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Profile of SMEs and SME Issues in APEC 1990 -2000

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DRAFT EXECUTIVE SUMMARY

NOTE THAT THIS IS A DRAFT SUMMARY, AND WILL BE REVISED AS MORE COMPLETE INFORMATION IS RECEIVED. THE FOLLOWING TENTATIVE CONCLUSIONS ARE BASED ON THE BEST AVAILABLE INFORMATION, BUT IT IS STILL INCOMPLETE AND FRAGMENTARY.

1. SMEs are structurally important to APEC. SMEs:
 - make up over 98% of all enterprises;
 - provide around 60% of the private sector jobs (and over 30% of all employment);
 - generate about 50% of sales;
 - generate 30% of direct exports;
 - generate about 10% of FDI by value, and over 50% by cases.
2. There were approximately 2.5 billion people in APEC in 1999/2000, up from about 2.2 billion in 1990. There were about 44 million SMEs in 2000, up from about 37 million in 1990. However, after allowing for statistical aberrations and new member economies, there appears to have been only about 1.36 million additional SMEs in APEC in 1990 to 2000. This very low rate of growth (about 0.36% pa) is a matter of concern.
3. There are some structural changes taking place which affect SMEs:
 - There is a steady shift away from agriculture and manufacturing and towards services; services have grown in terms of employment from about 66% of SME employment in 1990 to about 76% in 1998/9. Services industries are inherently more knowledge intensive, and tend to face greater non tariff impediments.
 - There seems to be a shift towards an increasing importance of small (5 - 20 employees) at the expense of micro (< 5 employees). This *may* suggest a reaction to increasing competitiveness.
 - SMEs have become relatively more important, and large firms are of declining importance in terms of jobs, except in the larger economies of USA and Japan; - which *may* suggest a subtle shift of power to the larger economies at the expense of others as the economy becomes more global.
4. SMEs are a major source of *growth* of jobs and renewal. Employment by SMEs has grown at about double the rate of total employment growth. On limited available evidence, SMEs create more than 70% of net new jobs. About 8% of SMEs “die” (but only about 0.8% go bankrupt) and 9% are born each year. This “churning” process is important in facilitating adaptation to change in APEC, but it is not without pain to those concerned!
5. SMEs do not appear to have benefited as much from APEC over the last decade as they might have. In key APEC policy areas (HR, Finance, Technology, Access to markets etc) there is little by way of monitoring of progress, so it is hard to tell if APEC is having any effect. However:
 - SMEs appear to remain substantially underrepresented in international trade and FDI relative to their contribution in domestic areas, and relative to larger firms.
 - SMEs are lagging behind (especially in 2020 economies) in accessing information from the internet and E-economy.
 - on limited evidence, there seems to be a decline in the amount of bank finance being made available to SMEs, relative to large firms.
6. There are some major differences between SMEs in 2010 and 2020 economies, **but the absence of data makes valid comparisons difficult in this draft**:
 - There are far fewer SMEs and entrepreneurs in 2020 economies than benchmarks would suggest are needed; in the 2010 economies there is about 1 SME for every 20 people, while in 2020 economies there are over 100 people to every SME; there are too few entrepreneurs in many 2020 economies.
 - Micro firms are much more important in 2020 economies, in terms of proportion of both enterprises and employment than in 2010 economies.
7. It is common to all APEC economies that they have adopted policies and programs which:
 - are designed to support SMEs
 - for the most part are aimed at making SMEs more globally competitive

50% of APEC economies provide SMEs subsidised finance;
 66% of APEC economies provide SMEs subsidised technology assistance;
 100% of APEC economies provide SMEs subsidised consulting services, HRD and training;
 75% of APEC economies provide SMEs subsidies for networks and cooperatives; and

100% of APEC economies provide SMEs subsidised access to export advisory services

8. On average, each APEC economy spent about \$USD 265 per SME on programs in 1994/5, but there this ranges from very low figures (\$0.05 in China, and \$0.15 in Indonesia) to very high (\$1084 in Hong Kong and \$988 in Korea).

INTRODUCTION AND OBJECTIVES

The purpose of this report is to provide a profile of the state of SMEs in APEC. Wherever possible, it seeks to give an overview of the level of SME activity at three time points:

- 1) from the outset of APEC in the early 1990s;
- 2) just before the “Asian Crisis” in 1997; and
- 3) the latest data available, which is generally about 1998, 1999 or 2000.

