase in the number of SME policies adopted in all economies from 1994-6 to 2001. However, in the 18 economies surveyed, no two have exactly the same combination of policies; there is considerable variation in the way that different economies pursue their SME policies.
- ASEAN economies are generally more likely to adopt a directly interventionist approach as a basis for their underlying SME policy, especially in relation to SME finance policy, but tend to lag non-ASEAN economies when it comes to providing information access to SMEs, in assisting them with access to foreign markets, and in addressing the administrative burden imposed by governments on SMEs.
- Across all of APEC, there is some relation between policy comprehensiveness (the extent to which a wide range of "benchmark" policy items are adopted) and SME entrepreneurial activity, as measured by the growth in the population of SMEs, and the growth of SME employment.



## 1. INTRODUCTION

This paper examines SME (Small and Medium Enterprise) policy in ASEAN and in APEC. SMEs play a significant role in the economy of both groupings. SMEs make up the overwhelming bulk of enterprises, employ around 60% of the private sector workforce, and contribute about 50% of value added. Almost all economies now face two key policy priorities; how to create jobs, and how to continually create an internationally competitive industrial structure. SMEs are widely regarded as being good at creating jobs, and as an important element in creating international competitive advantage. It has also been long recognised that SMEs require an appropriate policy and business environment if they are to make an effective contribution. As ASEAN and APEC move to greater economic integration, the issue of SME policy becomes more important (Wattanapruittipaisan (2002), Hall APEC (2003), Shin, Myoung-Ho (2002), Kahn and Kahn(2003)). Being able to benchmark and compare policy approaches is helpful in designing a better entrepreneurial environment.

Both APEC and ASEAN have nominally given SMEs a high priority. APEC was established in 1989 but did not initially have a specific focus for SME issues. The APEC ad hoc SME Policy Level Group (PLG) was foreshadowed in the leaders meetings of 1993, and given substance at two experts meetings in Indonesia, and a Ministerial held in Osaka in 1994. ASEAN established its SME Working Group in 1995. APEC and ASEAN overlap to some extent. Table 1 shows the members of the respective groupings.

Table 1 Economies in APEC and ASEAN at 2001, and those included in this study

	Included #	APEC	ASEAN
<i>Australia</i>	*	*	
Brunei	**	*	*
Cambodia			*
<i>Canada</i>	*	*	
<i>Chile</i>	*	*	
China	*	*	
<i>Hong Kong</i>	*	*	
Indonesia		*	*
<i>Japan</i>	*	*	
Korea	*	*	
Laos			*
Malaysia	**	*	*
Mexico	*	*	
Myanmar			*
<i>New Zealand</i>	*	*	
PNG		*	
Peru	*	*	
Philippines	**	*	*
Russia	*	*	
<i>Singapore</i>	**	*	*
<i>Chinese Taipei</i>	*	*	
Thailand	**	*	*
<i>USA</i>	*	*	
Vietnam		*	*
<b>Total</b>	<b>18</b>	<b>21</b>	<b>10</b>

# those economies included in this study

APEC distinguishes between economies aiming at the 2010 targets and those aiming at the 2020 targets for trade and investment liberalisation. Those aiming at 2010 are identified in Table 1 in *italics*, and are mostly the more developed economies. The others are 2020 economies.



Since the inception of its SME activities, APEC has distinguished five areas where governments can make a positive contribution to the development of SMEs, and where there are, *prima facie*, market failures which work to the detriment of SMEs:

1. Information access (and especially the internet, computer use, and E commerce);
2. Finance;
3. Technology and technology transfer;
4. HRD and training ;
5. Market access;

Three additional areas are now also frequently referred to in both APEC and OECD:

6. Role of Women and policies to promote women and ethnic minority business;
7. Administrative burden imposed on SMEs by government regulation;
8. General SME Policy and business environment.

These eight areas form the basis of this study.

## 2. METHODOLOGY

The methodology adopted has some unusual elements, and it appears to be rather unique in policy studies. It is certainly is unique in its application to SME policy. It is made up of four main steps.

First, based on the eight main policy areas identified above as important, a survey was undertaken of the issues raised in official Ministerial declarations, Ministerial and Senior Official statements, discussion papers and submissions to SME meetings in APEC over the last 10 years. Included in this survey were some key publications, such as the APEC Survey of SMEs carried out in 1994 by Chinese Taipei (APEC (1994)), the Survey of Best Practices by Japan in 1995 (APEC (1995)), the SME Profile by Malaysia in 1998 (APEC (1998)). The author is the PECC (Pacific Economic Cooperation Council) representative to the APEC SME meetings. He is the longest serving member of that group, and has attended all the SME Ministerial meetings, and almost all of the Policy and Working Group meetings.

Second, based on this overview survey, a long list of "key questions" was identified, and then pruned back to a shorter list of 35 questions. This was done by a process of consultation with experts and Senior Officials. The actual questions in the final version are set out in the tables 2 to 8 below.

