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Myanmar SMEs' Participation in ASEAN and East Asian Regional Economic Integration – with a Focus on Processed Food and Apparel Manufacturing

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Contents

Acronyms

AANZ	ASEAN-Australia and New Zealand Free Trade Agreement
ACFTA	ASEAN-China Free Trade Area
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CBM	Central Bank of Myanmar
CESD	Centre for Economic and Social Development
DICA	Directorate of Investment and Company Administration
EBA	Everything But Arms
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FY	Financial Year
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GVC	Global Value Chain
ICT	Information and Communication Technologies
ILO	International Labour Organization
IMF	International Monetary Fund
ISEAS	Institute of Southeast Asian Studies - Yusof Ishak Institute

ITC	International Trade Centre
LDC	Least Developed Country
MGMA	Myanmar Garment Manufacturing Association
MIC	Myanmar Investment Commission
MoC	Ministry of Commerce
MOLES	Ministry of Labor, Employment and Social Security
NLD	National League for Democracy
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
ROO	Rules of Origin
SEZ	Special Economic Zone
SMEs	Small and Medium-sized enterprises
SMIDB	Small and Medium Industrial Development Bank
TIFA	Trade and Investment Framework Agreement between and Myanmar the US
TVET	Technical and Vocational Education and Training
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNIDO	United Nations Industrial Development Organization
UNSD	United Nations Statistics Division
US	United States of America
VC	Value Chain
WDI	World Development Indicators
YCDC	Yangon City Development Committee

1 Executive Summary

For decades, Myanmar's economic system has been characterized by economic isolation and central planning. Today, however, as Myanmar is in the middle of a far-reaching political and economic transition, it is leaving this past behind. For Myanmar's enterprises, and Small and Medium Sizes Enterprises (SMEs) in particular, the opening of the country's economy in general and the intensification of regional economic integration more specifically, most notably through the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC), bring both opportunities and challenges.

It is in this context that the present study investigates the extent of Myanmar SMEs' participation in ASEAN and East Asian regional economic relations as well as the challenges they face and the policy support they need for deeper integration. More specifically, this research attempts to address the following four questions: What is the state of Myanmar SMEs' participation in regional trade, production networks, and investment activities? What are the enabling factors and obstacles to SME participation in regional economic activities? How have regional and preferential trade agreements affected SMEs' activities and performance? And what are the policy imperatives to promote active participation of Myanmar SMEs in regional economic integration? To find answers to these questions, this study, on the one hand, analyzes existing secondary data while, on the other hand, also drawing on a new dataset collected by CESD through a survey among Myanmar enterprises, particularly in the food-processing and garment sectors.

The context – Myanmar's current economic engagement with ASEAN and East Asia

During the past couple of years, Myanmar has seen high growth rates of both its exports and imports, reflecting the country's dynamic re-integration into the international economy. This has significantly been driven by regional trade. ASEAN is an important market for Myanmar's exports; around 43% of Myanmar's exports are destined for other ASEAN countries. This is the second-highest share among all ASEAN member states. Moreover, Myanmar sources about 41% of all its imports from other ASEAN countries, the third-highest share within ASEAN. In fact, Myanmar recorded the second-fastest growth of ASEAN imports among all ten ASEAN members between 2005 and 2013. On the export side, however, Myanmar's ASEAN export growth rate was only the sixth-highest. This has led to Myanmar's ASEAN trade balance turning from a surplus in 2005 to a deficit in 2013. All in all, Myanmar's share in total intra-ASEAN exports is still extremely small at around 1%. Moreover, in per capita terms, Myanmar's ASEAN trade is still very low.

Decomposing Myanmar's trade with ASEAN and East Asia, we find that Myanmar's ASEAN exports are very much concentrated on Thailand (which accounts for almost 90% of Myanmar's total ASEAN exports) and raw materials and resource-based products, while manufactured goods are largely absent. Myanmar's ASEAN imports, on the other hand, are much more diversified; they are dominated by processed goods and manufactured goods that are sourced from different countries, but particularly Thailand and Singapore. Considering the region more at large, we see that China and Japan are important export markets, while on the import side China is very dominant; in fact, Myanmar imports almost as much from China as from all ASEAN countries together.

Looking at foreign direct investment (FDI) flows, we find that, among all ASEAN countries, in 2014 Myanmar had the highest share of intra-ASEAN FDI in total FDI inflows (>70%), i.e. FDI inflows into Myanmar from other ASEAN members by far exceeded those originating from non-ASEAN countries.

However, there has been quite some fluctuation over the years and in preceding years the situation had actually been the reverse. Moreover, Myanmar currently still receives only a small fraction of all intra-ASEAN FDI flows (around 3% in 2014). Overall, thus, these figures suggest that there is a lot of scope and potential for Myanmar to intensify its economic relations with other countries in the region.

Myanmar SMEs' integration into ASEAN and East Asian economic activities

Since Myanmar authorities have not conducted a business census or regular business surveys for a long time, the availability of reliable official firm-level or industry-level data is very poor. Our study, therefore, uses (1) existing data from recent business surveys undertaken by various international organizations and (2) a new dataset collected by CESD through a survey among Myanmar firms conducted for this project. CESD's survey sample comprises a total of 198 firms, most of which operate in the apparel and food manufacturing sectors. While not being fully representative of Myanmar's business population, CESD's survey, however, allows us to derive in-depth insights on two of the country's most important manufacturing industries.

Overall, compared to other ASEAN countries, Myanmar's SMEs appear to be much less likely to export. According to the World Bank's Enterprise Survey (2014), only 4.2% of medium-sized companies and 0.8% of small enterprises export directly or indirectly at least 1% of their sales. However, CESD's survey shows that there are significant variations across sectors. In CESD's sample, 27% of processed food producers and 84% of garment firms said that they are exporting. For them, East Asia seems to be a more important export destination than ASEAN: While merely 7% of responding firms reported exports to ASEAN, 41% reported exports to East Asia. For medium-sized and large firms, in particular, East Asia appears to be an important market: 35% of medium-sized and 67% of large survey firms export to East Asia – while the corresponding percentages for ASEAN exports are much smaller at 9% and 7%, respectively. In fact, small companies are the only group where the share of exporters to ASEAN (4%) is higher than the share of exporters to East Asia (3%).

A comparison of export patterns between the food processing and the apparel sectors suggests three conclusions: First, the share of exporters is smaller among Myanmar food processors than among Myanmar apparel producers; second, export markets for Myanmar processed food products seem to be more diversified (as apparel exports are concentrated in just four dominant markets); third, more generally, Myanmar processed food exporters target other foreign markets than Myanmar apparel producers. Export destinations also differ across firm size: While large companies are able to export to high-income markets (such as the EU, the US or Japan), regional markets (like China or Malaysia) with less demanding customers seem comparatively more important for SME exporters. Moreover, large firms in Myanmar, in general, have a much higher export propensity than SMEs.

Looking at the import side, compared to other ASEAN countries, Myanmar's SMEs appear to source less of their material inputs and supplies from abroad, pointing to their lower degree of integration into cross-border production networks. More precisely, the World Bank's Enterprise Survey finds that only 27% of medium-sized firms and 13% of small enterprises in Myanmar use material inputs and/or supplies of foreign origin. Again, however, there are differences across sectors. Among the CESD survey firms, 88% of food producers source all their inputs domestically with just 12% sourcing all or at least some of their inputs from abroad. By contrast, foreign inputs are much more important for Myanmar's apparel sector. A staggering 95% of the apparel firms in CESD's sample indicated that they source at least some inputs from foreign suppliers while just 5% of respondents said they source all their inputs locally. This can be explained by the peculiar integration of Myanmar's garment sector into regional and global value chains under the Cut-Make-Pack (CMP) model whereby the buyer ships all necessary inputs

to the Myanmar garment factory which then just carries out the labor-intensive CMP activities, assembling garment components that are purchased and supplied by the buy¬ers themselves. Comparing across firm sizes, small firms are much more likely to source all inputs locally. Only about a quarter of them imports at least some inputs from abroad whereas the corresponding percentages for medium-sized firms and large firms are much higher.

In general, non-Asian countries play a negligible role as foreign suppliers of inputs. That is, if Myanmar companies source inputs from abroad, they mostly do so from ASEAN and East Asian countries. Overall, China is reported as the most important foreign source of inputs, followed by Thailand and Japan. Again, however, there are differences across sectors. For the processed food manufacturers in CESD's sample, Malaysia is the most important source of foreign inputs, followed by China and Thailand. By contrast, for the apparel sector China and Japan are the most important countries of origin of foreign supplies, followed by Thailand and Korea.

Turning to FDI, the most important sources for FDI inflows also in CESD's sample are East Asian or ASEAN countries, thereby confirming the macroeconomic numbers. Among them, Japan, Korea, China and Hong Kong host the most active foreign investors in Myanmar. By contrast, investors from non-Asian countries, for now at least, still play a rather subdued role in Myanmar. Despite the relative importance of the region, however, CESD's survey shows that, overall, Myanmar is still hardly integrated into ASEAN business networks. Only 13% of firms responding to CESD's survey report having any business relationship (export, import and/or investment) with companies in other ASEAN countries, among them only a tiny minority of small firms.

Obstacles and enabling factors to SME participation in regional economic integration

To identify and understand enabling factors and obstacles to Myanmar SMEs' participation in regional economic activities, it is important to look at some of their key characteristics. A first observation is that overall registration rates of businesses are very low in Myanmar, implying that there is a substantial informal sector which typically connects less to regional and international economies. Second, only a very small proportion of Myanmar SMEs is currently employing Information and Communication Technologies (ICT). In fact, apart from email and having a website, hardly any ICT is used. This hampers SMEs' ability to communicate with (potential) international customers or suppliers, expand markets and improve efficiency.

Third, very few SMEs engage in innovation and technology efforts. Only 30% of the SMEs responding to CESD's survey reported being engaged in in-house research and development (R&D), 19% reported having acquired new machinery and/or equipment, while less than 5% reported expenditures on the acquisition of external knowledge and the outsourcing of R&D. As a result, innovation outcomes are at best moderate. In CESD's sample, a bit more than a third of SMEs introduced new or significantly improved products and/or services between 2012 and 2014. Interestingly, the same was true for only around a fifth of the large firms in CESD's sample, implying that at least compared to them SMEs were more active as agents of innovation. Comparing across sectors, we find that the processed food producers in CESD's sample have been more innovative than apparel firms. This may be a reflection of rapid changes in the tastes and preferences of food consumers, to which processed food producers have to respond with new offerings, as well as low requirements on innovativeness of apparel firms under the CMP model.

Fourth, SMEs currently invest very little in human capital development. More precisely, only 13% of SMEs responding to CESD's survey reported expenditures on trainings for their workers. At the same

time, many firms cite the unavailability of skilled labor as a severe constraint for their business operations. In addition to labor market bottlenecks at the workers level, evidence suggests weaknesses at the managerial level as well. In view of this, some firms resort to hiring foreign staff. However, this is much more common for large firms than for SMEs. While almost half of the large enterprises in the CESD sample reported having at least one foreign manager or professional in their workforce, the same was true for only 6% of SMEs. In a similar vein, 43% of large enterprises but only 7% of SMEs reported having at least one foreign engineer or technician among their staff. This reduces the opportunities for skills and knowledge transfer from foreign to local employees.

Finally, an open-ended question in CESD's survey invited respondents to provide comments on what they view as the three most important reasons that impede their firm's participation in local, regional and international supply chains. The most common response pointed to the scarcity or lack of raw materials. The scarcity of skilled labor and difficult access to finance were the second and third most frequently mentioned constraints to firms' integration as suppliers into value chains. Another area that many respondents identified as key impediment relates to deficiencies in the business environment (government procedures, getting permits, consistency of laws and government policies), the lack of government support, and political instability.

Awareness, usage and perceived effects of regional and preferential trade agreements

There is very little awareness and understanding among Myanmar SMEs about ASEAN integration, the AEC, and free trade agreements (FTAs) more generally. Only around 25% of the SMEs responding to the CESD survey indicated being aware of either the AEC or the ASEAN Blueprint for SME Development, and merely 3% of them have ever made use of an FTA. Lack of knowledge is the most cited reason among survey firms for not making use of FTAs and trade preference schemes. On the one hand, this means that a lot of SMEs are not aware of possible business opportunities related either to preferential access to foreign markets or to attracting foreign investors. On the one other hand, this also means that they are unaware of the challenges they might face, e.g. in the form of increased foreign competition, as a result of the opening of Myanmar's markets through the AEC and FTAs. Lacking this awareness, they might be slow and reluctant to take the necessary measures to prepare themselves for the new circumstances and stiffer competition.

Similarly, when asked about how the AEC or FTAs have affected or will affect their business in different areas, half or more of respondents said that they "don't know" or have "no opinion". That is, only half or less of survey participants expressed an opinion on the impacts they expect the AEC and the different FTAs to have on their business. Focusing on expected impacts of the AEC, large enterprises appear to be more optimistic than SMEs with regard to profits, access to intermediate inputs and particularly exports. Moreover, large enterprises also tend to be more optimistic with respect to the AEC's effects on domestic sales while among SMEs the share of skeptics (who are afraid domestic sales will decrease) is as big as the share of optimists (who expect domestic sales to increase). Survey respondents also expressed concerns related to import costs, competition in local markets and especially competition in foreign markets. There are some interesting differences between SMEs and large firms in their expectations for these variables. Large enterprises seem particularly worried about losing out to competition in foreign markets and rising import costs. SMEs, by contrast, are more concerned about competition in local markets. These findings seem to reflect a general orientation of SMEs towards domestic markets and a higher degree of integration into international trade flows of large firms. Overall, these responses also point to survey participants' concerns that the AEC will expose them to more competition while the export opportunities that it offers will be hard to capture.

