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The Missing (Small) Businesses of Southeast Asia

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EXECUTIVE SUMMARY

- There are more than 70 million micro-, small- and medium-sized enterprises (SMEs) in Southeast Asia today that employ over 140 million people and account for 99% of all businesses in the region.

- However, there appear to be many "missing businesses," with significant under-reporting and very low figures of SMEs on a per capita basis. As many as 80-90% of SMEs in some countries may be excluded from official counts.

- This may be due to the existence of a large informal business sector which is not monitored in many countries; poor data collection methods; or economies being less entrepreneurial SME-focused than elsewhere.

- Measuring the true size of the SME sector is difficult because there are no standard definitions across the region, and the quality of published data varies significantly among states.

- Governments across the region should consider working through ASEAN to adopt a standardised set of SME definitions and reporting frameworks. This will help identify where the unreported SMEs currently exist.

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INTRODUCTION

In 2019, the ASEAN Federation of Accountants proclaimed that small- and medium-sized enterprises (SMEs) are the "backbone" of the regional economy, accounting for most businesses active in the region (Pratama 2019). Theirs is not an isolated claim: many other policymakers, industry advocates and commentators have made similar statements. ASEAN (2020) itself, for example, has stated that SMEs are "… an increasingly important force in ASEAN economic integration."

It is an interesting rhetorical flourish, but is it supported by much data on the public record? Is Southeast Asia really full of small businesses, and if so, how many are there today?

In this paper, public data on the number of such firms are examined and collated across the ten economies of the region. A number of trends apparent in the figures are also discussed, as are the shortfalls in data collections, and some suggestions are offered about how this can be improved in future.

DEFINING SMALL BUSINESS: A FRAUGHT ENTERPRISE

Small businesses are often known by a variety of different terms. They are most commonly referred to as SMEs (small and medium-sized enterprises), but other terms and acronyms are also frequently used: MSMEs (micro, small and medium-sized enterprises); micro businesses; own account workers; and self-employment. Sometimes they are used interchangeably; at other times not.

For convenience in this paper, the term SME is used throughout.

There is no broadly accepted international standard definition of any of these types of businesses. Generally speaking, a "micro-business" refers to a firm with few, if any employees beyond the owner-operator of the enterprise; a small business usually contains somewhere between a handful and a few dozen staff; whilst a medium-sized enterprise can be expected to contain more than that.

A common feature of all of these concepts, though, is that they refer to a small-scale, independent firm that is not part of a larger corporation. It is usually managed, funded and operated by its owners, and its staff size, financial resources and assets are relatively limited in scale, especially when compared to larger enterprises and multi-national corporations (Schaper, Volery, Weber & Gibson 2014).

Different countries and different arms of government use widely differing criteria to define such a firm. Both qualitative and quantitative criteria are applied on occasion, and typical metrics can include number of employees, annual turnover, industry sector, asset base, and/or legal structure of the enterprise. Frequently multiple criteria are used, and these vary from one nation to another.

For example, Malaysia's national federal SME agency, the SME Corporation, currently defines an SME as an entity in the manufacturing sector with either sales turnover below RM50 million (USD 11.7 million) or an employee headcount of less than 200 full-time staff. However, in the services and other sectors, it regards SMEs as firms with a sales turnover below RM20 million (USD 4.7 million) or having less than 75 full-time employees. These are just broad definitions: the agency also uses a more detailed set of criteria that provides a dozen different definitional categories (SME Corporation 2020).

In contrast, Singapore (2020b) has just a one-line definition that classifies an SME as any enterprise with operating receipts less than SGD 100 million (USD 72 million) or fewer than 200 employees. However, it does not publicly further distinguish between micro-, small and medium-sized businesses within that framework.

Some countries spell out a definition in legislation, such as in Indonesia's *Micro, Small and Medium Enterprise (MSME) Law* (Law no. 20 of 2008), which addresses each of the micro, small and medium categories. Likewise, Myanmar's 2015 *SME Development Law* lays out a complex matrix of definitions, which are based on a combination of sector type, number of employees, capital, and turnover (Myanmar Digital News, 2019).

There is thus no standard definition applied to the collection of SME data in the region. This makes it hard to collect and directly compare numbers, but it is not the only issue confronting researchers. The calibre of data obtained is also problematic.