APEC was established in 1989. APEC 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 the experts meetings in Indonesia in 1994. The first SME Ministerial held in Osaka in 1994. The first meeting of the ad hoc SME PLG was held in Adelaide in 1995. The PLG was converted to a permanent Working Group in 2000. Because SMEs are a cross cutting issue SME issues are also addressed by various other working groups as required.

The report seeks to give a broad overview of the “big picture” as it relates to progress on SME issues, and to ultimately provide a central access point for relevant information on APEC SMEs via the APEC and PECC secretariat web pages.

The report builds on previous work carried out by Chinese Taipei in 1994, by Japan in 1995, Malaysia in 1998, and by the author on behalf of PECC.

KEY POINTS

1. What is an SME? SME Definitions and Statistical Issues

1.1 SME Definitions

The definitions used for an SME in APEC vary widely. In very general terms, a common feature is that an SME in APEC employs less than 100 people, but there are a lot of exceptions.

Definitions used for statistical purposes can vary from those used for policy or program purposes (eg to determine eligibility for special assistance). Definitions vary by industry, with manufacturing usually having a larger cut-off than, say, services industry SMEs. The most common criterion is the number employed, but capitalisation, assets, sales or turnover and production capacity are also used by various economies.

It would be a relatively simple matter to compile information about SMEs in a standard format and definition, since the data are usually collected in a way that permits this. However APEC has not put a high priority on doing so.

2. The Number of SMEs in APEC

2.1 The total Number of SMEs

There were an estimated 44 to 47 million non agricultural SMEs in APEC in 2000, up from about 37 million in 1990. However, much of this apparent growth is not genuine growth; it is a result of changed statistical measurements, especially in Indonesia, and the addition of new member economies to APEC. It is a matter of some concern that there appears to have been very little net real growth in the number of SMEs over the past decade in APEC; only about 1.36 million additional SMEs have been created.

About half the SMEs in APEC are in Indonesia and China.

About two thirds of SMEs are in economies which target the 2020 deadline for APEC Trade liberalisation, and about one third in economies targeting 2010.

SMEs make up well over 95% of businesses in all but a few economies.

2.2 The demographic distribution of people and SMEs in APEC

Economies in APEC targeting 2020 have 81% of the people, 65% of APEC's SMEs and 66% of the people employed by SMEs.

China has 50% of APEC's people, but only 18% of APEC's SMEs.

Economies east of the international dateline (Americas = Canada, Chile, Mexico, Peru, USA) have about 17.5% of the human population and about 15% of the SME population, while the "Asian" economies west of the international dateline have about 82% of the human population, and 85% of SMEs

2.3 The Number of people per SME

The number of people per SME (ie human population/total number of SMEs) gives an approximate statistic of the extent of entrepreneurship in an economy. On an average there were about 62 people per SME in APEC in 1997; in rough terms this suggests that one person in every 62 in APEC is an "entrepreneur-manager"

However there are about 20 people for every SME in most of the "developed" economies targeting APEC liberalisation in 2010. In the less developed economies targeting 2020 the figure is usually much greater and is closer to 100 people per SME.

This suggests that there is a significant shortage of entrepreneur managers in 2020 economies, and that this shortage may impede competitiveness and adjustment to change.

Part of the shortage is attributable to a higher proportion of young people in 2020 economies, but this points to a much greater need for training in entrepreneurship and business in those economies if 2020 targets are to be achieved.

2.4 The number of people employed by each SME

The average number of people employed by each SME in APEC is about 7 to 8 employees. The “average” SME in APEC is quite small, but there is no intrinsic reason why a firm of this size cannot be internationally competitive

Missing data makes it difficult to make comparisons or identify trends, but it seems that SMEs in 2010 economies are slightly smaller than those in 2020 economies.

2.5 Benchmark SME demography

If all economies in APEC were to have about one SME for every 20 people in the general population (in line with the average in 2010 economies), then there would have to be about 70 million new SMEs created, and a corresponding number of additional entrepreneur-managers.

This is a huge HRD challenge that APEC must face in the next twenty years if SMEs are to make a serious contribution to the international competitiveness of 2020 economies

Most of the additional SMEs need to be created in Asia, and especially in China.