Asked about the (expected) impacts of Myanmar's FTAs on their business, SMEs seem more optimistic about FTAs' effects on domestic sales than large enterprises. By contrast, almost half of the large survey firms but only around 10% of SMEs indicated that FTAs have increased or will increase their export sales. Similarly, the share of large enterprises saying that profits have increased or will increase is more than twice as high as the share of SMEs saying so. These figures are somewhat lower than for comparable questions on the AEC where more than a quarter of SMEs and more than half of large firms expected an increase in exports and profits. By and large, respondents, thus, seem to be a bit more optimistic about reaping benefits from regional integration within ASEAN than from FTAs with countries outside ASEAN. Meanwhile, SMEs seem equally concerned about FTAs leading to increases in competition in domestic and foreign markets whereas large enterprises appear to be more concerned about increases in foreign market competition. Overall, 15% and 23% of respondents said that FTAs have increased or will increase competition in local markets and com-petition in foreign markets, respectively. Again, these percentages are somewhat lower than for comparable questions on the AEC where 35% and 41% of respondents anticipated an increase in local competition and foreign market competition, respectively. In a similar vein, only 4% of respondents stated that FTAs have reduced or will reduce their domestic sales while a three times larger share of respondents expect the same to happen as a result of the AEC. This implies that respondents are more concerned about regional ASEAN competitors than about competitors from non-ASEAN countries with which Myanmar has signed FTAs.

Policy implications

Myanmar's economic policy mix will be an important factor in shaping the prosperity of Myanmar SMEs in general and their survival and success in the context of increasing regional integration more specifically. At present, however, Myanmar's SMEs receive relatively little government support (and less than large firms) for their internationalization. Obviously, some Myanmar SMEs will be more exposed to international and regional economic forces than others, depending, inter alia, on the sector they operate in. Accordingly, the need for policy support will vary across industries and companies. Moreover, public resources are very limited so there is a need for prioritization and careful design of policy interventions. Despite comprehensive and ambitious reform efforts, operating a business in Myanmar is still not simple. The list of challenges for Myanmar companies is, thus, long. Accordingly, there is an almost infinite number of items that can be suggested for a policy reform agenda. Here, instead of attempting to cover the whole universe of possible policy suggestions, the focus will be on those that emerge from the analysis of the CESD enterprise survey data. In the following, we will, hence, highlight a few rather broad policy areas where government measures appear to be most needed or most promising, at least for the garment and food-processing sectors which were the focus of our research.

First, Myanmar's government should undertake efforts to encourage firm registration and formalization. A large number of firms are currently unregistered and operating in the informal sector, hampering at least their direct integration into regional economic activities. Myanmar's government should facilitate firm registration by simplifying the processes required for a business to register and obtain licenses, and reducing their costs. Of equal importance is the need to ensure that the formalized systems that businesses are subject to upon registering (e.g. payment of taxes, renewal of licenses, application for government support measures, etc.) are not excessively burdensome. Moreover, businesses need to feel that they get something in exchange for formalizing and registering, e.g. in the form of access to financial support, information, training programs, etc.

Second, the government should work towards the improvement of data availability to allow for better evidence-based policy-making. Establishing a system of regular and systematic data collection on businesses in Myanmar would be helpful. The first step would be to carry out a business census among, if possible, the entire population of Myanmar enterprises. After the initial census, it will be necessary to conduct regular business surveys in order to keep the stock of information updated. Third, government can help to increase awareness of and knowledge about ASEAN and FTAs. This could involve public campaigns on ASEAN integration, the dissemination of reference materials, and the organization of trade fairs with a specific focus on business opportunities and market dynamics within ASEAN. To raise awareness, the government can work with and through industry associations.

Fourth, promoting human resource development will be of high importance, especially for longer-term prosperity. Government efforts should focus on increasing the domestic supply of skilled labor, covering not only technical skills needed by workers but also skills needed for white-collar, clerical and managerial jobs. This implies the need to reform the education system and increase funding for it, and ideally also involves the establishment of new vocational education and training institutes. In the short- to medium-run, government policy can aim at expanding the supply of publicly provided trainings, at strengthening existing private training institutes, and at incentivizing firms to invest in employee trainings and skill development programs.

Fifth, policies should be crafted to facilitate investment and technological upgrading by firms. Only a few SMEs put efforts and investments in innovation and in acquiring technology. The government can play an important role in supporting such efforts, but a coherent strategy and action plan for related policies and programs needs to be developed. Policy measures should aim at strengthening the linkages between SMEs and innovation and technology agents, expanding the existing network of technological and business incubators, and at the establishment of pilot science and technology parks. One key reason for low investments in technology and productive capacity is the difficult access to finance for firms. To increase borrowing by SMEs, policy measures should aim at making credit available at more attractive conditions, raise awareness on existing government support schemes, and programs to increase financial literacy among SMEs but also banks. Harnessing FDI as a source of technology transfer and additional capital could also be part of the government's strategy to promote technological upgrading, as could be the facilitation of imports of capital goods and technology.

Sixth, policies that encourage the usage of ICT by SMEs can help them to improve efficiency and connectivity to foreign markets. Further government efforts, through either direct investments, public-private partnerships or tendering, will be necessary to expand the underlying infrastructure and to improve the reliability, quality, speed and diffusion of ICT service provision. On the demand side, promoting ICT usage could be achieved through subsidization or provision of other incentives to firms and through the offering of mobile ICT training for SMEs across the country.

A final suggestion is to simplify the definition of what constitutes an SME, at least the definition to be applied when designing policy support measures aimed at SMEs. The SME definition stipulated in Myanmar's SME Law is quite complex, possibly complicating or even hindering the proper implementation of policies targeting SMEs.

2 Myanmar's historical and macroeconomic context

For decades, Myanmar's economic system has been characterized by central planning and economic isolation, the latter partly self-imposed and partly also due to international sanctions that were put in place in response to military rule. Today, however, Myanmar is leaving this past behind and things are changing rapidly. The shift towards a market-oriented economic system had actually already started in 1988. Back then, a number of reforms were initialized, aiming at liberalizing the economic system, encouraging private sector development, and promoting external trade as well as foreign direct investment. These developments have gained momentum with changes in the political sphere where a transition towards democracy was initiated in the late 2000s with a constitutional referendum in 2008 and multi-party elections in 2010. The international community welcomed these reforms and gradually re-integrated Myanmar.

As a result, today there is widespread agreement that the country has great potential for rapid development in the future, in particular thanks to its vast natural resources, its abundance of (especially young) labor, and its geostrategic location (being a member state of the Association of Southeast Asian Nations (ASEAN) and bordering the two most important and dynamic emerging economies, i.e. China and India). In fact, since Myanmar's leadership adopted a market-oriented system in 1988, the number of private manufacturing firms has increased threefold.[1] At the same time, numerous challenges remain. Neither the economic nor the political transition can be expected to be easy and without hiccups. Myanmar is still one of the poorest country in the region. Its economy is dominated by agriculture, characterized by low levels of productivity, and hamstrung by underdeveloped infrastructural and financial systems. Moreover, despite the lifting of sanctions there is still a long way to go for the country in terms of integrating into regional and international economic systems.

Table 1, Table 2 and Table 3 report a number of different macroeconomic statistics that reflect both the positive developments that Myanmar has achieved but also the challenges that were highlighted. Table 1, for example, shows that Myanmar has seen impressive economic growth. While more recent GDP growth rates did not quite match the two-digit growth rates recorded at the beginning of the millennium, they still have remained at high levels and, in fact, accelerated again since 2010 (from about 5% to around 8% per year). This has also led to a tremendous increase in average income per capita, with GDP per capita quintupling from a mere US$222 in 2000 to US$1,221 in 2014. Simultaneously, investment has grown, raising its share in GDP from a low 12% in the year 2000 to a promising 26% in 2014. In some sense, this growing investment also reflects the increased confidence in the future of Myanmar's economy. In its latest Article IV Consultation report for Myanmar, the International Monetary Fund (IMF) estimated that Myanmar's economy has again grown by 8.5% in fiscal year (FY) 2014/15 and that it will grow at a similar rate the following year, thanks to strong domestic demand and spurred by rapid expansion of credit to the private sector which in FY 2014/15 grew by 36%. At the same time, however, this economic dynamism, together with expansionary macroeconomic policies (see below), has resulted in strong inflationary pressures. Inflation rose to 8% year-on-year in May 2015, up from 4% in October 2014, and will continue to increase during FY 2015/16 to reach 13% (IMF 2015a). Overall, medium to long-term prospects remain "favorable", provided there is continued structural reforms, foreign direct investment and macroeconomic stability (IMF 2015b). In fact, the World Bank (2015a) reckons that Myanmar is likely to be the world's fourth fastest growing economy until 2017.

[1] See: https://ntsblog.wordpress.com/2013/06/14/sme-development-and-management-in-myanmar/

Table 1: Key macroeconomic indicators for Myanmar

	2000	2005	2010	2011	2012	2013	2014
Real GDP growth (in %)	13.7	13.6	5.3	5.9	7.3	8.3	7.7
GDP per capita (in US$)	222	288	998	1,121	1,103	1,113	1,221
Total investment (% of GDP)	12.4	13.2	16.0	14.9	18.0	23.1	25.7
Inflation (in %)	-1.7	10.7	8.2	2.8	2.8	5.7	5.9

Source: IMF World Economic Outlook database, April 2015

Meanwhile, Table 2 displays how the government's role in the economy has developed in the last 15 years. In the year 2000, government revenue corresponded to a meagre 13% of GDP. At the same time, government expenditure amounted to 20% of GDP, leaving a large funding gap of over 7% of GDP. On the positive side, Myanmar's government has since managed to significantly increase its tax collection, with its revenues today corresponding to almost a quarter of GDP. Moreover, this expansionary fiscal policy has also supported Myanmar's impressive economic growth record described above. However, on the negative side, in all the years since 2000 Myanmar's government has not managed to match its expenditures with its revenues. That is, there has not been a single year where Myanmar's government has managed to balance its budget so that it has been running a fiscal deficit ever since the turn of the millennium. The IMF reports that Myanmar's fiscal deficit for the FY 2014-15 was 3% of GDP and it predicts that as a result of continuing expansionary fiscal policies, Myanmar will again record a fiscal deficit of almost 5% by the end of FY 2015/16. As deficits continue to grow, the Central Bank of Myanmar (CBM) will be required to provide significant financing at around 1% of GDP for this funding gap while credit growth will also accelerate, resulting in continuous inflationary pressures (IMF 2015b).

Table 2: Myanmar government revenues, expenditures and deficit (in % of GDP)

	2000	2005	2010	2011	2012	2013	2014
Government revenue	12.9	11.8	11.4	12.0	23.3	23.2	24.8
Government total expenditure	20.1	14.6	16.9	16.6	25.0	25.2	29.1
Government deficit	-7.2	-2.8	-5.4	-4.6	-1.7	-2.0	-4.3

Source: IMF World Economic Outlook database, April 2015

Looking at Myanmar's international economic transactions reveals a mixed picture; see Table 3. On the one hand, exports have expanded very fast, in many years even at two-digit rates. On the other hand, imports have grown even faster, especially since 2006 which is the last year in which Myanmar recorded a current account surplus. That is, Myanmar's current account has been in deficit for almost a decade and, even worse, this deficit has been growing in the last couple of years, reaching 7.2% of GDP in 2014. This trend is to continue with the IMF forecasting a current account deficit of around 9% of GDP for FY 2015/16, with foreign currency reserves falling to the equivalent of just 2.5 months of Myanmar imports (IMF 2015b). As a result, the exchange rate has been under strong downwards pressure, as the IMF also notes, depreciating by around 25% since the beginning of 2015.

Table 3: International transactions – Myanmar's current account

	2000	2005	2010	2011	2012	2013	2014
Annual growth of imports (in %)	-2.8	0.8	14.7	23.0	17.2	13.4	21.0
Annual growth of exports (in %)	17.8	15.3	10.3	9.6	5.0	12.3	13.1
Current account balance (in billion US$)	-0.6	0.8	-0.6	-1.1	-2.4	-2.9	-4.5
Current account balance (% of GDP)	-5.9	6.1	-1.2	-1.9	-4.3	-5.1	-7.2

Source: IMF World Economic Outlook database, April 2015

The previous paragraphs have provided a snapshot on the political and macroeconomic context in which Myanmar SMEs operate today. As has been highlighted, a lot of positive developments have taken place; at the same time, there are certain macroeconomic risks related to high inflation and the rapid depreciation of the Myanmar Kyat. Moreover, the recent elections had created some political uncertainty and worries about stability and the continuation of economic reforms. However, the unambiguous election results and the landslide victory by Aung San Suu Kyi's National League for Democracy (NLD) have helped to ease concerns and raised the hope of stability among both local and foreign business communities (Myanmar Times 2015a, 2015b, 2015c, 2015d; The Irrawaddy 2015). Finally, the launch of the ASEAN Economic Community (AEC) at the end of 2015 will generate both opportunities and challenges for Myanmar's SMEs. On the one hand, they will have easier access to inputs and markets in the ASEAN region. On the other hand, they will likely face increased competition both in domestic and regional markets.