DATA COLLECTION AND ACCESS

It is often also difficult to actually obtain timely, concise information about SMEs from many countries within the region.

Different methodologies are applied to gathering data on the sector.[1] Whilst some countries (such as Singapore) use information gleaned from tax records and/or corporate regulators, other nations (Malaysia, Brunei) use national economic censuses. Another option is to rely on surveys applied to a sample of firms (as is the case in Laos). Each of these will produce somewhat different results – for example, a national census attempts to be authoritative, whereas a survey is only as accurate as the entities within its sampling frame.

Even different agencies within the same country can use markedly different methods and definitions when attempting to count the number of businesses. Tax authorities, for example, will often determine what a small business is based on its taxable revenue, whilst an employment ministry will principally define a firm's size based on the number of staff it has. This often gives rise to different data frameworks, sampling frames, definitions and primary sources. Not surprisingly, then, ministries and departments can often generate quite different final counts or estimate. For example, Singapore Statistics publishes some limited information on SMEs, but its number of businesses is markedly lower than the count of corporate entities held by the Accounting & Corporate Regulatory Authority.[2] Likewise, data from the Department of Statistics in Malaysia show more business establishments existing than do data published by the federal government's SME Corporation.

Apart from the issue of data collection, there is also the related matter of accessibility. Public access to data, and the level of detail, varies significantly from one Southeast Asian nation to another. Some countries do not make available such information, nor is it always updated in a timely manner. The number of firms in Laos, for example, can only be found from a reference to the Lao National Chamber of Commerce & Industry (2020) website, which cites a 2006 national economic census; more recent data do not appear to be available. In

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similar style, Myanmar's SME Development Agency only publishes statistics on industrial enterprises online; other sectors are excluded. The country's annual *Statistical Yearbook* (2018) provides a more expansive national count of firms in a wider range of sectors, but does not report any data about firms by size. The most recent publicly-accessible online data in English relating to Vietnam can only be gleaned from press releases; its *White Paper on Small and Medium Enterprises in Vietnam* (2017) is published in Vietnamese only.

In contrast, some other countries publish regular reviews of the sector which include the latest data on its size and characteristics. For example, Brunei issues a comprehensive list of year-by-year data on SMEs, including the number of each category of micro-, small-, medium and large enterprises in the country, as well as the number of persons employed in each of those size categories. Additional information is also provided, such as growth rates in the numbers of firms by size. This is based on its *Annual Census of Enterprises* (Department of Statistics, Brunei Darussalam 2017)

Similarly, Thailand's Office of Small and Medium Enterprises Promotion (2019) has published very comprehensive reports, each referred to as a *White Paper on SMEs*, that have been issued annually over several years. It also provides detailed breakdowns on many aspects of the sector, including numbers of firms, contribution to GDP, and employment by micro, small, medium and large firms.

Third party database also exist (such as those compiled by the International Labour Organization (ILO), World Bank, Eurostat and ASEAN), but these rely on either secondary sources or surveys, and do not provide any more specific count data.

KEY STATISTICS

Because of the high level of variation in definitions, reporting bodies and methodologies, this publication only draws upon publicly-available information in English, accessible from websites and public documents, drawn from SME development agencies of governments (where these exist), from national statistical authorities in other cases, and (for some nations without data from either of the above) other sources. Whilst not necessarily complete, it provides a somewhat more reliable and accessible count than would otherwise be the case.

So, how many SMEs are there in Southeast Asia?

The answer is quite simple: many millions. As Table 1 indicates, there are approximately 70.6 million such enterprises across the region, representing 99% of all operating firms.

Indonesia is the largest single source of these small firms, accounting for most of the enterprise counts (more than 64 million businesses). At the other end of the scale, Brunei has less than 6,000 small businesses in total.

In every country in the region, SMEs account for at least 90% of all known enterprises. The typical figure is in fact closer to 97-99%; the two countries shown as having only about 90% (Cambodia and Laos) are those which only provide data in very broad terms and so do not allow a more detailed breakdown.