3. The Contribution of SMEs to the APEC Economy

3.1 The Contribution of SMEs to Total Employment

SMEs contribute about 30% or more of all employment, both public and private sector, in APEC. The contribution ranges from very high levels (around 70% in Chinese Taipei and Japan), to very low levels (around 20% in Singapore, China). For more developed economies (the 2010 group) the contribution is over 40% of all employment.

There is no clear pattern to the change in the contribution of non agricultural SMEs to total employment. For economies where there is sufficient data, the percentage has increased in Australia, Singapore, and Chinese Taipei, but decreased in Hong Kong China, and NZ.

3.2 The Contribution of SMEs to Private Sector jobs

SMEs contribute about 60% of all private sector jobs in APEC.

The contribution is in excess of 50% for all economies except the USA and Singapore, where firms with more than 100 employees make a larger contribution.

3.3 Contribution of Micro, Small, and Medium SMEs to Employment

About 40% of private sector employment (estimated roughly at about 400 million) in APEC comes from about 500,000 large firms which employ more than 100 people.

SMEs (less than 100 employees) make up 98.85% of all enterprises in APEC, and contribute 60.46% of private sector employment in APEC. Most of this employment comes from SMEs which employ between 5 and 99 people; about 11 million such SMEs (or 25% of them) employ about 40% of the total APEC private sector workforce, or about 160 million.

Micro enterprises with less than 5 people, contribute less than proportionally to employment; they make up 72.59% of all private sector enterprises in APEC, but employ only 20.63% of the people employed in the private sector.

Small enterprises (5 - 19 employees) make up about 21% of enterprises, and contribute about 19% of APEC private sector employment.

Medium sized enterprises contribute more than proportionally to employment; although they make up only 5% of enterprises, they contribute about 20% of private sector employment.

3.4 Changes in the relative composition by size of SMEs in APEC

For the economies for which data are available, there appears to have been an increase in the relative importance of small firms (5- 19 employees) in the last decade.

Large firms have become relatively less important as employers, except in USA and Japan.

Micro firms have become less important in jobs and establishments in all except Singapore

3.5 Contribution to employment by SMEs by major industry sector

Services sector SMEs dominate APEC, and contribute about 80% of all employment in APEC. This contribution is increasing at the expense of primary and manufacturing sector SMEs.

Manufacturing SMEs contribute about 15% of employment in APEC.

Agricultural and primary activities contribute about 5% or less of employment in APEC, though the contribution is much higher in some economies, particularly some 2020 economies. **Data are not available for most of these economies in this draft.**

4. The Growth and Dynamics of SMEs in APEC

4.1 Comparison of growth in the number of SMEs, employment in SMEs, GDP growth and private sector employment growth

On the basis of very limited available information, it appears that SMEs may not have benefited as much as large firms from the economic growth in APEC, even though SMEs have been a major source of employment creation.

Although available data in this draft is very limited, based on those economies for which data are available it seems that:

- Up until the “Asian Crisis” of 1997 the unweighted average growth of SMEs was less than GDP growth. The average unweighted GDP of APEC economies was 4.51% pa, while the unweighted growth of SME establishments was 2.61% pa (about 60% of the growth of GDP). This is true even for those economies with complete data. As noted in section 2.1, the actual growth in SME establishments(after allowing for new members and statistical aberrations) is much less, and is perhaps only about 0.36% pa.
- Similarly, up until the “Asian Crisis”, the growth of employment in SMEs was 2.96% pa (or less than GDP growth). Again this is true for economies which have complete data.
- However the growth in SME employment was greater than the growth of total employment (1.95% pa) in this period. That is, SMEs were still an engine for employment growth, even though they did not grow in numbers as fast as GDP. This is also true of economies for which there is complete data;
- Since the “Asian Crisis” the growth of SMEs appears to be higher than GDP growth, and SME employment growth is higher than total employment growth. This **suggests that SMEs may have “bounced back” more quickly and been more adaptable in the face of the problems created by the Asian Crisis;**
- Over the entire period from the inception of APEC to the latest available data (generally 1998 or 1999) unweighted SME growth is less than GDP growth.
- Over the entire period, SME employment growth is less than GDP growth, but more than total employment growth.

4.2 Evidence on the contribution of SMEs to net employment growth

Most of the available evidence suggest that SMEs contribute about 60% to 70% or more of net employment growth in APEC, but data are limited to only a few economies.