It is in this context that the present paper undertakes an investigation into the extent of Myanmar SMEs' participation in ASEAN and East Asian regional economic relations as well as into the challenges they face and the policy support they need for deeper integration. More specifically, the paper attempts to address the following four questions: What is the state of Myanmar SMEs' participation in regional trade, production networks, and investment activities? What are the enabling factors and obstacles to SME participation in regional trade, production networks, and investment activities? How have regional and preferential trade agreements affected SMEs' activities and performance? What are the policy imperatives at national and regional level to promote active participation of Myanmar SMEs in regional trade, production networks, and investment?

To find answers to these questions, the paper, on the one hand, analyzes existing, publicly available secondary data while, on the other hand, also drawing on a new dataset collected through a survey among Myanmar enterprises conducted for the purpose of this research project. Using these two different sources of information is crucial as each data source on its own suffers from certain shortcomings: As for existing secondary data, only a little data is currently available; as for the primary data we collected through the enterprise survey (in 2015), questionnaires returned by companies were often incomplete as they were unwilling to provide responses on certain topics. The latter can largely be explained by, first, a certain survey fatigue among companies (who have been surveyed a lot in recent years by both local and international institutions) and, second, the specific historical context in which the survey was carried out where many firms were concerned and felt uncertain because of ongoing negotiations on a new minimum wage on the one hand and the upcoming elections on the other hand (see Appendix 2 for more details).

Overall, it is important to recognize that, mostly due to the country's political conditions and its many years of isolation, existing research on Myanmar's economic system and performance is quite limited. Our paper, therefore, has to be primarily viewed as baseline research and its main contribution will be to complement other efforts to take stock of, and improve knowledge on, Myanmar's current economic setup, with a focus on SMEs. It is essential to do this contextualization and framing of our research right at the outset to make clear the important limitations that this implies.

The remainder of this paper is structured as follows: Section 2 takes a bird's eye view on the external relations of Myanmar's economy and, using available secondary data, analyzes Myanmar's trade and investment relations with the world, ASEAN and the East Asia region while also providing a quick overview of Myanmar's trade agreements and preferential market access. In section 3, the paper starts to shift from an economy-wide perspective towards a firm-level perspective; it introduces the concept of SMEs, briefly discusses their role in the economies of countries around the world, presents Myanmar's definition of SMEs, and gives a summary on the availability and sources of information on SMEs in Myanmar. Drawing on these different data sources and particularly CESD's survey, section 4 digs deeper and presents key characteristics of SMEs in Myanmar. Section 5 focuses on SMEs' participation in the international economy; after some general considerations, it analyzes Myanmar SMEs' integration into global and regional trade, production networks and investment flows. Section 6 concludes and presents some policy implications emerging from the preceding analyses.

3 Myanmar's trade and investment relations with the world, ASEAN and the East Asia region

3.1 Myanmar's trade performance in the recent past

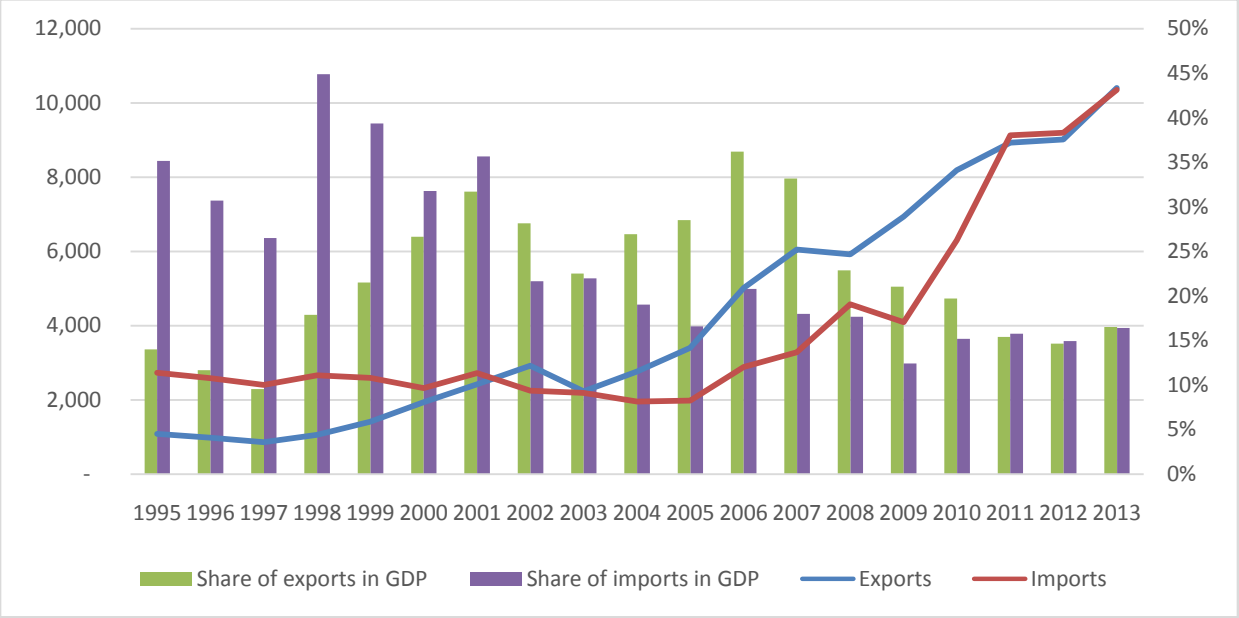
Due to prior political regimes, Myanmar's overall level of integration in the world economy has been very low for several decades. Besides trading with its neighbors and other countries in the East Asian region, Myanmar also had relevant trade linkages with Western countries such as the US (which was the most important market for its apparel exports, for example), the UK, Germany and other European countries. However, with the imposition of economic sanctions by the US starting in 1997 and many European countries following suit, Myanmar's external trade saw a re-orientation towards its own region (see Kudo 2008 or Martin 2012, for example). Two of the main reasons for this re-orientation were, first, the fact that the countries in the region did not follow the US in imposing sanctions and, second, that many of them (most notably China) were experiencing high levels of economic dynamism and growth. Since 2013, however, Myanmar is re-engaging with Western markets in Europe and the US.

Figure 1 shows the developments of Myanmar's total exports and imports of goods and services for the time period from 1995 to 2013. It reveals that Myanmar's exports to the world have continuously grown from US$1.1 billion in 1995 to US$10.4 billion in 2013. The same trend could already be seen in Table 3 above which shows that exports have expanded very fast, in many years even at two-digit rates. The impact of the sanctions can be seen in that there is a small disruption of this trend in 2003, when US trade sanctions were tightened. Myanmar's imports of goods and services from the world, on the other hand, have seen quite a different development. They by far exceeded exports in 1995 but were on a slight downwards trend between 1995 and 2004, after which they started to grow rapidly (from US$2.0

million in 2004 to US$10.4 million in 2013) to finally surpass exports in the year 2011. As noted above, according to other data sources this gap widened dramatically in 2014.

In relation to total economic activity in Myanmar, both exports and imports corresponded to around 16.5% of GDP in 2013 (see right axis of Figure 1). This is quite low compared to other countries in the region. According to data from the World Bank's World Development Indicators (WDI) database, the share of exports in GDP ranges from 24% in Indonesia and 28% in the Philippines to 40% in Laos, 68% in Cambodia, 75% in Thailand, 80% in Malaysia, 86% in Vietnam and a staggering 188% in Singapore, the region's international trade hub. Similarly, imports amounted to 24% of GDP in Indonesia, 31% in the Philippines, 49% in Laos, 68% in Thailand, 76% in Cambodia, 83% in Vietnam, up to 163% in Singapore. Overall, this shows Myanmar's comparatively low degree of integration into the world trading system.

Figure 1: Myanmar's exports and imports in million US$ (left axis) and as a share of GDP (right axis), 1995-2013

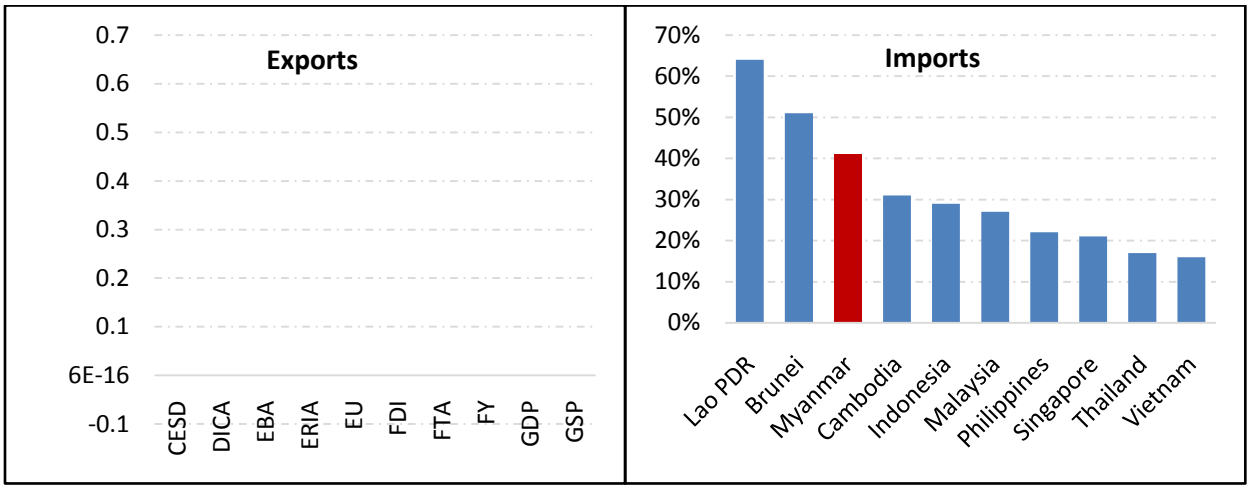


Source: United Nations Statistics Division (UNSD) National Accounts Main Aggregates Database

3.2 Myanmar's trade with ASEAN

Myanmar joined ASEAN as a member state in July 1997. ASEAN is an important market for Myanmar's exports. As can be seen in the left panel of Figure 2, over 40% of Myanmar's exports are destined for other ASEAN countries. This is the second highest share among all ASEAN member states, only topped by Laos. Moreover, Myanmar sources about 40% of all its imports from other ASEAN countries. Only Laos and Brunei get a higher share of their imports from within ASEAN. By contrast, Vietnam is at the bottom of the ranking, with merely 12% of its exports going to other ASEAN countries and sourcing only 15% of its imports from within ASEAN (see also Tables A.2 and A.3 in the appendix).

Figure 2: Share of ASEAN in member states' total exports and imports (2013)

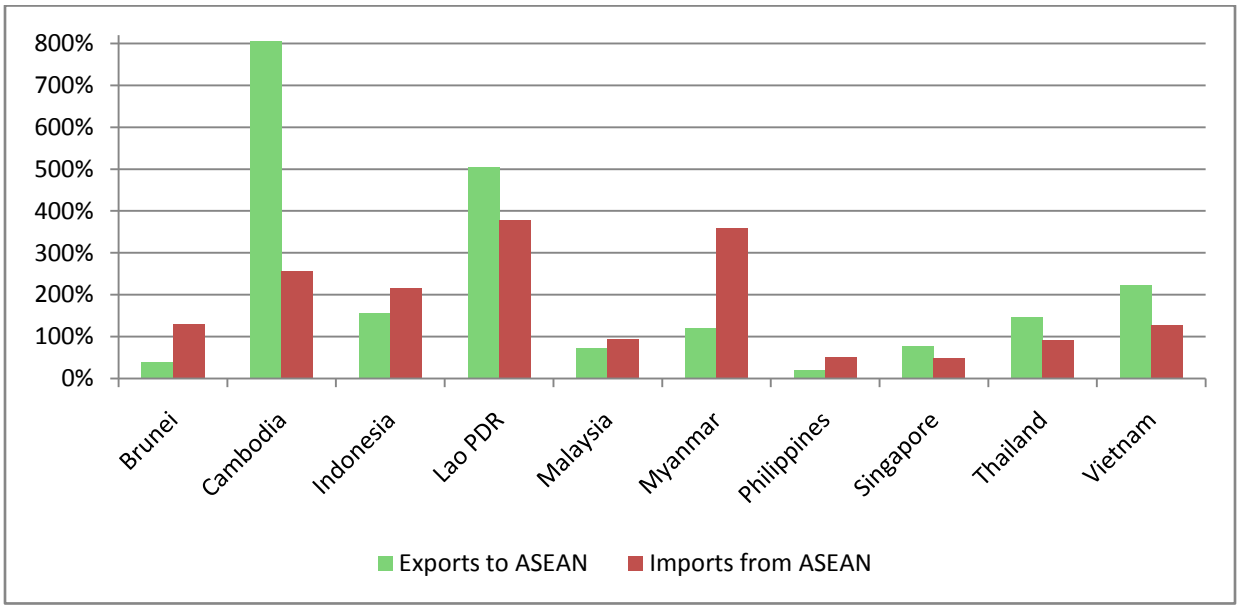


Source: ASEAN Merchandise Trade Statistics Database

Table A.1 in the appendix gives a detailed overview of ASEAN trade flows for each ASEAN member country as well as a number of East Asian countries. For Myanmar, exports to ASEAN grew from US$2,090 million in 2005 to US$4,633 million in 2013. In other words, Myanmar's exports to other ASEAN countries more than doubled during these eight years. While this is quite an impressive record, it still means just the sixth-best export growth performance among the ten ASEAN countries as only Brunei's, Malaysia's, the Philippine's and Singapore's exports to ASEAN have grown more slowly during the same time period (see also Figure 3). In terms of export values, Myanmar ranks only seventh among the ten ASEAN members. Its 2013 ASEAN exports worth US$4,633 million are higher than Brunei's, Cambodia's and Laos' but fall significantly short of Thailand's (US$59,287 million) or Vietnam's (US$18,584 million), for example.