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Table 1: Number of SMEs in Southeast Asia

	Number of SMEs	Total Number of Businesses	SMEs as % of All Firms	Persons Employed by SMEs
Brunei (2017)	5,900	6,000	97.2%	66,100
Cambodia (2019)	460,000	510,000	90% +	1,200,000
Indonesia (2018)	64,194,000	64,199,600	99.9%	116,978,600
Laos (2006)	114,200	126,900	90%	Not available
Malaysia (2016)	907,100	921,000	98.5%	Not available
Myanmar (2015)	114,200	126,900	Not available	Not available
Philippines (2018)	998,300	1,003,100	99.5%	5,714,200
Singapore (2019)	271,800	273,100	99.5%	2,520,000
Thailand (2018)	3,077,800	3,084,300	99.8%	13,950,200
Vietnam (2019)	744,800	760,000	98%	Not available
Total	70,888,100	71,010,900	99.8%	140,429,100

Figures rounded to the nearest hundred. Myanmar SME count not provided, so figures are imputed as conservatively being 90% of all firms.

Sources: Brunei (2017: 6), Indonesia (2020), Lao National Chamber (2020), Malaysia (2018, 2020), Myanmar (2018: 404), Philippines (2018), Singapore (2020a, 2020b), Thailand (2019:4-03, 4-08), Pisei (2019), Vietnam (2020).

The SME sector as a whole is a major employer throughout the region. As Table 1 indicates, the sector provides more than 140 million jobs, and this figure is probably an underestimate, as several countries have not published any data on jobs created by SMEs.

Another notable feature of the data set is the fact that micro businesses typically account for the majority of all SMEs in the region. This can be seen from the five countries who publish data on the respective proportion of micro, small and medium-size firms within their borders (the others just lump all these categories together into a generic whole), as shown in Table 2 below.

Table 2: Relative Distribution of Firms by Size in Southeast Asia

	Micro	Small	Medium	Large
Brunei (2017)	40.4%	41.2%	15.6%	2.8%
Indonesia (2018)	98.7%	1.2%	0.1%	0.01%
Malaysia (2016)	75.4%	20.9%	2.3%	1.5%
Philippines (2018)	88.5%	10.6%	0.5%	0.4%
Thailand (2019)	99.3%		0.5%	0.2%

Sources: Brunei (2017: 6), Indonesia (2020), Malaysia (2018, 2020), Philippines (2018), Thailand (2019: 4-01).

Small businesses (howsoever defined) then typically represent the second-biggest cohort, usually followed by medium-sized enterprises. These patterns are broadly (but not conclusively) similar to the firm size distribution patterns seen globally, in which microfirms are overwhelmingly the biggest single cohort (often between 70-90% of all businesses), followed by small businesses, then medium ones, and in which large

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corporations typically represent less than 1% of the overall business population (International Labour Organisation 2019; Schaper, Dana, Anderson & Moroz 2009).

Overall, the evidence suggests that in much of Southeast Asia, the business population follows the "rules" of normal distribution of firms in most stable market economies observed by Schaper et al (2009):

- *The "95% rule":* SMEs collectively account for more than 95% of all private sector entities.
- *The "1 in 20" rule:* Large firms never exceed 5% of aggregate firm numbers.
- *The "pyramid rule":* The composition of firms within an economy is positively skewed. A pyramid structure best describes the distribution of firms, with micro businesses, small enterprises and then medium companies making up the bottom three tiers. Large businesses reside at the pinnacle, and are the smallest in number.

THE MISSING BUSINESSES OF SOUTHEAST ASIA

Are existing business counts accurately reflecting the likely true size of the SME sector?

The figures shown above suggest that they do not, and that the data substantially under-report the number of firms.

In countries with a well-developed comprehensive SME statistical reporting framework, the number of firms is closely linked to the overall size of the national population. In the United States, the United Kingdom, and Australia, for example, annual measures are made of the size of the entire small business population, and these show strong similarities. Broadly speaking, there is one business to approximately every 11 members of the general population.[3]

However, as Table 3 below indicates, in much of Southeast Asia, the number of small businesses per capita is very low, and well below the 1:11 ratio. The region as a whole has a realistic ratio, but this overall figure masks major divergences and apparent anomalies. Some nations (such as Myanmar, Vietnam and the Philippines) have extraordinarily high ratios that appear to be unrealistic, whilst Indonesia's very low rate suggests that either there has been over-counting, or that the nation's economy is more dependent on the self-employed than has previously been accepted.