Third, this list was then used to analyse previous surveys and submissions to identify a profile of SME policies in APEC economies in the period 1994 - 1996. Because this is a rather subjective exercise, and because not all SME policies for all economies were covered in the documents, the draft results were then circulated to all APEC economies, with a request for corrections, and an official indication of the policy profile which prevailed in 2000/1 and previously around 1994 to 1996. Preliminary results were circulated at the 2001 APEC Ministerial Meeting in Shanghai, and corrections or comments sought. Further opportunity for corrections and comments was given to members at the SME Working Group Meeting in Vina del Mar in 2002, and at the Ministerial Meeting in Acapulco in 2002. There may still be some disagreement with some of the data for specific policies in specific economies, but this gives as reasonable as possible picture of the official view of policy stances adopted. Only three APEC economies did not participate; Indonesia, Papua New Guinea, and Viet Nam. There were thus 18 of the APEC economies surveyed in a comparable form, and 5 of these are ASEAN economies. These are shown in Table 1.

Fourth, the responses were then synthesised into summary tables, by question (or key issue) and by economy. For each positive response, or "yes", a "1" is recorded, while a "no" or not applicable was left as a blank cell. The comprehensive results are published in Hall APEC (2002). A summary table for all participating economies is shown as Table 9. This approach allows further simple statistical analysis. The results can be analysed in terms of different groupings (for example, ASEAN versus non-ASEAN, or 2010 versus 2020 economies, or 2101 versus ASEAN), or can be analysed by



correlation and regression across the 18 available economies. This is further explained in the next section.

The method adopted here is obviously a simplification of much more complex issues. Attempts to compare SME policy and programs in this way are fraught with difficulty because:

- any interpretation of complex program and policy issues in this way is subjective and open to interpretation and dispute;
- most programs and policies are matters of shades of grey rather than being clear "black and white", or "yes or no";
- governments do not necessarily always do what they say they do.

However, the methodology offers a way to make direct comparisons, to look for patterns in the policy approaches adopted, and to "benchmark" policy approaches. As such it provides a basis for more detailed analysis of policy issues in a more global context.

### 3. RESULTS

Tables 2 to 8 summarise the results of the analysis by major issues. For each major issue, the percentage of economies responding "yes" to a particular policy question is compared terms of five groups:

- non-ASEAN grouping in APEC (13 economies);
- ASEAN grouping in APEC (5 economies);
- the 2010 economies in APEC (8 economies);
- the 2020 economies in APEC (10 economies).

The analysis then measures some "gaps" to provide a comparison. The gaps used here are the differences in the percentage of economies responding yes in 2001 between:

- 2010 and 2020 economies;
- Non-ASEAN and ASEAN;
- 2010 and ASEAN economies.

Where the gap is a negative figure, it indicates that the second group has a higher adoption rate of a particular policy than the first group in the comparison.

#### 3.1 General Policy Approach

The general policy approach to SME policy reflects the underlying philosophy of the government. It reflects the underpinnings of all the other policy initiatives that are adopted. It thus has a big impact on the "entrepreneurial environment"; the business and policy environment that SMEs and entrepreneurs face.

Table 2 General Policy Approach

Group				Gap			Policy Issue
non-ASEAN	ASEAN	2010	2020	2010 non-ASEAN	2020 non-ASEAN	2010 - ASEAN	
50	40	56	27	28	10	16	Are policies designed in such a way as to discriminate between SMEs and large firms?
58	80	67	55	12	-22	-13	Are policies designed to discriminate in favour (or against) SMEs or specific groups (eg affirmative action for minority or women entrepreneurs)
100	100	100	82	18	0	0	Are any programs designed to meet special needs of SMEs (whether they discriminate or not)?
75	100	78	64	14	-25	-22	Are any programs targeted at any particular group of SMEs (eg SMEs as subcontractors to larger firms, "picking winners", export



100	100	100	82	18	0	0	oriented SMEs, etc ?
42	60	22	64	-41	-18	-38	Are <i>all</i> programs designed to provide a business environment which encourages globally competitive SMEs?
92	100	89	82	7	-8	-11	Is there a basic SME Act or "Magna Carta" which sets out obligations of government to SMEs?
							Is there an agency or administration within government with the primary responsibility for SMEs?
<b>74</b>	<b>83</b>	<b>73</b>	<b>65</b>	<b>8</b>	<b>-9</b>	<b>-10</b>	<b>average</b>

What is most noticeable in Table 2 is that almost all economies have adopted a policy approach whereby "all programs are designed to provide a business environment which encourages globally competitive SMEs". There is no difference between ASEAN and APEC on this, although some 2020 economies have yet to adopt this as an underlying principle. However, how each economy does this is different and the differences are important. There are some general patterns which emerge in this analysis. First, most of the ASEAN and 2002 economies have adopted a "Magna Carta" approach to SME policy, which sets out in a basic act the obligations of government to SMEs. This approach is usually taken from Japan, and is contrary to the approach adopted in the USA, Canada, Australia, Mexico, Chile, and New Zealand. Second, ASEAN and 2020 economies are much more likely to adopt policies targeted at particular groups of SMEs (eg SMEs as subcontractors to larger firms, "picking winners", export oriented SMEs, etc). Third, ASEAN economies are also more likely to adopt policy approaches which "discriminate in favour (or against) SMEs or specific groups (eg affirmative action for minority or women entrepreneurs)". Almost all economies have a specific agency or department responsible for SMEs, and the ASEAN and 2020 economies are slightly more likely than others to adopt this approach.