Looking at the import side, Figure 3 reveals that among ASEAN members Myanmar has recorded the second-fastest growth of imports sourced from ASEAN after Laos. In fact, Myanmar's imports from ASEAN increased from US$1,644 million in 2005 to US$7,559 million in 2013. This not only implies a growth rate of 360% in these eight years but also that Myanmar's ASEAN trade balance turned from a surplus of US$446 million in 2005 to a deficit of US$2,269 million in 2013. This is a result of the fact that Myanmar's imports from ASEAN grew almost three times as fast as its exports to ASEAN (360% vs. 122%) between 2005 and 2013. Still, in value terms, its imports from ASEAN exceed only those from the smaller ASEAN members, i.e. Brunei, Cambodia and Laos, but fall considerably short of those of other members (e.g. Thailand's US$41,737 million or Vietnam's US$21,287 million in 2013).

Figure 3: Growth Rates of Exports to and Imports from ASEAN 2005-2013 (in %)



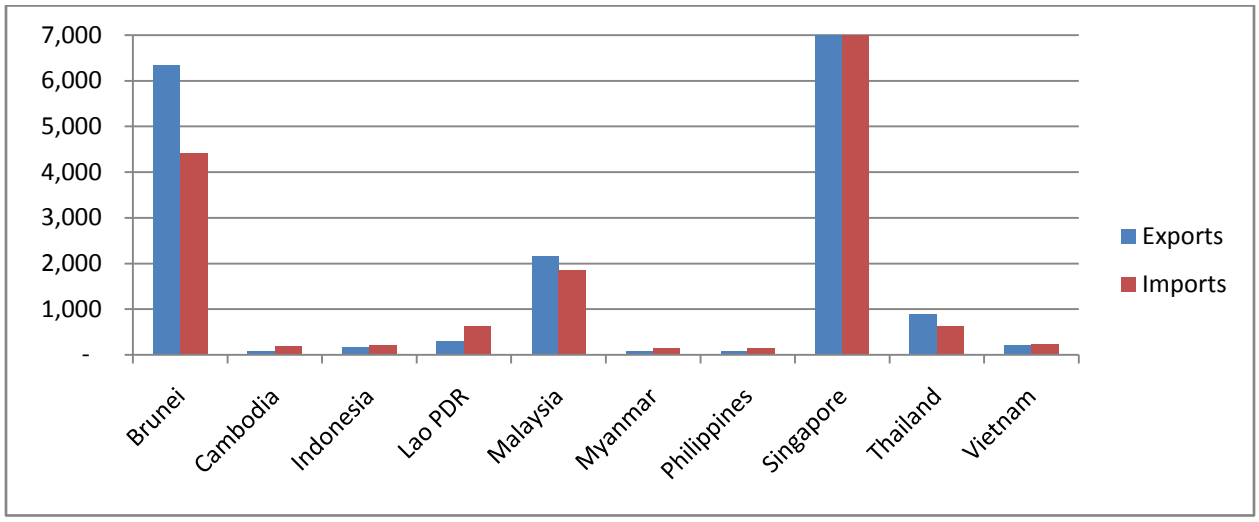
Source: UN COMTRADE Database

Since ASEAN member countries differ significantly in terms of population size, it makes sense to scale their exports and imports by population to get per capita export and import figures which are more suitable for cross-country comparisons. As can be seen in Figure 4, per capita ASEAN exports and imports are highest in Singapore and Brunei, partly reflecting their small population size. In Myanmar, imports per capita exceed exports per capita, reflecting the deficit in its trade with other ASEAN countries mentioned above. With Cambodia, Indonesia, Laos, the Philippines and Vietnam, five other ASEAN members also have a deficit – which follows from the fact that some members' surpluses have to be matched by other members' deficits.

In any case, at US$87, Myanmar's ASEAN exports per capita are the second-lowest after Cambodia's at US$85. However, they have more than doubled since 2005 when they stood at US$42, almost closing the gap to the Philippines whose ASEAN exports per capita in 2013 amounted to US$88. Yet, Myanmar's ASEAN exports per capita are still much lower than Laos', Vietnam's and Indonesia's and a far cry from the levels seen in Thailand and Malaysia (see Table A.2 in the appendix for more details).

On the import side, in 2013 Myanmar's purchased goods and services worth US$142 per capita from other ASEAN countries. This is actually the lowest value seen in the whole grouping, although only narrowly falling short of the US$144 observed for the Philippines and the US$187 seen in Cambodia. At the same time, Myanmar's ASEAN imports per capita have seen the fastest growth rate among all ASEAN countries, growing by 333% since 2005 (when they stood at US$33) (see Table A.3 in the appendix for more details).

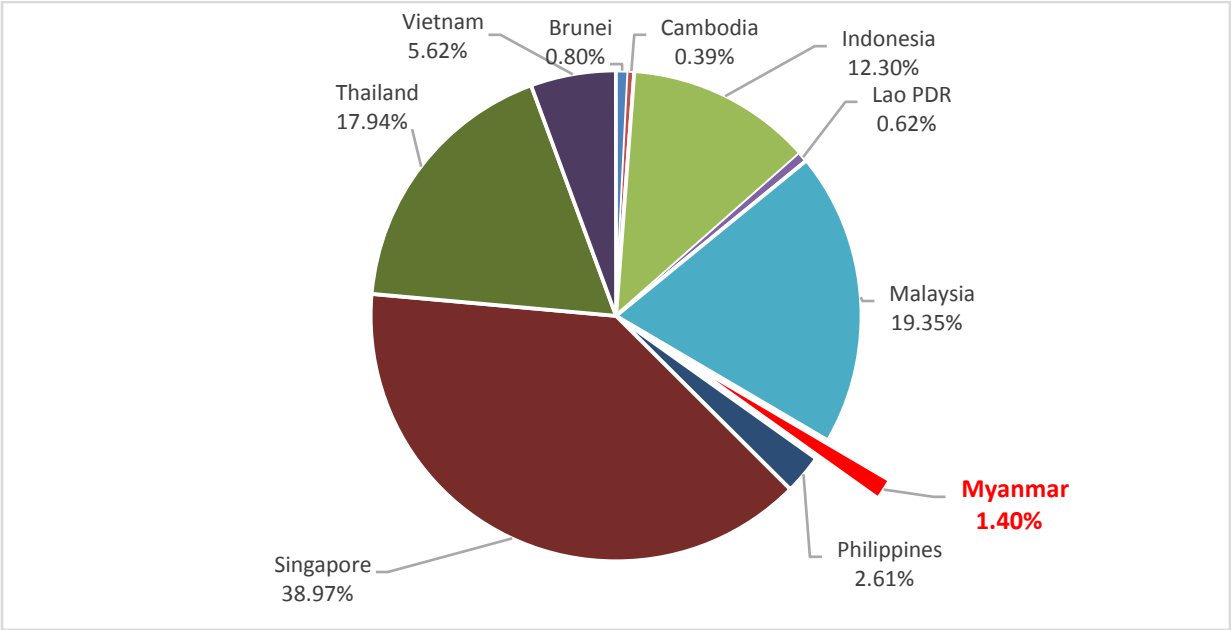
Figure 4: Per capita exports to and imports from ASEAN, in US$ (2013)



Note: For better legibility, the graph has been capped at US$ 7,000 line. As a result, the bars for Singapore were cut. Its ASEAN exports per capita actually stood at US$ 23,852 while its imports from ASEAN amounted to US$ 14,426 per capita.

Source: UN COMTRADE and WDI databases

Figure 5: Share of Myanmar in total intra-ASEAN exports (2013)



Source: UN COMTRADE Database

Overall, Myanmar is still a very small player even within ASEAN. As Figure 5 shows, the share of Myanmar in total intra-ASEAN exports (i.e. of total exports by ASEAN countries to other ASEAN member states) is a slim 1.4% and, thus, only somewhat higher than Brunei's, Cambodia's and Laos'. This reflects that Myanmar is a newcomer to world trade but also to ASEAN trade, despite recent efforts of opening and liberalization. All the evidence presented above suggests that there is quite some potential for Myanmar to catch up and to intensify its trade relations with other ASEAN member states.

3.3 Decomposing Myanmar's ASEAN and East Asian trade

As can be seen in Table 4, Thailand is by far Myanmar's most important export market within ASEAN. In 2013, Myanmar exported goods and services worth US$4.033 billion to Thailand, corresponding to around 87% of Myanmar's total ASEAN exports which stood at US$4.633 billion. Moreover, Myanmar's exports to Thailand more than doubled between 2005 and 2013. All other ASEAN countries are rather small export markets for Myanmar. Malaysia and Singapore each purchased Myanmar merchandise worth somewhat less than US$200 million in 2013 while Vietnam was the destination of Myanmar exports valued at US$124 million. However, while exports to Singapore and especially Malaysia have seen a rather uneven development, in the case of Vietnam there is a clear upward trend since 2005.

Looking at Myanmar's regional exports beyond ASEAN reveals that Japan, Korea and particularly China are important export markets in the East Asian region. In 2013, Myanmar's exports to China amounted to almost US$3 billion which makes it the second largest regional export market after Thailand. In the same year, Myanmar's exports to Japan and Korea were valued at US$759 million and US$488 million, respectively, which is more than Myanmar's exports to any ASEAN country except for Thailand. Moreover, Myanmar's shipments to these three regional markets have expanded rapidly during the last few years. Between 2010 and 2013, Myanmar's exports to China and Korea tripled while its exports to Japan doubled. By contrast, Hong Kong and Macao remain rather minor markets for Myanmar products (see Table 4).

Table 4: Myanmar's bilateral exports to ASEAN and East Asian countries (in US$1,000)

	2005	2010	2011	2012	2013
Brunei	n.a.	n.a.	n.a.	184	857
Cambodia	422	52	132	114	263
Indonesia	14,155	31,847	71,279	63,533	73,151
Malaysia	133,585	229,229	233,749	183,412	198,161
Philippines	1,337	13,313	20,539	29,929	24,765
Singapore	107,866	82,941	85,905	79,035	179,231
Thailand	1,787,181	2,813,866	3,268,318	3,673,985	4,032,926
Vietnam	45,778	102,824	84,801	109,476	123,515
ASEAN-10 total	***2,090,323***	***3,274,070***	***3,764,723***	***4,139,667***	***4,632,869***
China	274,395	966,087	1,679,873	1,298,226	2,856,867
Hong Kong	48,315	41,086	47,463	47,042	40,994
Japan	203,572	385,935	590,014	672,031	759,296
Korea	56,257	159,892	298,681	351,164	487,769
Macao	33	1,920	2,706	2,585	2,241

Source: UN COMTRADE Database

Table 5 shows that Myanmar's exports to ASEAN are dominated by raw materials and resource-based products. Actually, gas and crude oil account for over 80% of all exports. Myanmar's top-20 export products also include agricultural and food products (dried vegetables, rice, onions, groundnuts, natural rubber), fishery products (fresh and frozen fish, crustaceans), forestry products (wood in the rough, sawn wood) as well as metals and minerals (natural sands, tin, ores, refined copper). Manufactured products are almost entirely absent from this top-20 list.

Table 5: Myanmar's top-20 export products to ASEAN

Rank	HS code	Product group	Export value in 2013 (mn. US$)	Share of total exports
1	2711	Petroleum gases and other gaseous hydrocarbons	3,674.73	79.4%
2	2709	Crude petroleum oils	152.81	3.3%
3	0713	Dried leguminous vegetables, shelled	137.24	3.0%
4	4403	Wood in the rough	130.17	2.8%
5	4001	Natural rubber, balata and similar natural gums	69.30	1.5%
6	2505	Natural sands of all kinds	35.32	0.8%
7	0306	Crustaceans	33.89	0.7%
8	1202	Ground-nuts, not roasted or otherwise cooked	33.30	0.7%
9	7403	Refined copper and copper alloys, unwrought	32.54	0.7%
10	4407	Wood sawn or chipped lengthwise, sliced or peeled	31.77	0.7%
11	0102	Live bovine animals	31.76	0.7%
12	0302	Fish, fresh or chilled	23.90	0.5%
13	0303	Fish, frozen, excluding fish fillet	14.35	0.3%
14	1006	Rice	14.25	0.3%
15	2609	Tin ores and concentrates	13.41	0.3%
16	7307	Tube or pipe fittings	10.22	0.2%
17	4402	Wood charcoal	9.17	0.2%
18	0703	Onions, shallots, garlic, leeks and alliaceous vegetables	9.11	0.2%
19	2617	Other ores and concentrates	8.84	0.2%
20	9001	Optical fibres and optical fibre bundles	8.70	0.2%
		TOTAL	**4,628.98**	

Note: These figures are based on mirror data on product groups at the 4-digit level of product disaggregation according to the Harmonized Commodity Description and Coding System, also known as the Harmonized System (HS); "nes" stands for "not elsewhere specified"

Source: UNCOMTRADE Database

Similar to the export side, Thailand is also Myanmar's most important source of imports within ASEAN. However, Thailand is much less dominant as origin of Myanmar imports than it is as a market for Myanmar exports. In 2013, Myanmar purchased goods and services worth US$3.8 billion from Thailand, corresponding to roughly half of Myanmar's total ASEAN imports which amounted to US$7.6 billion, while Singapore accounted for about 30% of Myanmar's ASEAN imports. An additional 9.5% and 7.4% of Myanmar's ASEAN imports came from Malaysia and Indonesia, respectively (but these imports were valued at less than US$1 billion). Since 2010, Myanmar's imports from these four countries almost doubled. During the same time period, imports from Vietnam have grown fastest (+364%); still, Vietnam currently accounts only for about 3% of Myanmar's ASEAN exports.