4.3 Exit and entry rates

For the economies for which data are available, entry and exit rates range widely from 3% to about 15%. The APEC average is about 9% entry and 8% exit.

Bankruptcy rates are about one tenth of the exit rate; 90% of firms exiting from operations do not go bankrupt

The turnover and replacement rate (or “turbulence”) amongst SMEs is much higher than amongst large firms, and it differs very much between economies. It is a crude guide to the ability of an economy to renew itself and adapt to change; an economy which has about a 10% entry and exit rate (as it appears, does APEC) can renew itself about every 10 years. An economy such as Japan, with an entry and exit rate below 3% will take over 30 years to achieve the same total renewal.

5. SMEs and international activity; trade and FDI

Total exports from APEC economies have grown from 35% of world exports in 1990, to 47% of world exports in 1999.

5.1 SME contribution to exports

On the basis of available information, SMEs contribute less than 30% of direct exports.

There is insufficient trend data available to say if the role of SMEs in exports is increasing or decreasing, but limited available evidence suggests it is not increasing.

5.2 SME contribution to FDI

SME FDI makes up about 50% of cases but less than 10% by value.

5.3 International SME dynamics and growth potential

Available evidence suggests that there is the potential for SMEs to add about \$1 trillion in trade and about \$150 billion in FDI per annum to the APEC economy if structural changes allow a simpler, more business friendly, more integrated APEC economy to emerge.

6. Status in APEC SME policy areas

6.1 Information access - internet and computer use

The digital divide in APEC is quite distinct.

In 1997/8 (the latest reliable and comparable data available) 98% of the internet hosts, 85% of the PCs and 66% of the fixed lines were in 2010 economies.

Based on aggregated figures, the number of internet hosts per SME in APEC was 0.7 in 1997/8, but it was only 0.1 in 2020 economies.

The number of PCs per SME in APEC was 6.3 (contrast with an average number of employees at about 7 to 8; see [table 2.4](#)) but it was only 2.4 in 2020 economies.

The number of fixed lines per SME was 14.3 in APEC, and 11.9 in 2020 economies.

6.2 Finance for SMEs

Based on limited evidence, it appears that the proportion of loans to SMEs may be declining. For example in Australia it has declined from 39% in 1994, to 19% in 2000, and in Chinese Taipei, from 40% in 1992 to 27% in 1999.

The rate of growth of loans to SMEs is volatile, but on limited available information has been slowing over the last few years, except in the USA.

6.6 The Role of Women in SMEs

Women make up about 30% of employers and own account workers in APEC economies for which data are available.

There has been a slight increase in the percentage of women employers and own account workers over the period 1990 - 1998

7. Policy Priorities and Programs

This section endeavours to compare SME policy and programs amongst APEC economies as they were in 1990 - 1994, and hopefully in the final version of the report to compare this with policies and programs at the end of the 1990s and early 2000s.

It is common to all APEC economies that they have adopted policies and programs which:

- are designed to support SMEs
- for the most part are aimed at making SMEs more globally competitive

About half of the APEC economies adopt a discriminating policy approach; that is they have policies and programs which are specifically targeted at SMEs, while the other half simply make policies aimed at all firms, and keep SMEs in mind when designing them.

Only about 25% of APEC economies appear to have developed a workable method for providing a single access point for businesses seeking information about government and its regulations. This almost certainly impedes SME development, especially across borders.

About:

50% of APEC economies provide SMEs subsidised finance;

66% of APEC economies provide SMEs subsidised technology assistance;

100% of APEC economies provide SMEs subsidised consulting services, HRD and training;

75% of APEC economies provide SMEs subsidies for networks and cooperatives; and

100% of APEC economies provide SMEs subsidised access to export advisory services.

8. Program Expenditure Comparisons

Program budgets for nominated programs in 1994/95 were around an average of \$USD 265 per SME, and there was not a large difference between 2010 economies (\$USD 285) and 2020 economies (\$USD 238).

However there were some large differences between economies. For example China's expenditure per SME was only 5c, Indonesia's was 15c, and Thailand \$USD 12.65. In contrast, Hong Kong nominated budgets of \$USD 1084 and Korea of \$USD 988 per SME.

About 85% of average budget is allocated to three areas: finance, technology and HRD.

Data has been requested of economies for 2000/2001, but these data have not yet been provided, except for Japan.