### 3.2 Information Access

Access to information has changed dramatically in the last 10 years with the emergence and evolution of the internet. There are still large disparities (the digital divide) between developed and developing economies on this. The number of internet users per SME in the 2010 economies is 2.5 times that in the 2020 economies in APEC. So for example, while there are about 6.1 internet users per SME in APEC as a whole, there are 9.2 for every SME in 2010 economies and 3.6 in the 2020 economies. That is, there are 2.5 times [the digital divide ratio] as many internet users for every SME in 2010 economies relative to the number in 2020 economies. This is comparable to the "digital divide ratio" for PCs per SME (3.5 times), but is much less marked than the digital divide expressed in terms of the number of servers per SME where the digital divide ratio indicates 2010 economies had 16.7 times the number of servers per SME than the 2020 economies. The 2020 economies had less than 2% of servers, according to World Bank ITU estimates. Hall APEC (2002) p 69.

Most economies have now adopted a policy of a "first stop" or "one stop" shop when it comes to advice and information about government. ASEAN generally has a gap relative to the non ASEAN and the 2010 economies in this area. This gap tends to be larger when resources are required, so for example, the biggest gap is in "support for providing firms (including SMEs) with access to intelligence and information of a non government nature (eg market research, technical information etc)".

Table 3 Information Access

Group				Gap			Policy Issue
NON-ASEAN	ASEAN	2010	2020	2010 non-ASEAN	2010 - ASEAN	2020 - ASEAN	
92	80	89	64	25	12	9	Is there a single point where people can go for advice and referrals on where to get information about government regulations etc?



75	60	67	55	12	15	7	Is there a single portal or entry point for people seeking advice on government regulations and requirements?
100	60	89	73	16	40	29	Is there any government support for providing firms (including SMEs) with access to intelligence and information of a non government nature (eg market research, technical information etc)
<b>89</b>	<b>67</b>	<b>81</b>	<b>64</b>	<b>18</b>	<b>22</b>	<b>15</b>	<b>average</b>

### 3.3 Finance

Access to finance is a major factor affecting the growth and success of SMEs. There are two main policy approaches to the issue of finance for SMEs. One approach is a non-discriminating approach which emphasises the building up of efficient financial markets and regulatory infrastructure. In theory, this sort of approach means that SMEs should be able to get access to finance at rates reflecting their risk margin. In practice this is difficult to achieve, especially in developing economies. The other approach is to provide SMEs with specific financial assistance in various forms. Table 4 shows that most of the gaps are negative. This reflects the approach taken in ASEAN and commonly taken in developing economies, to provide specific financial support for SMEs through subsidised grants or finance, concessional tax rates, credit guarantee, etc. It also reflects a transitional stage of financial market maturation and evolution. As markets in these economies develop, and become more efficient, many of these programs will need to be wound down. This may pose some interesting political challenges.

The one area that ASEAN clearly lags behind on is in Venture Capital and start-up funding support. In an increasingly global world there is no compelling reason why some bright young entrepreneurs in Asia might not be able to start up the next Microsoft (just as Microsoft started in a garage). The reality is that in Asia they would be unlikely to get the venture capital and growth finance needed to succeed. Malaysia and Singapore are partial exceptions to this. The problem is that Malaysia and Singapore are relatively small markets. There really needs to be more development of regional VC markets at an ASEAN or ASEAN + level.

Table 4 Finance

Group				Gap			Policy Issue
NON-ASEAN	ASEAN	2010	2020	2010 non ASEAN	2020 non ASEAN	2010 - 2020	
50	60	56	36	19	-10	-4	Is there government underwriting of credit guarantee for SMEs in domestic operations?
75	80	67	73	-6	-5	-13	Is there government support (including credit guarantee) for SMEs engaged in exports?
92	60	78	64	14	32	18	Is there government support (tax concessions, pooled funds etc) for start up and venture companies?
50	80	44	55	-10	-30	-36	Is there government support (subsidised or regulated interest rates, etc) for SMEs or small business generally?
67	80	67	55	12	-13	-13	is there any government supported program in place to provide micro finance to those (eg to ethnic or minority groups) seeking to start a business?
67	60	44	73	-28	7	-16	Are SMEs given any concessional or favourable tax rates (eg special exemptions on certain taxes, reduced company tax rates etc)?
<b>67</b>	<b>70</b>	<b>59</b>	<b>59</b>	<b>0</b>	<b>-3</b>	<b>-11</b>	<b>average</b>



### **3.4 Technology and technology transfer**

Technology assistance for SMEs is one policy area where almost all APEC and ASEAN economies have now adopted the same main policies. This seems to reflect a general trend and recognition that comparative and competitive advantage is increasingly created, not given, and that governments can play an important role in the process by supporting the development and adoption of better technology. Table 5 shows the same negative gaps as table 4, indicating that in this area, ASEAN SME policy tends to be slightly more interventionist than that of non-ASEAN or 2010 economies.