However, Myanmar's most important source of imports in the region is by far China. In 2013, Myanmar imported almost as much from China (US$7.3 billion) as it did from all the ASEAN countries together (US$7.6 billion). Moreover, Myanmar's imports from China have more than doubled since 2010. Yet, imports from Japan have expanded even faster during these three years, growing from US$262 million

in 2010 to over US$1 billion in 2013, implying a quadrupling in the value of goods purchased from Japan. Meanwhile, imports from Korea have seen a more unsteady development. They grew between 2005 and 2012 when they peaked at US$1.3 billion before dropping to US$705 million in 2013, putting it more or less at par with Malaysia (see Table 6).

Table 6: Myanmar's bilateral imports from ASEAN and East Asian countries

	2005	2010	2011	2012	2013
Brunei	38	n.a.	n.a.	27	36
Cambodia	70.283	2	79	83	675
Indonesia	77,990	284,172	359,471	401,590	556,375
Malaysia	245,562	369,510	558,968	704,519	716,951
Philippines	9,087	11,233	14,129	19,132	22,682
Singapore	594,888	1,159,348	1,212,957	1,339,308	2,245,413
Thailand	704,851	2,072,955	2,845,830	3,127,141	3,786,941
Vietnam	11,978	49,521	82,458	117,813	229,747
ASEAN-10 total	***1,644,426***	***3,946,741***	***5,073,892***	***5,709,613***	***7,558,819***
China	934,847	3,475,524	4,821,497	5,673,756	7,338,689
Hong Kong	1,563	986	537	799	889
Japan	91,811	261,854	502,932	1,257,544	1,057,427
Korea	120,013	478,809	666,742	1,330,892	705,109
Macao	0	n.a.	n.a.	n.a.	n.a.

Source: UN COMTRADE Database

The composition of Myanmar's imports from ASEAN is quite different from the structure of its exports. First and foremost, it is much more diversified and much less concentrated in a few products. Table 7 reveals that petroleum oils again top the ranking of imports (accounting for 19% of Myanmar's total ASEAN imports), but unlike on the export side (where crude oil dominates) in this case it is refined petroleum. The rest of the ranking mostly consists of manufactured products, including processed food and beverages, construction materials, machinery, vehicles, and medicaments. Interestingly, some of the products on this top-20 list are also produced in Myanmar itself, including palm oil, food preparations, beer, waters but also rubber tyres. This not only raises the question of why these products are sourced abroad and where local products fall short in terms of competitiveness vis-à-vis foreign products, but also points to possible import substitution opportunities.

Table 7: Myanmar's top-20 import products from ASEAN

Rank	HS code	Product group	Import value in 2013 (mn. US$)	Share of total imports
1	2710	Refined petroleum oils	1,450.88	19%
2	1511	Palm oil and its fractions	515.11	7%
3	9406	Prefabricated buildings	288.47	4%
4	2523	Portland cement, aluminous cement	209.43	3%
5	2202	Waters, including mineral waters	153.66	2%
6	2106	Food preparations nes	134.69	2%
7	8525	Transmission apparatus for radio or television	130.68	2%
8	1901	Malt extract; food preparations of flour, groats, meal, starch or malt extract	115.84	2%
9	7304	Tubes, pipes and hollow profiles	106.70	1%
10	3004	Medicaments	104.02	1%
11	8431	Machinery parts	102.29	1%
12	2203	Beer made from malt	93.52	1%
13	2101	Extracts, essences and concentrates of coffee or tea	92.38	1%
14	8703	Motor cars and other motor vehicles	90.57	1%
15	8471	Automatic data processing machines	80.25	1%
16	8502	Electric generating sets and rotary converters	73.93	1%
17	4011	New pneumatic tyres, of rubber	71.52	1%
18	8507	Electric accumulators	64.88	1%
19	2208	Undenatured ethyl alcohol	64.51	1%
20	8454	Converters, ladles, ingot moulds and casting machines used in metallurgy or in metal foundries	63.73	1%
		TOTAL	**7,474.13**	

Note: These figures are based on mirror data on product groups at the 4-digit level of product disaggregation according to the Harmonized Commodity Description and Coding System, also known as the Harmonized System (HS); "nes" stands for "not elsewhere specified"

Source: UNCOMTRADE

3.4 Myanmar's trade agreements and preferential market access

Myanmar has entered into a number of Free Trade Agreements (FTAs). Table 8 provides an overview. As can be seen there, most of Myanmar's FTAs are through ASEAN. In addition to the ASEAN FTA, Myanmar is also a signatory of an ASEAN FTA with Australia and New Zealand as well as of ASEAN Comprehensive Economic Partnership or Cooperation Agreements with China, India, Japan and South Korea. All of these agreements were signed and have been in force since the second half of the 2000s. These agreements facilitate trade in goods and services as well as investment flows among signatories. In addition, Myanmar is part of trade negotiations launched between ASEAN and Hong Kong as well as through the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Finally, Myanmar signed a Trade and Investment Framework Agreement (TIFA) with the US in 2013 which

creates a platform for ongoing dialogue and cooperation on trade and investment issues between the two countries.

Table 8: Myanmar's Free Trade Agreements

FTA name	FTA partner country/countries	Status
ASEAN Free Trade Area (AFTA)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, Vietnam	Signed and in effect since 1992
ASEAN-Australia and New Zealand Free Trade Agreement (AANZ)	ASEAN + Australia and New Zealand	Signed and in effect since 2010
ASEAN-India Comprehensive Economic Cooperation Agreement (incl. AIFTA)	ASEAN + India	Signed and in effect since 2010
ASEAN-Japan Comprehensive Economic Partnership (incl. AJFTA)	ASEAN + Japan	Signed and in effect since 2008
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement (incl. ACFTA)	ASEAN + China	Signed and in effect since 2005
ASEAN-Korea Comprehensive Economic Cooperation Agreement (incl. AKFTA)	ASEAN + Republic of Korea	Signed and in effect since 2010
ASEAN-Hong Kong, China Free Trade Agreement	ASEAN + Hong Kong	Negotiations launched in 2014
Regional Comprehensive Economic Partnership	ASEAN + Australia, China, India, Japan, Korea, and New Zealand	Negotiations launched in 2009
Myanmar-US FTA	USA	Framework Agreement signed in 2013
Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area	Bangladesh, Bhutan, India, Nepal, Sri Lanka, Thailand	Framework Agreement signed in 2004 and negotiations launched

Source: ADB (http://aric.adb.org/fta-country); UNESCAP (http://artnet.unescap.org/APTIAD/agg_db.aspx)

Apart from that, Myanmar also enjoys preferential access to the markets of a number of countries. As a Least Developed Country (LDC), it is a beneficiary of the Generalized System of Preferences (GSP) through which a number of countries offer lower tariffs for imports from eligible countries. For example, Myanmar benefits from the most favorable regime available under the EU's GSP, namely the "Everything But Arms" (EBA) scheme which gives LDCs duty-free access to the EU market for the export of all products, except arms and ammunition. The EU had temporarily withdrawn these GSP preferences from Myanmar in 1997 but they were reinstated in 2013. Similarly, Myanmar enjoys preferential tariff treatment under the GSP schemes of other advanced economies such as Australia, Japan, New Zealand, Iceland, Norway and Switzerland (with the latter three being European countries but not EU members). Canada and the US are also operating GSP schemes but have not (yet) extended their benefits to Myanmar. More recently, a number of emerging economies have also introduced GSP schemes and Myanmar is a beneficiary of those offered by Belarus, Kazakhstan and Russia. Finally, as an LDC, Myanmar is also granted preferential treatment through the preferential market access schemes in favor of LDCs implemented by China, India and South Korea (UNCTAD 2013a, 2015).

3.5 ASEAN and East Asian investment in Myanmar

Capital is typically a scarce factor of production in countries at the early stage of economic development as Myanmar's. As a consequence, such countries tend to be recipients rather than sources of international capital flows. That is, outward foreign direct investment (FDI) is a rare occurrence in such countries. In the following, we will therefore focus on inward FDI into Myanmar.

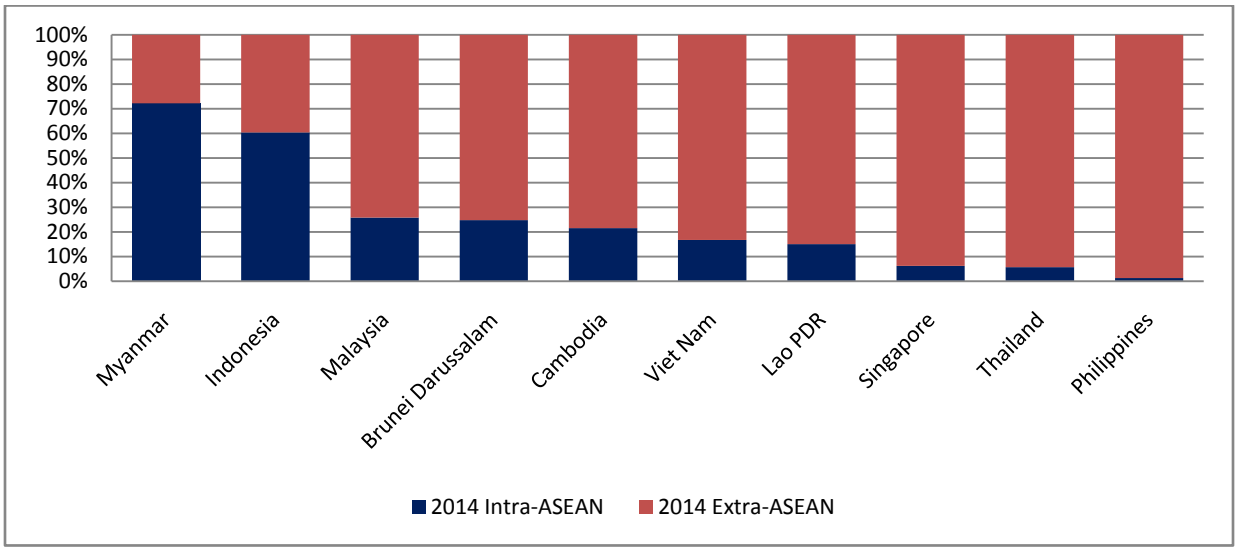
Since the re-opening of Myanmar's economy to international transactions in 2011, overall FDI inflows have grown rapidly. In the late 1990s and early 2000s, Myanmar attracted only few foreign investors and most of them where from East Asian countries such as China, Thailand and South Korea. Moreover, the bulk of foreign investments during that time were in natural resource extraction and export-oriented hydropower projects. However, since the new government came to power, Myanmar has not only seen a significant increase in the number of FDI projects but also a diversification in terms of sectors and the countries of origin of foreign investors. While six years ago, the Myanmar Investment Commission (MIC) approved only five FDI projects, in the fiscal year 2013-14 it approved 123 projects with an estimated value of over US$4.1 billion. Although there are still investments in natural resource and hydropower projects, most new FDI projects are in manufacturing (especially in the garment sector), hotels and tourism, telecommunications, and other non-extractive sectors. [2]

Recently, other ASEAN countries have become an important source of FDI inflows for Myanmar. This can be seen in Figure 6 which display how inward FDI is distributed between intra-ASEAN inflows (i.e. FDI coming in from another ASEAN member state) and extra-ASEAN inflows (which originate from non-ASEAN countries) in each of the ten ASEAN member countries. As Figure 6 shows, the share of ASEAN in total inward FDI was more than 70% in Myanmar in 2014, the highest figure reported among ASEAN member states. At the other extreme are the Philippines which get almost all their FDI from non-ASEAN countries (i.e. almost all their inward FDI is extra-ASEAN FDI).

Looking back in time reveals that today's situation in Myanmar is actually a reversal of the past. Table 9 indicates that in 2013 and particularly in 2012 extra-ASEAN FDI inflows exceeded intra-ASEAN FDI inflows. In fact, in 2012 Myanmar received only a slim US$151 million of FDI from within ASEAN but US$1,203 million of FDI from outside ASEAN. In 2013, intra-ASEAN FDI (US$1,187 million) and extra-ASEAN FDI (US$1,434 million) were already almost even.

[2] See the "Data and Statistics" section of the Department of Investment and Company Administration's (DICA) website: http://dica.gov.mm.x-aas.net/

Figure 6: Intra- and Extra-ASEAN FDI Inflows (2014)



Source: ASEAN Foreign Direct Investment Statistics Database

Table 9: Intra- and Extra-ASEAN FDI Inflows (in million US$)

Country	2012			2013			2014		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei	31.5	833.3	864.8	-58.0	783.5	725.5	141.2	427.0	568.2
Cambodia	523.0	1,034.1	1,557.1	298.8	976.1	1,274.9	372.5	1,354.0	1,726.5
Indonesia	7,587.9	11,550.0	19,137.9	8,721.1	9,722.7	18,443.8	13,458.8	8,817.5	22,276.3
Lao PDR	73.6	220.7	294.4	104.6	322.1	426.7	137.9	775.3	913.2
Malaysia	2,813.9	6,586.1	9,400.0	2,187.5	10,109.9	12,297.4	2,771.1	7,943.0	10,714.0
Myanmar	**151.2**	**1,203.0**	**1,354.2**	**1,186.8**	**1,434.1**	**2,620.9**	**683.6**	**262.6**	**946.2**
Philippines	145.2	2,651.8	2,797.0	-41.7	3,901.5	3,859.8	78.6	6,121.9	6,200.5
Singapore	8,302.0	52,678.3	60,980.3	3,665.0	52,473.3	56,138.3	4,532.7	67,565.6	72,098.3
Thailand	-342.0	11,041.2	10,699.2	1,256.8	11,743.0	12,999.8	653.9	10,884.0	11,537.9
Viet Nam	1,262.5	7,105.5	8,368.0	2,078.6	6,821.4	8,900.0	1,547.1	7,653.0	9,200.1
Total	**20,540**	**94,904**	**115,453**	**19,400**	**98,288**	**117,687**	**24,377**	**111,804**	**136,181**

Methodological note: FDI figures are on a net basis and computed as follows: Net FDI = Equity + Net Inter-company Loans + Reinvested Earnings. The net basis concept implies that the following should be deducted from the FDI gross flows: (1) reverse investment (made by a foreign affiliate in a host country to its parent company/direct

investor; (2) loans given by a foreign affiliate to its parent company; and (3) repayments of intra-company loans (paid by a foreign affiliate to its parent company). As such, FDI net inflows can be negative.