Table 3: Number of SMEs Per Capita

	Number of SMEs	Population (2015)	Ratio SMEs to Population
Brunei (2017)	5,900	417,000	1:70 persons
Cambodia (2019)	460,000	15,405,000	1: 33.5 persons
Indonesia (2018)	64,194,000	255,462,000	1:3.9 persons
Laos (2006)	114,200	6,902,000	1:60.4 persons
Malaysia (2016)	907,100	30,485,000	1: 33.6 persons
Myanmar (2015)	114,200	52,449,000	1: 459.3 persons
Philippines (2018)	998,300	101,562,000	1: 101.7 persons
Singapore (2019)	271,800	5,535,000	1:20.4 persons
Thailand (2018)	3,077,800	68,979,000	1: 22.4 persons
Vietnam (2019)	744,800	91,713,000	1:123.1 persons
Regional Total	70,888,100	628,909,000	1:8.9 persons

Population source: ASEAN (2015)

Why would this be so?

A headline rationale might be simply that the region has a less entrepreneurial SME-focused culture than do many other parts of the world. However, this appears unlikely.

Another reason may be that the region still has a substantial informal sector, which by definition is usually excluded from formal counts undertaken by governments and researchers. In Cambodia alone, the national government has publicly stated that it believes more than 90% of SMEs are not formally registered (Pisei 2019). Accordingly, the data are likely to underestimate not only the number of SMEs, but also the employment they generate, and the relative significance and size of micro-firms compared to larger business entities.

This is a common problem in many developing economies, both in Southeast Asia and in many other regions. The ILO, for example, has recently estimated that informal (unregistered) businesses probably "…. account for eight out of every ten enterprises in the world. These are mainly unregistered small-scale units, often employing ten or fewer undeclared and low-skilled workers, including unpaid family workers" (ILO 2020).

A third factor may be that some states still have poor administrative processes when it comes to collecting, analysing and publishing business demography. These can include cumbersome business registration systems, systems that only extract minimal data, and business censuses that only occur after lengthy breaks. Some statistical agencies do not publish all the business data that they have, which compounds the problem. Likewise, some agencies base their counts on the existence of a business establishment (functional premise), whilst other data sets use the legal entity as their counting frame.

Whatever the reason, it is an intriguing issue, and one worthy of further investigation.

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CONCLUSION

SMEs are clearly an important component of the economic system of every country in Southeast Asia. Indeed, the catch-cry that "small business is the backbone of the economy" is well placed.

However, the quality and calibre of data about this sector are sketchy, uncoordinated and differentially measured, meaning that our level of understanding is far from perfect. Much can be done by governments and policymakers to address these shortfalls.

Developing common definitions and methodologies for counting the SME sector would certainly be a useful first step. Simple, easy-to-understand and easy-to-measure definitions are necessary. So too is the need to include self-employed persons, rather than to exclude them as some agencies currently do.

Secondly, the regular publication of SME-specific data would also help improve our understanding of the sector. Such information should include, at the minimum, counts of firms by size, measurements of their employment contribution, and other basic business demography. Brunei and Thailand already do this, and other countries should seek to emulate their example.

Both of these measures could be addressed through the context of ASEAN, as it is the most obvious forum in which countries in the region can co-ordinate their economic data collection methodologies and publication. ASEAN already has a dedicated SME Service Centre, and a ten-year Strategic Action Plan for SME Development, but at present does not list synchronising and complementing their SME data as one of their priorities (ASEAN 2020).[4]

SMEs are often far more difficult to understand, deal with and measure than large corporations. Each individual firm may mean little, but collectively they are a major economic factor in every country in the region. The more effectively policymakers and governments can quantify this important phenomenon, the more effectively they will be able to work with them and promote their growth.

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[1] For a detailed discussion of methodological issues relating to SME data collection, see Curran & Blackburn (2001).
[2] Part of this is due to the fact that ARCA counts all registered businesses, regardless of whether they are actively trading or not, and so can include so-called "shell companies."
[3] For example, in 2018, the US had a population of 327.2 million persons and 30.2 million businesses, resulting in a 1:10.8 ratio. In 2019, the UK had a population of 66.7 million persons and 5.9 million businesses, leading to a 1:11.4 ratio.
[4] Indeed, the current ASEAN SME Service Centre website provides no direct links to national small business statistics.

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