Table 5 Technology and technology transfer

Group				Gap			Policy Issue
NON-ASEAN	ASEAN	2010	2020	2010	non ASEAN	2010 - 2020	
100	100	100	73	27	0	0	Does government provide any support (tax concessions, access to public research institutions, public incubators etc) for basic research
92	100	89	82	7	-8	-11	Does the government provide support (incubators, underwriting, network or cluster support etc) for the commercialisation of innovations or start up of innovative companies?
92	100	89	82	7	-8	-11	Does the government provide any programs to assist SMEs to adopt information technology and better management systems
92	100	89	82	7	-8	-11	Does the government provide any programs to encourage the adoption of more efficient technology (eg pollution control, manufacturing processes etc)
<b>94</b>	<b>100</b>	<b>92</b>	<b>80</b>	<b>12</b>	<b>-6</b>	<b>-8</b>	<b>average</b>

### 3.5 HRD and training

HRD, especially in management skills and training, is recognised as one of the major success factors for SMEs. Not surprisingly almost all APEC and ASEAN economies have programs to deliver HRD and training services to SMEs. The difference seems to emerge when resources are required for this. ASEAN is comparable or better than 2010 or non ASEAN economies, but when all 2020 economies are compared with 2010 economies it is clear that many developing economies do not have the resources to provide "government support (eg part payment, loans, facilities, trainers, facilitators etc) for training or consulting and advice to SMEs" or for diagnostic services.

Perhaps the most interesting gap is in relation to entrepreneurship as a required subject in pre-university education. ASEAN is way ahead of the rest of APEC on this issue, with Brunei, Malaysia and Philippines all indicating that they had such programs.

Table 6 HRD and training

Group				Gap			Policy Issue
NON-ASEAN	ASEAN	2010	2020	2010	non ASEAN	2010 - 2020	
100	100	100	82	18	0	0	Is there government support (eg part payment, loans, facilities, trainers, facilitators etc) for training or consulting and advice to SMEs?
92	100	100	73	27	-8	0	Is there government support (eg part payment, loans, advisors etc) for providing diagnostic services and advice to SMEs?
8	60	0	36	-36	-52	-60	Is entrepreneurship or business a <i>required</i> subject in pre university schooling?
<b>67</b>	<b>87</b>	<b>67</b>	<b>64</b>	<b>3</b>	<b>-20</b>	<b>-20</b>	<b>average</b>





### 3.6 Market access

Market entry costs tend to be fixed (and often sunk) costs, which add disproportionately to the average costs of SMEs relative to larger firms. Encouraging increased competition through SME entry to markets is of potential social benefit. In the increasingly global world envisaged by both APEC and ASEAN, market entry barriers should be progressively reduced. However there are still some gaps noticeable in Table 7. For example, SMEs in ASEAN have very little legal protection from unfair competition or predatory pricing, relative to 2010 and non-ASEAN economies. Similarly, ASEAN SMEs are relatively disadvantaged when it comes to getting access to "export advisory services that are available to firms at less than full market cost". On the other hand, ASEAN leads APEC in its provision of "databases to allow large firms and subcontractors to exchange information and opportunities". This policy is also important in providing technology transfer in the region, both from SMEs and large firms abroad (UNCTAD (1997)). Similarly, foreign SMEs are more likely to be able to "access government procurement or government sponsored networks (such as credit guarantee or subcontractor networks)" in ASEAN economies than in non-ASEAN economies.

Table 7 Market access

Group				Gap			Policy Issue
NON-ASEAN	ASEAN	2010	2020	2010 non-ASEAN	2010 - ASEAN	2020 - ASEAN	
83	60	89	45	43	23	29	Are there export advisory services that are available to firms at less than full market cost?
75	80	89	55	34	-5	9	Is there govt support (eg part payment, loans, training etc) for networking or cluster start up or cooperatives?
92	80	89	64	25	12	9	Are there business matching services provided by govt or supported by government?
75	20	67	36	30	55	47	Is there any legal process or protection for SMEs suffering from unfair competition, predatory activity etc from large firms?
83	80	89	55	34	3	9	Is there reciprocal recognition of intellectual property rights (patents, licenses, copyright, trademarks etc) already established in another economy?
42	40	44	36	8	2	4	Are government agencies required to procure a proportion from SMEs?
42	100	56	55	1	-58	-44	Is there government support for (financial support, infrastructure etc) for databases to allow large firms and subcontractors to exchange information and opportunities?
25	40	22	27	-5	-15	-18	Are non-domestic SMEs (ie not registered in that economy) able to access government procurement or government sponsored networks (such as credit guarantee or subcontractor networks)?
<b>65</b>	<b>63</b>	<b>68</b>	<b>47</b>	<b>21</b>	<b>2</b>	<b>6</b>	<b>average</b>