Source: ASEAN Foreign Direct Investment Statistics Database

As can be seen in Table 10, which gives details on bilateral FDI flows between Myanmar and ASEAN as well as East Asian countries, this reversal of trends was primarily driven by Singapore and Thailand. What is important to emphasize here is that the figures reported in Table 10 are only "approved" FDI amounts, i.e. Myanmar authorities (e.g. DICA or MIC) have approved investment projects that amount to these sums. This implies that these are *not* actual investment flows. In fact, actual investments might fall short of these amounts. However, what these figures show is a renewed interest among foreign, including ASEAN, investors to invest in Myanmar, in particular starting in 2009-2010. In recent years, Singapore has by far been the most important source of FDI for Myanmar, followed by other countries in the region including China, Thailand, Hong Kong, South Korea and Vietnam. At the moment at least, investors from non-Asian countries play a minor role in Myanmar.

Overall, however, Myanmar is a rather small recipient of intra-ASEAN FDI inflows. As can be seen in Figure 7, less than 3% of all intra-ASEAN FDI flows went to Myanmar while Indonesia received over 55% of them in 2014. Still, this share was higher than Cambodia's, Laos', Thailand's, Brunei's and the Philippines', and also higher than Myanmar's share in intra-ASEAN exports (see Figure 5).

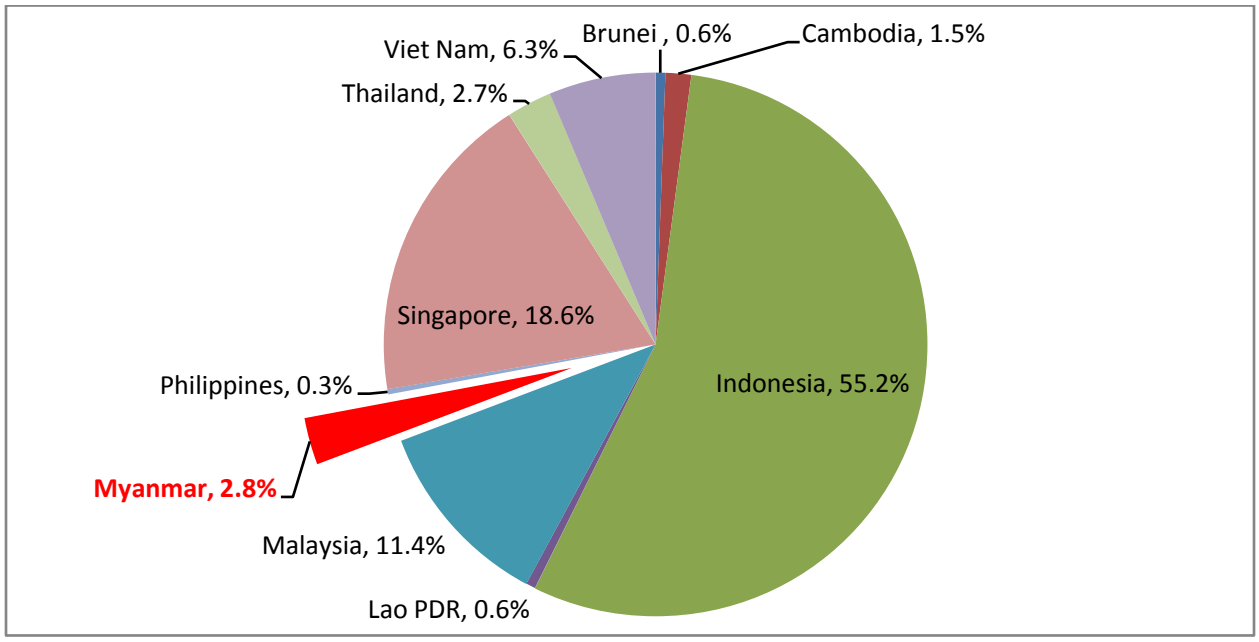
Table 10: Approved FDI of ASEAN and East Asian countries in Myanmar (in million US$)

Country of Origin	Fiscal Year										
	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	April-June 2015
Brunei	0	0	0	0	0	0	0	1.0	2.3	43.9	5.1
Cambodia	0	0	0	0	0	0	0	0	0	0	0
Indonesia	0	0	0	0	0	0	0	0	0	0	13.2
Laos	0	0	0	0	0	0	0	0	0.9	0	0
Malaysia	0	0	0	0	237.6	76.8	51.9	4.3	616.1	6.7	3.6
Philippines	0	0	0	0	0	0	0	0	0	0.5	0
Singapore	0	81	38	0	39.2	226.2	0	418.2	2,300	4,297	1,430
Thailand	6,034	0	16.2	15	15.3	2,146	0	1.3	529.1	166	22
Vietnam	0	0	0	20	0	0	18.1	329.4	142	175.4	0
China	*0.7*	*281.2*	*0*	*856*	*2.5*	*8,269*	*4,346*	*232*	*56.2*	*511.4*	*30.5*
Hong Kong	*0*	*0*	*0*	*0*	*6.0*	*5,798*	*0*	*84.8*	*107.1*	*625.6*	*50.2*
Japan	*0*	*0*	*1.4*	*3.8*	*0*	*7.1*	*4.3*	*54.1*	*55.7*	*85.7*	*106.2*
Korea	*0*	*37.0*	*12.0*	*0*	*0*	*2,676*	*25.6*	*37.9*	*81.2*	*299.6*	*13.5*
Macao	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0.9*	*0*	*0*

Note: These figures report approved FDI amounts; however, approved FDI does not necessarily materialize so these figures do not describe actual foreign investments

Source: DICA

Figure 7: Share of Myanmar in intra-ASEAN FDI inflows (2014)



Source: ASEAN Foreign Direct Investment Statistics Database

4 SMEs in the world, in the region and in Myanmar: Some quick facts

4.1 The role of SMEs in a country's economy

In almost any country in the world, the large majority of companies are SMEs. They are, therefore, widely recognized as significant drivers of economic output and employment creation, thereby generating income and contributing to poverty alleviation. In many contexts, SMEs are also seen as important agents of innovation, introducing new products and novel production processes that help increase productivity and economic growth. In developing countries, this often takes the form of "frugal innovation", i.e. homegrown technological solutions that respond to needs of a specific low-income and cultural context. In view of this, governments around the world acknowledge that supporting the development of SMEs is an effective mechanism to promote socioeconomic development (Abe and Dutta 2014; Harvie 2010a, 2010b; UNESCAP 2012).

A study by the World Bank indicates that SMEs contribute to over 60% of GDP and more than 70% of employment in low-income countries (Ayyagari et al. 2003). Meanwhile, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP 2012) estimates that SMEs represent over 95% of private enterprises and account for more than 50% of employment in the Asia-Pacific region. However, the same publication also makes clear that there is quite a wide variation across countries in terms of SMEs' contribution to their national economies. For example, SMEs account for only 16% of total exports in Singapore but for almost 70% of exports in China. SMEs' role in exports is somewhere in between these two extremes in other East Asian countries such as Malaysia (where they contribute 19%

of exports), Indonesia (20%), Vietnam (20%), Thailand (31%), and South Korea (39%). Similarly, SMEs' shares in total employment range from 52% in Singapore and 59% in Malaysia to 69% in Thailand, 75% in China, 77% in Vietnam, 88% in South Korea and over 99% in Indonesia. According to another study by the International Consulting Group, SMEs in fellow ASEAN member countries such as the Philippines, Vietnam and Indonesia contribute more than 30% to their country's GDP.

Given the limited available data on the SME sector in Myanmar, it is difficult to precisely determine their contribution to the country's economic activities. In a presentation on "*SME Development in Myanmar*", Daw Wint Wah Lwin from the Yangon Institute of Economics estimated that Myanmar SMEs contribute 69% of total output and 80% of national export while employing 80% of the local workforce. However, looking at other data sources suggests that these figures, especially the estimate on SME's contribution to exports, seem too high (see Table 29 and Figure 11 below, for example). Anyway, it is estimated that there are only about 2.6 (registered) SMEs per 1,000 citizens in Myanmar – a figure that is well below the averages of 9 for the group of least developed countries (LDCs) and 27 for developing countries (Smurra 2014).

4.2 Definition of SMEs in Myanmar and elsewhere

Definitions of what constitutes an SME actually vary, often quite significantly, across countries. Some countries even stipulate different definitions for SMEs depending on the business sector concerned, i.e. the definition of an SME in agriculture differs from that of an SME in the manufacturing sector. In fact, countries do not always use the same criteria to define SMEs. Most SME definitions, however, use a company's number of employees as one criterion. While in some countries the size of the workforce is the sole criterion to distinguish small, medium-sized and large enterprises, others use additional criteria such as annual sales, value of assets or value of invested capital (UNESCAP 2012).

In Myanmar, the definition of what constitutes an SME was recently changed through the enactment of the 2015 SME Law. Before that, SMEs were defined according to the 1990 revised Industry Law on the basis of four criteria: power used (measured in horsepower), number of employees, capital investment, and value of annual production. The new definition reduced the number of criteria from four to three, dropping the criterion on power usage (see Table 11).

At the same time, however, a much more granular application of the employment criterion was introduced and thresholds between size categories were changed significantly. In the old definition, small firms were those with 10-50 workers, medium-sized firms those with 51-100 workers, and large enterprises those with over 100 employees. In the new definition, there is no lower boundary for the small enterprise category so that, effectively, it also includes micro enterprises (typically defined as firms with less than 10 employees). Moreover, the new definition now distinguishes between different economic sectors (manufacturing, services, other) and even between different business activities within these sectors (labor-intensive manufacturing vs. other manufacturing; wholesale vs. retail vs. other service business) – this is where the granular application of the employment criterion kicks in. Overall, Myanmar's new SME definition can, thus, be deemed quite complex.

Table 11: New SME definition in Myanmar according to 2015 SME Law

	Categories	No. of Employees	Capital (million Kyat)	Turn-over (million Kyat)
1	**Small**			
(a)	**Manufacturing sector**	Up to 50	Up to 500	
(b)	**Labor intensive manufacturing sector**	Up to 300	Up to 500	
(c)	**Wholesale Business**	Up to 30		Up to 100
(d)	**Retail Business**	Up to 30		Up to 50
(e)	**Servicing Business**	Up to 30		Up to 100
(f)	**Except from above Business**	Up to 30		Up to 50
2	**Medium**			
(a)	**Manufacturing sector**	51 to 300	500 to 1000	
(b)	**Labor intensive manufacturing sector**	301 to 600	500 to 1000	
(c)	**Wholesale Business**	31 to 60		100 to 300
(d)	**Retail Business**	31 to 60		50 to 100
(e)	**Servicing Business**	51 to 100		100 to 200
(f)	**Except from above Business**	31 to 60		50 to 100

Source: www.smedevelopmentcenter.gov.mm/?q=en/def_sme

4.3 Availability of information on SMEs in Myanmar: Registries and surveys

In many other countries, data on businesses is regularly collected through business surveys by government authorities, such as Statistics Offices or Ministries of Industry. In Myanmar, such a regular and comprehensive exercise has not yet been established although plans exist to do so. Some data seems to exist within the Ministry of Industry (MoI) as well as within the Central Statistics Office (CSO). However, data collection does not seem to be undertaken based on a stringent methodology in line with international standards nor according to a given schedule and program. As a result, no reliable data on business enterprises in general and SMEs more specifically exists in Myanmar. It is for this reason that different sources report different figures on how many SMEs there are in the country.

According to the Central Department of Small and Medium Enterprises, for example, as of March 2015 there are 39,062 firms that have registered as small and medium industries (SMIs) under the Private Industrial Enterprise Law, accounting for 87.4% of total registered industries (ADB 2015).[3] However, this data only covers manufacturers and cottage industries because the Central Department of Small and Medium Enterprises is only one of the public agencies/departments where firms can register. Other entities where companies can register include the Directorate of Investment and Company Administration (DICA), the Myanmar Investment Commission (MIC), the Directorate of Industrial Supervision and Inspection (DISI), the Small Scale Industries Department (SSID) in the Ministry of

[3] See also www.smedevelopmentcenter.gov.mm/

Cooperatives, and the different City Development Committees such as the Yangon City Development Committee (YCDC). SME estimates from the Central Department of Small and Medium Enterprises are therefore typically incomplete and should be taken as a lower boundary estimate.