### 3.7 Administrative burden, women, and minorities

Issues of gender and of administrative burden are seen as cross cutting issues in APEC, rather than specifically being seen as SME issues. Neither APEC nor ASEAN are particularly good at addressing the administrative burden imposed by government on SMEs. Only 25% of APEC economies have "a regular process for reviewing the amount of time and resources spent by firms (including SMEs) on complying with government regulatory requirements", but ASEAN lags non-ASEAN and 2010 economies by a significant margin.



By contrast, ASEAN is quite advanced in providing a "legislative requirement that financial providers cannot discriminate on the basis of sex or ethnicity or age" but it lags in "programs designed specifically to encourage start up/success of businesses owned by minorities or women"



Table 8 Administrative burden, women, and minorities

Group				Gap			Policy Issue
NON-ASEAN	ASEAN	2010	2020	2010	non ASEAN	2010 - ASEAN	
33	20	44	9	35	13	24	Is there a regular process for reviewing the amount of time and resources spent by firms (including SMEs) on complying with government regulatory requirements ?
25	20	22	27	-5	5	2	Is there a single reference number and a business register which limits the amount of repeat information that a firm has to input when completing government forms?
67	60	67	55	12	7	7	Is there a legislative requirement that financial providers cannot discriminate on the basis of sex or ethnicity or age?
83	40	78	55	23	43	38	Are there any programs designed specifically to encourage start up/success of businesses owned by minorities or women?

### 3.8 Policy Analysis by Economy

Table 9 then sets out the results for each of the 18 responding economies. The table gives:

- 0 if the economy did not have any response or policy in either 1994-6 or in 2001;
- 1 if the economy had a single "yes" response in relation to that policy in **either** 1994-6 or 2001;
- 2 if the economy had a "yes" response to that policy in **both** 1994-6 and 2001.

There are then two scores at the foot of Table 9.

- Pscore 1 is the summation of the number of policies adopted in 2001;
- Pscore 2 is an average of the number of policies adopted in the period from 1994 to 1996.

Pscore is thus a crude measure of "SME policy comprehensiveness". The highest Pscore possible would be 35, corresponding to the total number of policy issues identified in the methodology outlined in section 2. On the premise that the eight policy areas identified are a good representation of the key issues facing SME policy makers, and that the thirty five questions identified are a good representation of good policy, then the higher the score, the closer the economy is to a "benchmark" target. This premise is somewhat questionable, because as outlined in section 3.1, there are different ways of achieving a good "entrepreneurial environment", and besides, the thirty five issues are not all of equal importance to all economies at all times. However this is a useful starting point.

Table 9 shows two main things. First is that there is a considerable amount of variation in the policy stances adopted. For example, no two economies have exactly the same "package" of policy responses. This suggests that policy environments must be, and are, adapted to the particular stage of development, and to the political and social needs of each economy. Thus there is probably no one "ideal" or "best practice" policy environment which is appropriate for all economies at any one time. This also means that an internationalised SME (and there are probably about 4 million or so such SMEs) in APEC faces different policy environments in different economies, something which may add to their administrative burden, and limit their capacity to expand and compete.

Second, table 9 shows that all economies improved their score from Pscore 2 to Pscore 1. That is to say that the number of SME policies adopted rose to a higher level in 2001 than was evident in the period 1994-6. Across all 18 economies surveyed, the average number of policies adopted, out of a maximum possible 35, was 16.6 in 1994-6, and 21.7 in 2001. Some care should be taken in interpreting this, because as noted in section on methodology, there was no comprehensive survey undertaken in 1994-6. However it does suggest a steady trend to adopt a more extensive array of SME programs and policies. It also underlines the increasing recognition of the importance of SME policies in a global context. There is a steady pursuit of "best practice" by reference to other



economies, so if one economy adopts a successful policy, the fora provided by APEC and ASEAN now mean that other economies tend to follow suit quite quickly, so long as they have the resources to do so.



Table 9 Results by Economy

GENERAL	A U S	B D	C D A	C H L	P R C	H K C	J P N	R O K	M A S	ME X	N Z	P E	R P	R U S	S I N	C T	T H A	U S A
Non discriminating policy	1	2	2	1	0	2	1	0	0	1	1	0	0	1	2	0	0	2
SME discriminating policy	1	0	0	1	1	0	2	1	2	2	1	1	2	0	1	2	2	0
SME support programs	2	2	2	2	2	2	2	2	2	2	2	1	2	1	2	2	2	2
Targeted programs	1	1	1	1	2	0	2	2	2	2	1	0	1	0	2	2	2	0
Global competitive SME	2	2	2	2	2	2	2	2	2	2	2	1	2	1	2	2	2	2
SME basic act	0	0	0	0	0	0	2	2	1	1	0	1	2	1	0	2	1	0
SME coordinating agency	1	1	1	2	1	2	2	2	2	2	0	1	2	1	1	2	2	2
INFORMATION ACCESS																		
One stop shop	2	0	2	0	1	1	1	1	1	1	1	0	1	1	2	2	1	2
Single entry point	2	1	2	0	1	1	1	0	0	1	1	0	1	1	1	2	1	0
Subsidised information	1	1	1	1	1	2	2	2	0	2	1	1	1	1	1	2	1	1
FINANCE																		
Credit guarantee for SMEs	0	0	2	1	0	0	2	1	1	1	0	0	2	0	1	2	2	2
Export finance support	2	2	2	1	1	0	1	2	1	1	1	1	2	0	1	2	1	2
Venture capital support	2	1	2	1	1	0	2	2	1	1	1	0	0	1	1	2	1	2
General finance support	0	2	1	1	0	0	2	2	1	2	0	0	2	0	1	2	2	2
Micro finance	1	1	2	0	0	0	1	0	1	1	1	0	1	1	0	1	1	1
Discriminatory tax rates	1	1	2	0	1	0	2	2	1	1	0	1	1	1	0	1	0	0
TECHNOLOGY																		
Subsidies/support for R&D	2	1	2	2	2	1	2	2	1	1	1	0	1	1	2	2	2	2
Commercialisation support	2	1	2	0	1	2	2	2	2	1	1	1	1	1	2	2	2	2
IT and systems support	1	1	1	1	1	1	2	2	2	1	1	1	1	1	2	2	1	0
Other technology support	1	2	1	1	1	2	2	2	2	2	1	1	2	1	1	2	2	0
HR & TRAINING																		
Subsidised training	2	2	2	2	2	2	2	2	2	2	2	1	2	1	2	2	2	2
Diagnostic services	2	1	2	2	0	2	2	2	1	1	2	1	2	1	2	2	2	2
Entrepreneurship school	0	1	0	0	0	0	0	0	1	1	0	0	1	0	0	0	0	0
MARKET ACCESS																		
Export assistance advisory	2	1	2	1	0	2	2	2	2	2	2	0	2	0	1	2	2	2
Support for Networking	1	2	2	1	2	1	2	1	1	1	1	1	1	0	2	2	2	2
Business matching	1	1	2	1	1	2	2	2	1	1	0	0	1	1	2	2	1	2
Unfair competition limits	2	0	1	1	0	0	1	1	0	1	1	0	0	1	0	1	1	0
IP Reciprocal recognition	1	1	1	1	0	1	1	1	0	1	1	0	1	1	1	1	1	0
Government Procurement	1	0	0	0	0	0	1	0	1	0	0	1	1	1	0	1	0	2
Subcontractor network	1	1	1	2	0	0	1	1	2	1	1	1	1	0	2	1	2	0
International access	1	0	0	0	0	0	0	0	1	1	1	0	1	0	0	0	0	0
ADMIN BURDEN																		
Compliance burden	1	0	0	0	0	0	1	0	0	1	0	0	0	0	1	1	0	0
Single registration no	1	0	1	0	0	1	0	0	1	0	0	1	0	1	0	0	0	0
WOMEN & MINORITIES																		
No finance discrimination	1	0	0	1	1	1	0	1	0	1	1	1	1	0	1	0	1	1
Minority support	1	0	1	1	0	0	1	1	1	1	1	1	1	1	0	1	0	1
Pscore 1	29	22	25	23	19	18	28	23	27	32	24	19	30	22	18	29	26	20
Pscore 2	21	15	21	15	12	14	25	22	19	21	14	9	21	11	19	26	21	18

### 3.9 Analysis of the results

Table 10 then sets out a further analysis to test the proposition that a higher Pscore is indicative of a better "entrepreneurial environment". If this is indeed the case we would expect that a higher Policy Score (Pscore 1 or Pscore 2) should lead to four hypothesised relationships:



1. H1: a higher growth of the total population of SMEs. This indicates that the rate of start-ups exceeds the rate of exits, and thus the population of SMEs grows, *ceteris paribus*, if the policy settings are appropriate.
2. H2: a higher growth in the number of people employed in SMEs. This is a bit tenuous, since SMEs can also grow by increasing productivity (and thus reducing employment), but job creation is often an explicit objective of SME policy.
3. H3: a higher growth of GDP. This is bit more tenuous, since *ceteris paribus* did not hold in the period in question, which includes the 1997 Asian Crisis. However, SMEs typically contribute about 50% of value added, so better SME policy should help with GDP growth.
4. H4: a higher GDP per person. A good entrepreneurial environment should lead to healthy SME sector and thus to higher levels of income per person. This is even more tenuous, but we might expect a positive relation in a weak sense.