Meanwhile, the United Nations Development Programme's "One Pager Business Census 2013-2014" for Myanmar looked at four different business registries, i.e. those from DICA, MIC, DISI and SSID, yielding a total number of 31,093 firms that are operating. Among these, the large majority, namely 80.6%, had 10 or less employees, making them micro enterprises, while another 15.5% can be considered small firms (with 11-49 workers), 2.9% medium-sized firms (with 50-199 workers) and 1% large firms (comprising 0.6% of firms with 200-499 workers and 0.4% of firms with 500 or more employees). At the same time, these large enterprises account for 41% of total employment in UNDP's sample (UNDP 2014: 10-11). There is, thus, quite a polarization in Myanmar's private sector into small and very large firms. In other words, these figures point to the existence of a "missing middle", i.e. the underrepresentation of medium-sized firms in Myanmar's enterprise population – a phenomenon that is not uncommon in developing countries.

However, other sources report higher numbers of SMEs. An article published in the *Myanmar Times*, for example, mentions that there are more than 80,000 SMEs registered (Myanmar Times 2015e). Meanwhile, according to an article published in the *Global New Light of Myanmar*, there are 126,968 registered companies of which 126,237 (or 99.4%) are SMEs. The same source also stated that, in addition, there are an estimated 620,000 informal (i.e. unregistered) firms operating in Myanmar, corresponding to 83% of all businesses (Global New Light of Myanmar 2013).

These discrepancies across sources point to an important task for the future, namely to establish a system for regularly collecting reliable data on SMEs in Myanmar. This will allow the government to not only take more informed decisions in their policy-making for SMEs but also to better monitor and evaluate the impact of their interventions.

In view of this gap in terms of reliable information, a number of donor agencies recently conducted a series of surveys in Myanmar. These include an SME survey by the German Institute for Development Evaluation (DEval 2015), a business survey conducted jointly by the Organization for Economic Cooperation and Development (OECD), the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) and UNESCAP (see Soans and Abe 2015), a "One Pager Business Census" by UNDP (2014) as well as the World Bank's Enterprise Survey, its Investment Climate Survey and its Doing Business Survey (World Bank 2014a, 2015b, 2015c). However, while these surveys have helped to improve the availability of information on Myanmar's business sector, they differ in surveying methods, sample sizes, and topics covered. This means that the data produced by these surveys are not always fully comparable and this also explains why these surveys, in some cases, have produced divergent findings. UNDP's "One Pager Business Census" has probably been the most comprehensive exercise, and based on the most representative sample, covering over 31,000 firms drawn from different business registries. Meanwhile, the DEval survey focuses purely on SMEs, and also just on SMEs that are privately owned and that operate in cities and in the manufacturing and services sectors. The OECD-UMFCCI-UNESCAP survey, on the other hand, did not only cover SMEs but also larger firms and also included agricultural and state-owned firms. While the DEval survey was carried out among a random sample of companies, the OECD-UMFCCI-UNESCAP survey sample was based on business registries from UMFCCI which implies a certain sample bias. In both cases, however, the survey samples were quite sizeable, covering over 2,200 firms. By comparison, the World Bank Enterprise survey was based on a rather small

sample of 632 registered small, medium, and large firms. However, the latter clearly over-sampled medium and large firms and excluded agricultural firms from the sample.

In the following sections, we will discuss some characteristics and present some analyses on SMEs in Myanmar, drawing on information taken from these data sources and surveys and complementing it with information collected through a business survey conducted for the purpose of this study. CESD's survey was carried out from July to November 2015 among a sample of around 200 manufacturing firms operating in different industrial zones in Yangon Region and Mon State.

CESD's survey sample was drawn, through convenience sampling, from two sets of enterprise lists: First, lists provided by different industrial zone management committees and, second, a list of apparel producers provided by the Myanmar Garment Manufacturers Association (MGMA). Survey participants were then selected randomly from these two sets of enterprise lists. We acknowledge that this sample is not representative of the full firm population of Myanmar companies, for the following reasons:

- The sampling frame was incomplete due to, first, the non-availability of a complete registry of businesses in Myanmar and, second, the choice of enterprise lists from industrial zone management committees and MGMA as representation of the underlying firm population;
- The survey had a deliberate focus on the manufacturing sector, i.e. it does not cover firms operating in the agriculture or services sectors;
- Within manufacturing, the survey focuses on two of the key industries in Myanmar, namely food processing and apparel manufacturing;
- The survey had a regional focus on Yangon Region and Mon State while excluding other regions and states in Myanmar.

Despite these shortcomings, however, the data collected through CESD's survey complements the existing stock of enterprise-level data for Myanmar and allows for some useful and interesting analyses. Above all, CESD's survey had a specific focus on companies' participation in international economic activities and regional integration in ASEAN in particular. In addition, apart from asking respondents about the extent and nature of their participation in regional trade, production networks, and investment activities, CESD's survey also collected information on Myanmar businesses' awareness of regional economic integration initiatives such as the ASEAN Economic Community (AEC) project, their perceptions on the likely impacts of AEC, their knowledge and usage of Free Trade Agreements (FTAs), and their views on the effects of trade liberalization through FTAs. Such information is not available from existing datasets.

Table 12 gives an overview about how the sample for CESD's survey looks. It comprises a total of 198 firms (one of which did not provide employment information, therefore inhibiting us from classifying it as small, medium or large enterprise), 52% of which operate in the apparel sector and 45% in food manufacturing. While not being fully representative of Myanmar's business population CESD's survey allows us, however, to focus on two of the most important manufacturing industries in Myanmar, i.e. apparel and processed food, and to do some more in-depth analysis on them.

Following ERIA's definition of SMEs (whereby small firms are those with 11-49 workers and medium-sized are those with 50-249 workers), CESD's sample is composed of 27% of small firms, 27% of medium-sized firms and 45% large firms. Almost all the firms in CESD's sample operate in labor-intensive industries. Therefore, if we had applied the SME definition stipulated in Myanmar's SME Law, whereby small and medium-sized companies in labor-intensive manufacturing sectors are defined as those with

less than 300 employees and between 301-600 employees, respectively (see Table 11 above), the composition of CESD's sample would have looked differently: 60% would have been classified as small firms, 14% as medium-sized firms, and 26% as large enterprises. To ensure comparability across the different country studies commissioned by ERIA, however, we decided to apply ERIA's definition of SMEs when analyzing the data collected through the CESD survey. More details on CESD's survey are provided in Appendix 2.

Table 12: Survey sample characteristics

	FIRM SIZE				
INDUSTRY (ISIC CODE)	**Small**	**Medium**	**Large**	**Total**	***Share in total***
	No.	*No.*	*No.*	*No.*	
10. MANUFACTURE OF FOOD PRODUCTS	52	27	10	89	*45%*
14. MANUFACTURE OF WEARING APPAREL	1	22	79	102	*52%*
16. MANUFACTURE OF WOOD AND WOOD PRODUCTS	1	1	0	2	*1%*
17. MANUFACTURE OF PAPER AND PAPER PRODUCTS	0	1	0	1	*1%*
32. OTHER MANUFACTURING	0	3	0	3	*2%*
TOTAL NUMBER	54	54	89	197	
SHARE IN TOTAL	27%	27%	45%	100%	

5 Characteristics of SMEs: General and in Myanmar

This section will first discuss some typical characteristics of SMEs around the globe, while recognizing their heterogeneity, and then zoom in on Myanmar's SMEs to give a portrayal of them along a variety of parameters and based on data from CESD's survey as well as other data sources. The analyses undertaken here will also allow us to identify and understand both enabling factors and obstacles to Myanmar SMEs' participation in regional trade, production networks, and investment activities – a topic which will be analyzed in more detail in the subsequent section.

5.1 General characteristics and heterogeneity of SMEs

At the outset, it has to be emphasized that the category "SMEs" typically comprises a very heterogeneous group of enterprises. This has important implications for SME policy-making. The challenges of SMEs and their related need for policy support can vary quite significantly across the SME population of a country, according to different parameters.

First of all, the category SMEs includes firms of quite different sizes. Apart from small firms (usually those with less than 50 employees) and medium-sized firms (often defined as those firms with less than 250 workers, but sometimes also defined as those with less than 400 or even more employees[4]), the category often also includes micro firms (those with less than 10 workers). The operations, strategies and challenges of firms of different sizes typically differ quite a lot.

[4] As we have seen above, in Myanmar's new SME Law SMEs are defined to include even companies with up to 600 employees, if they operate in labor-intensive sectors, see: www.smedevelopmentcenter.gov.mm/?q=en/def_sme

Second, SMEs operate in a wide range of sectors, including agriculture, manufacturing, construction and services, and a large variety of industries within these sectors. Examples of SMEs include a single artisan producing agricultural implements for the village market; a tea shop on the corner; an internet café; a medium-sized engineering company or a small software firm selling to overseas markets; or an automotive parts manufacturer selling to multinational car producers who, in turn, trade to both domestic and foreign markets. Obviously, the operational setups, opportunities, challenges and needs of, say, a small-scale farmer are quite different from those of a medium-sized manufacturing firm or those of a micro-sized firm shop in the retailing industry.

Third, SMEs are operating in different locations and in very different markets (urban, rural, sub-national, national, regional and international). The challenges and needs of SMEs operating in rural areas are quite different from those of SMEs operating in urban areas. Within urban areas, one can further distinguish between firms that are set up within industrial zones and those outside such zones. Other locational factors include proximity to rivers or the sea, climate, and the likehood of natural disasters. Finally, SMEs embody different levels of skills and capital, and show different levels of sophistication and growth orientation; and they may operate in the formal or in the informal economy.

However, there are also a lot of characteristics that many SMEs have in common. Their operations are typically labor intensive and characterized by low investment requirements. There is often little separation between ownership and management and they tend to respond to market needs quickly with a flatter organizational structure and flexible operations that can readily adapt to a rapidly changing environment. Moreover, SMEs tend to have a niche market focus and comparatively high levels of customer-orientation (UNESCAP 2012).

This heterogeneity was clearly also identified in the data collected through the CESD survey, even under the relatively small sample (see Table 13 and Table 15). For instance, the number of employees of surveyed firms varies greatly across industry, with the surveyed food manufacturers tending to be relatively smaller when compared with apparel manufacturers (as measured by both the larger share of small-sized companies, see Table 12, and the lower average number of workers per firm, see Table 13).[5] Although it is unclear to what extent this is representative of both industries, it provides a grounded example of the different economic, policy and market contexts serviced by firms in either industry.

Table 13: Selected firm characteristics by industry

INDUSTRY	MEMBER OF BUSINESS ASSOCIATION	SHARE OF FAMILY BUSINESSES	FIRMS WITH FOREIGN OWNERSHIP	AVERAGE NO. OF WORKERS PER FIRM	FIRMS THAT EXPORT
10. MANUFACTURE OF FOOD PRODUCTS	70%	92%	3%	105	27%
14. MANUFACTURE OF WEARING APPAREL	97%	60%	61%	657	84%
TOTAL (INCL. PAPER, WOOD AND OTHER)	84%	75%	32%	391	61%

[5] It is interesting to note, however, that for both industries the average number of employees per firm that we find in CESD's sample is significantly higher than that found by UNDP (2014: 18) which reports that an average food processing firm in their sample employs 8 workers and an average apparel manufacturer 106 workers. There, thus, seems to be a certain bias towards larger firms in CESD's sample.

Moreover, it appears that food manufacturers tend to be family businesses (92% of respondents). They are also more likely to serve just the domestic market, with only 27% of survey firms indicating that they are exporting. While this is likely in part a consequence of food manufacturers catering to local tastes and preferences, it is also likely a result of Myanmar's domestic economy being predominantly agrarian, thereby providing a ready supply of inputs for food manufacture.

On the other hand, apparel manufacturers surveyed tend to supply foreign markets (84% declared themselves exporters), and almost two thirds of them are reportedly partially or wholly foreign-owned. Although the factors driving these differences will not be explored in detail here, it is likely that both the higher export orientation and the larger size of apparel manufacturing firms is a consequence of the predominance of the very labor-intensive Cut-Make-Pack (CMP) production model, which is what a large proportion of the firms sampled here are engaged in (see ILO 2015, MGMA 2015, MoC and ITC 2015, and further below for more details). The higher memberships of business associations evident in the apparel sector on the one hand reflects the fact that the Myanmar Garment Manufacturers Association (MGMA) is quite a competent, proactive and strong business association. On the other hand, it can to a large extent also be explained by the requirement of apparel manufacturers to be an MGMA member if they want to obtain import permits, which is crucial given that local supply of essential input materials such as fabrics, yarn or accessories is very limited.[6]

5.2 Sectoral distribution of SMEs in Myanmar

In terms of the sectoral distribution of SMEs, different data sources report quite different statistics. However, given that they make up the bulk of all companies in Myanmar, it can safely be assumed that SMEs dominate every sector of the economy. The most reliable statistics are available only for those SMIs that are registered with the Central Department of Small and Medium Enterprises which collects and reports data on SMIs. As mentioned above, there are almost 40,000 such SMIs in Myanmar, accounting for around 87% of total domestic manufacturing firms. These SMIs include micro (or "cottage") enterprises of which 78% operate in the manufacturing sector (cottage handicraft) and about 21% in the service sector. Among those SMIs that are not involved in cottage industries, more than 60% operate in the food-processing sector. This includes rice mills, oil mills, powdering machines, sugar mills, bean and pulses processors, ice factories and confectionaries, which account for about 90% of food-processing SMIs. An additional 7.6% of total SMIs operate as construction material producers. Meanwhile, mineral and petroleum producers make up a further 5.1% and garment firms another 4.5% of SMIs (ADB 2015).[7]

Quite a different picture on the sectoral distribution of SMEs emerges when looking at other data sources. The sample for the DEval SME Survey included a majority of firms (54%) engaged in manufacturing and 46% of firms in the service sector. As mentioned, however, this survey did not cover the agricultural sector so these distribution figures are incomplete. According to the DEval data, within manufacturing most SMEs focus on the production of machinery and equipment, vehicles and metal

[6] When apparel companies want to obtain an import license, they need to apply to MGMA to get their endorsement, and only once this endorsement is granted (after MGMA assessing the application), can they apply to the Ministry of Commerce (MoC) for the import license. MoC issues the license based on MGMA's endorsement and their internal checking. MGMA conducts the checking on behalf of the MoC as the garment industry requires expertise knowledge, which MoC deemed MGMA to be the appropriate group to conduct the check on behalf of them.