Table 10 sets out the available values for P score 1 and 2, and for the Growth of SMEs, the growth of SME employment, the growth of real GDP, and the average current GDP per person. Figures 1 and 2 give the scatter diagrams for two of the eight possible relationships, each with a simple linear trend line fitted. These help to illustrate the wide variance present in the data.

Figure 1 Scatter relationship between P score 1 and growth of SME population 1990 - 2000

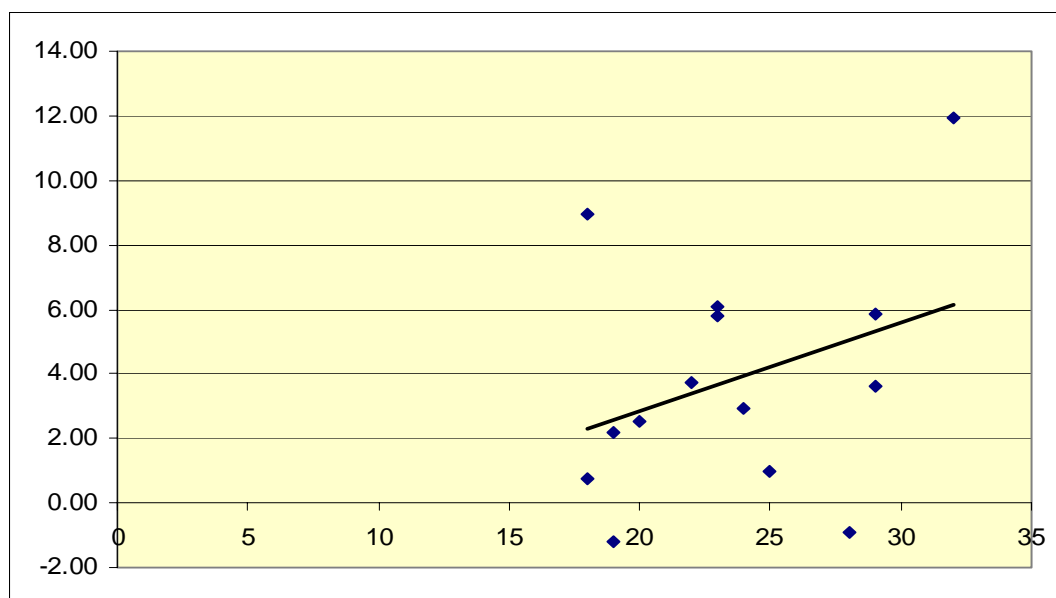


Figure 2 Scatter relationship and trend line between P score 1 and GDP growth 1990 - 2000

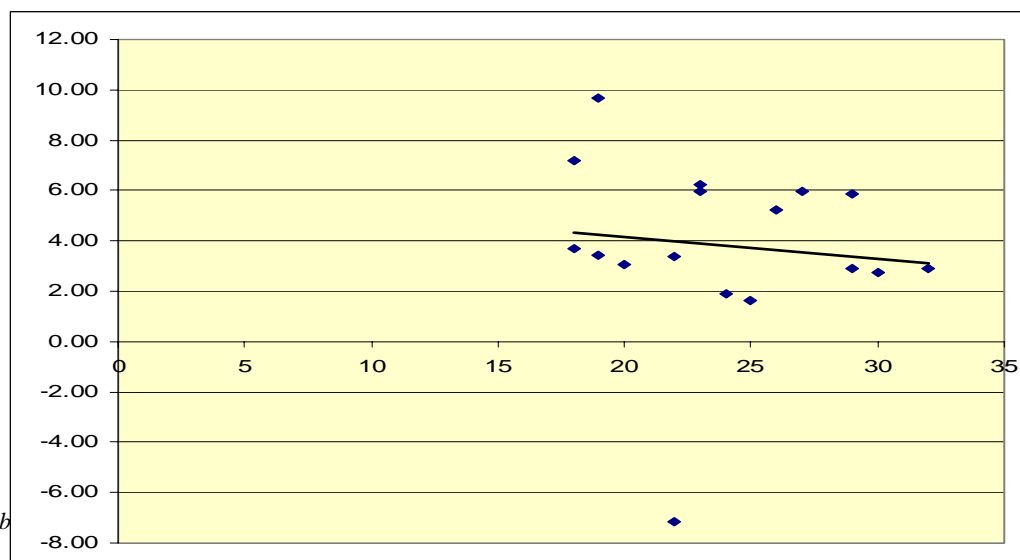




Table 10 Policy Scores, SME population growth, SME Employment growth, GDP growth and average GDP per person.

	Pscore1	Pscore2	growth of SMEs 1990 - to 2000	growth of SME employment 1990 to 2000	growth of real GDP 1990 - 2000	average current GDP 1996 - 2000 divided by population in 1997
<i>Australia</i>	29	21	5.86	4.13	2.92	21700.89
<i>Brunei</i>	22	15	3.71		3.39	16689.92
<i>Canada</i>	25	21.5	1.01	1.72	1.62	20981.83
<i>Chile</i>	23	15	6.07		5.98	4859.59
<i>China</i>	19	12.5	-1.18	1.04	9.69	770.95
<i>Hong Kong</i>	18	14	0.73	-0.91	3.72	24902.99
<i>Indonesia</i>		4.5	4.10		4.15	831.50
<i>Japan</i>	28	25	-0.89		1.84	34330.27
<i>Korea</i>	23	22.5	5.78	-0.07	6.21	9467.33
<i>Malaysia</i>	27	19.5			5.96	4078.73
<i>Mexico</i>	32	21	11.91	11.18	2.91	4675.42
<i>New Zealand</i>	24	14.5	2.90	5.60	1.90	15303.28
<i>PNG</i>					3.88	958.16
<i>Peru</i>	19	9.5	2.17	2.52	3.44	2278.41
<i>Philippines</i>	30	21			2.74	1040.50
<i>Russia</i>	22	11			-7.14	2137.34
<i>Singapore</i>	18	18.5	8.95	10.58	7.16	28662.12
<i>Chinese Taipei</i>	29	26	3.63	2.30	5.85	13414.00
<i>Thailand</i>	26	21			5.20	2275.31
<i>USA</i>	20	18	2.52	0.88	3.06	32701.25
<i>Viet Nam</i>						366.44

Sources: Hall APEC (2002) for data in columns 4 to 7, which was in turn drawn from a variety of national sources. GDP data is drawn from World Bank Data Base.

Notes: Pscore 1 and 2. See text for details. Pscore 1 is a measure of SME policy intensity in 2001, Pscore 2, reflects SME policy intensity in 1994 - 2001 period.

Table 11 then summarises the results of simple linear regression and correlation on each of the eight relationships. The results in Table 11 show that:

H1 and H2 are supported. There is a positive relationship between Pscore (both Pscore 1 and 2), SME population growth and SME employment. An increase in Pscore 1 corresponds to about a 30% increase in both these variables, but the variance is quite large. The F statistics are not significant at .05, and we can only explain about 10% of the variation. Pscore 2 has a weaker relationship, but is still positive. This is probably what we might expect. A policy environment which is closer to the maximum score of 35, should directly encourage more SMEs and more SME employment. However there are many ways to implement SME policy, so we would not expect a particularly strong "benchmarking" relationship.

H2 and H3 are not entirely supported. As Pscore 1 increases, the rate of GDP growth actually falls, as does the level of GDP per person. Pscore 1 represents the policy stance in 2001. Pscore 2, which represents the average SME Policy stance over the early part of the decade, has a positive coefficient. In both cases the variance is large, the R squared is low, and again the F statistics are not significant at the .05 level. SME policy is only one aspect of broader economic and social policy, so





we would not necessarily expect that there would be a strong relationship between policy settings and GDP.



Table 11 Regression and correlation results

		growth of SMEs 1990 - to 2000	growth of SME employment 1990 to 2000	growth of real GDP 1990 - 2000	average current GDP 1996 - 2000 divided by population in 1997
<b>Pscore 1</b>	coefficient	0.274	0.292	-0.105	-463.149
	s error	0.218	0.253	0.195	645.366
	RSQ	0.117	0.128	0.018	0.031
	F	1.58	1.32	0.29	0.51
	df	12	9	16	16
<b>Pscore 2</b>	coefficient	0.154	0.117	0.146	743.120
	s error	0.211	0.270	0.179	578.745
	RSQ	0.043	0.020	0.040	0.093
	F	0.53	0.18	0.66	1.64
	df	12	9	16	16

#### 4. CONCLUSION

Almost all APEC and ASEAN economies surveyed in 2000/1 now have an explicit policy of seeking to create a business environment which encourages the development of globally competitive SMEs. Recognition of the importance of competitiveness and globalisation is now widespread. There has been a steady increase in the number of SME policies adopted in all economies from 1994-6 to 2001. However, in the 18 economies surveyed, no two have exactly the same combination of policies.

ASEAN economies are generally more likely to adopt a directly interventionist approach as a basis for their underlying SME policy, and have tended to follow the Japanese "basic law" approach to a policy framework. Intervention is particularly apparent in finance policy for SMEs, where ASEAN economies are more likely to provide direct and specific assistance to SMEs than non-ASEAN economies. It is also apparent in technology policy, though less marked.

ASEAN generally has a gap relative to the non ASEAN and the 2010 economies when it comes to providing information access to SMEs, and assisting them in access to markets. For example, ASEAN lags particularly in providing access to market research and intelligence, and in providing export advisory services at less than full cost, although ASEAN has been much more forward in supporting subcontractors by supporting database development. Similarly, the adoption of one-stop or first stop shops is now fairly widespread in more developed economies, but is less common in ASEAN. ASEAN economies have generally been slow to pursue steps to reduce the administrative burden imposed on SMEs by governments.

There is a weak relation between policy comprehensiveness (the extent to which all 35 policy items are adopted) and SME entrepreneurial activity and outcomes, as measured by the growth in the population of SMEs, and the growth of SME employment.



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