[7] See also www.smedevelopmentcenter.gov.mm/

products (12%); food, beverages or tobacco/cheroots (12%); and textile and/or shoes (10%). Within the service sector, the main branches are restaurants and hotels (16%) and retail (14%).

In the following, a number of additional characteristics of SMEs in Myanmar will be presented. Apart from presenting results from the CESD survey, additional information is drawn from the DEval survey and the World Bank's Enterprise Survey because these two surveys provide data disaggregated by firm size. However, both for the CESD survey and the World Bank's Enterprise Survey, it should be noted that they are based on relatively small samples of 198 firms and 630 firms, respectively, so that any interpretation and generalization of the figures presented in the following should be done with some caution. Moreover, it should also be noted that the definition of what constitute small, medium and large enterprises applied in the World Bank's Enterprise Survey (with small firms being those with 5-19 employees, medium-sized firms those with 20-99 employees, and large firms those with more than 100 employees) differs considerably from the one applied in other surveys, including CESD's (where small firms have 11-49 workers, medium firms 50-249 workers, and large firms 250 or more workers).

5.3 Levels of registration and informality of Myanmar firms

Overall registration rates of businesses are very low in Myanmar, implying that there is a substantial informal sector. As mentioned above, it is estimated that there are 620,000 informal (i.e. unregistered) firms operating in Myanmar, corresponding to 83% of all businesses (Global New Light of Myanmar 2013). Reasons for low registration levels are manifold, including an outdated and often cumbersome registration system involving different agencies, limited administrative coverage, and business distrust against government entities and policies (e.g. regarding protection of poverty rights, usage of tax revenues, etc.) but also lack of knowledge where to register and the intention to avoid taxes among firms (see Bissinger and Maung Maung 2014, for example).

As a consequence, by far not all SMEs have registered with a government authority. However, existing survey data tend to underestimate the extent of informality as informal firms are heavily underrepresented in their samples. Within the DEval sample, around 21% of firms are not registered. However, large variations were found when the sizes of these firms were investigated. Specifically, while the vast majority of medium-sized enterprises are registered, the same is true for only 74% of micro businesses. Overall, the figures reported by the OECD-UMFCCI-UNESCAP Business Survey were quite similar; according to that survey, around 13% of SMEs indicated that they had not registered yet. The World Bank's Enterprise Survey, by contrast, found somewhat lower levels of informality. According to that survey, around 14% of small firms and only 7% of medium-sized firms did not formally register when starting their operations. Moreover, in most cases, SMEs were found to operate only for about one year without formal registration (see Table 14).

Table 14: Informality among Myanmar firms

Subgroup	Percent of firms formally registered when they started operations	Number of years firm operated without formal registration	Percent of firms competing against unregistered or informal firms
Small (5-19)	86.3	1.1	29.5
Medium (20-99)	93.0	0.6	36.1
Large (100+)	95.2	0.3	31.8

Source: World Bank Enterprise Survey Database

5.4 Age, ownership and legal status of Myanmar companies

The average age of SMEs sampled by the World Bank's Enterprise Survey is around 12 years. Similarly, both the DEval and the OECD-UMFCCI-UNESCAP surveys found that a clear majority of firms have been operating for more than 10 years. This corroborates CESD's survey results which show an average age of 11 years among the companies in CESD's sample (see Table 15).

Only around 23% of all SMEs covered by the DEval survey had started operations during the previous four years. This suggests that the average age of SMEs in Myanmar is quite high. On the one hand, this signals that survival rates of SMEs are pretty high, which, however, might just reflect low levels of competition. On the other hand, this might be interpreted as a sign that not many new firms have started operating, pointing to a lack of dynamism and potentially also to the fact that starting a business is quite cumbersome and difficult in Myanmar. Indeed, DEval (2015: 13) concludes that "[i]t thus seems that the transition and liberalisation process in Myanmar has not yet led to a significant increase in the number of private SMEs." UNDP (2014), however, comes to a somewhat different conclusion when looking at their sample of businesses. They found that in the year 2013, the share of new firms (defined as those having started operations in 2012 or 2013, i.e. those with a maximum age of one year) was 8.5% – a percentage that is slightly higher than the average typically found in Asia (around 5%). They deemed this "consistent also with the process of deregulation of the economy that allowed the creation of new businesses in such a large scale" (UNDP 2014: 24).

In the CESD sample, the percentage of firms being younger than five years, at around 38%, is markedly higher than in the DEval sample. The explanation for this seems that there is a clear tendency for firm creation rates to vary across industries. As can be seen in Table 15, the firms surveyed in the food manufacturing sector were almost twice the age of firms in the apparel manufacturing sector. At the same time, the share of rather "new firms" (aged less than five years) is more than three times higher in the apparel sector (56%) than in the food processing sector (16%). Although it is difficult to determine the extent to which the firms surveyed here are representative of the industry as a whole in Myanmar, these stark differences in age may suggest differing levels of competition and exposure to international markets as well as a number of recent domestic and international developments. Specifically, Myanmar has become an increasingly attractive location for apparel manufacturing over the last five years, with relative increases in manufacturing wages in neighboring countries such as China, factory accidents in Bangladesh, the easing of sanctions, and foreign investment reforms as important push and pull factors (Berg and Hedrich 2014). In addition to these reforms likely making Myanmar's apparel industry more

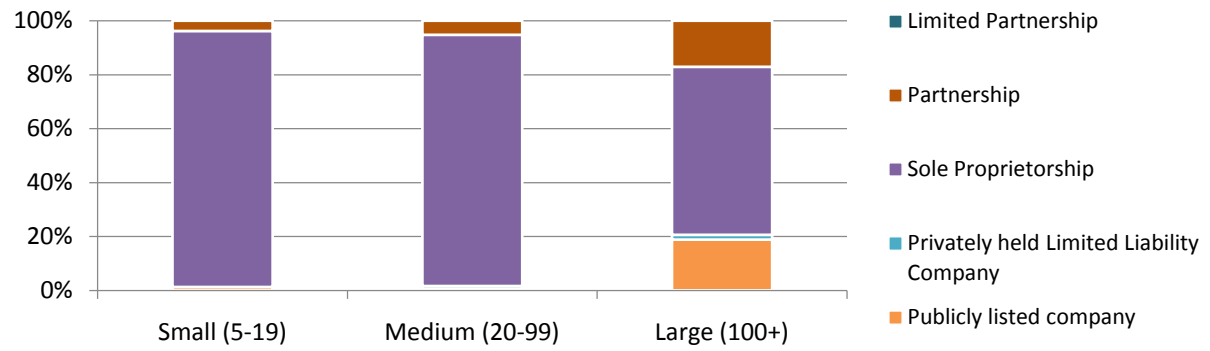
competitive internationally, it also resulted in a relatively recent "boom" in SME establishment in the apparel sector. Indeed, the Myanmar Garment Manufacturers Association reports that it gained 65 new members, mostly foreign companies, in 2014 while in the first three quarters of 2015 already 55 new members new joined MGMA (MGMA 2015).[8] By contrast, the more locally oriented food manufacturing sector has not experienced such a boom of new business entries and incumbents seem to dominate the market.

Table 15: Age distribution of survey firms

	AGE RANGE				
INDUSTRY	**<=5 years**	**5<age<20 ys.**	**> 20 years**	**Total**	**Average age (in years)**
10. MANUFACTURE OF FOOD PRODUCTS	15	58	16	89	15.2
14. MANUFACTURE OF WEARING APPAREL	57	42	3	102	7.4
ALL SURVEY FIRMS	**75**	**101**	**21**	**197**	**11.1**

According to both the World Bank Enterprise Survey and the CESD survey, the legal status of almost all Myanmar SMEs is sole proprietorship. Apart from that, around 4% of small companies and about 5% of medium-sized enterprises operate with the legal status of partnership (see Figure 8) with state-owned SMEs representing a clear minority. The predominance of sole-proprietorship and partnerships as the most common ownership structures echo a tendency for SME ownership and management to be relatively fluid.

Figure 8: Legal status of Myanmar companies



Source: World Bank Enterprise Survey Database

Interestingly, the World Bank Enterprise Survey also suggested that SMEs with foreign ownership are a clear minority. However, as can be seen from the results from the CESD survey in Table 16 and Table 17, this masks important variations across sectors and across different firm sizes. For instance, among the firms surveyed by CESD, 3% of food manufacturers and 59% of apparel manufacturers reported to have

[8] See also www.myanmargarments.org/about/about-mgma/.

at least partial foreign ownership.[9] Furthermore, larger firms were more likely to have some form of foreign ownership with not a single small firm reporting foreign ownership, as opposed to around 17% of medium-sized firms and 62% of large firms. This tendency for larger firms to be more likely to report foreign ownership applied across industries, although seemingly to a lesser extent for food manufacturers, likely reflecting the comparatively higher attractiveness of apparel as a boom sector.

Table 16: Domestic vs. Foreign Ownership according to Firm Size

	FIRM SIZE			
	Small	Medium	Large	Total (all firms)
DOMESTICALLY OWNED	100%	83%	38%	68%
FOREIGN INVESTED FIRMS	0%	17%	62%	32%

Table 17: Share of foreign-invested firms by firm size and industry

	FIRM SIZE			
	Small	Medium	Large	Proportion of Sector Foreign-Invested
10. MANUFACTURE OF FOOD PRODUCTS	0%	4%	20%	3%
14. MANUFACTURE OF WEARING APPAREL	0%	32%	67%	59%

5.5 Innovation and use of technology

According to the World Bank Enterprise Survey, the level of technology usage and technological sophistication is quite low among Myanmar SMEs (see Table 18). Only about 1.5% of small firms and 0.5% of medium-sized firms have an internationally recognized quality certification. Among medium-sized firms, only 2.8% uses technology licensed from foreign companies while licensing of foreign technology is almost non-existent among small Myanmar firms. Usage of modern communication technology is also not very common among small Myanmar firms covered by the World Bank Enterprise Survey: Only 7% of them have their own website and just 20% of them use e-mailing to interact with clients or suppliers. Among medium-sized firms, these percentages are considerably higher (at 29% and 46%, respectively) but still fall short of those for large enterprises. Finally, usage of external business services is not very widespread among SMEs in Myanmar. This is reflected in the fact that just 8.5% of small firms and 42% of medium firms get their financial statements reviewed by external auditors.

Upon comparing results of the World Bank Enterprise Survey with CESD's, similar trends emerge, with both surveys indicating a relatively small proportion of Myanmar SMEs currently employing Information and Communication Technologies (ICT), such as email or online sales (see Table 19). Interestingly, both surveys also suggest that email use and having a website tended to be more likely for larger firms, likely reflecting the lower diffusion and higher costs of ICT in Myanmar in general, making it only a worthwhile investment for larger firms. It is also likely that the benefits of adopting such technologies would differ

[9] Please note that CESD's category of "foreign-invested firms" or "firms with foreign ownership" includes both firms that are fully foreign-owned and firms that have at least some foreign ownership.

across sectors, with the relatively low use of technology, such as online purchasing, by domestic consumers making ICT adoption less worthwhile for firms supplying the domestic market, such as those in the food manufacturing sector (see Table 20).

Table 18: Innovation and use of technology among Myanmar firms

Company size	Percent of firms with an internationally-recognized quality certification	Percent of firms using technology licensed from foreign companies	Percent of firms having their own Web site	Percent of firms using e-mail to interact with clients/suppliers	Percent of firms with an annual financial statement reviewed by external auditors
Small (5-19)	1.5	0.2	7.0	20.2	8.5
Medium (20-99)	0.5	2.8	29.0	46.2	42.1
Large (100+)	9.3	28.3	52.6	87.7	71.9

Source: World Bank Enterprise Survey Database

Table 19: Percentage of ICT Usage by Size

	EMAIL USE	WEBSITE	ONLINE PURHASES	ONLINE SALES	ONLINE MARKETING	ONLINE PAYMENT	ICT USE - OTHER
SMALL	**24%**	**8%**	**2%**	**4%**	**2%**	**2%**	**4%**
MEDIUM	**78%**	**20%**	**2%**	**4%**	**2%**	**6%**	**10%**
LARGE	**95%**	**30%**	**2%**	**2%**	**1%**	**5%**	**2%**

Table 20: ICT usage score by firm size, ownership and industry

ICT USE SCORE	SMALL	MEDIUM	LARGE	DOMESTIC	FOREIGN-INVESTED	MANUFACTURE OF FOOD PRODUCTS	MANUFACTURE OF WEARING APPAREL	TOTAL
0	73%	20%	0%	37%	2%	49%	6%	24%
1	18%	55%	69%	41%	73%	27%	72%	52%
2	4%	16%	27%	15%	24%	16%	20%	18%
3	0%	6%	1%	3%	0%	4%	0%	2%
4	2%	2%	1%	2%	2%	1%	2%	2%
5	0%	2%	1%	2%	0%	2%	0%	1%
6	2%	0%	0%	1%	0%	1%	0%	1%

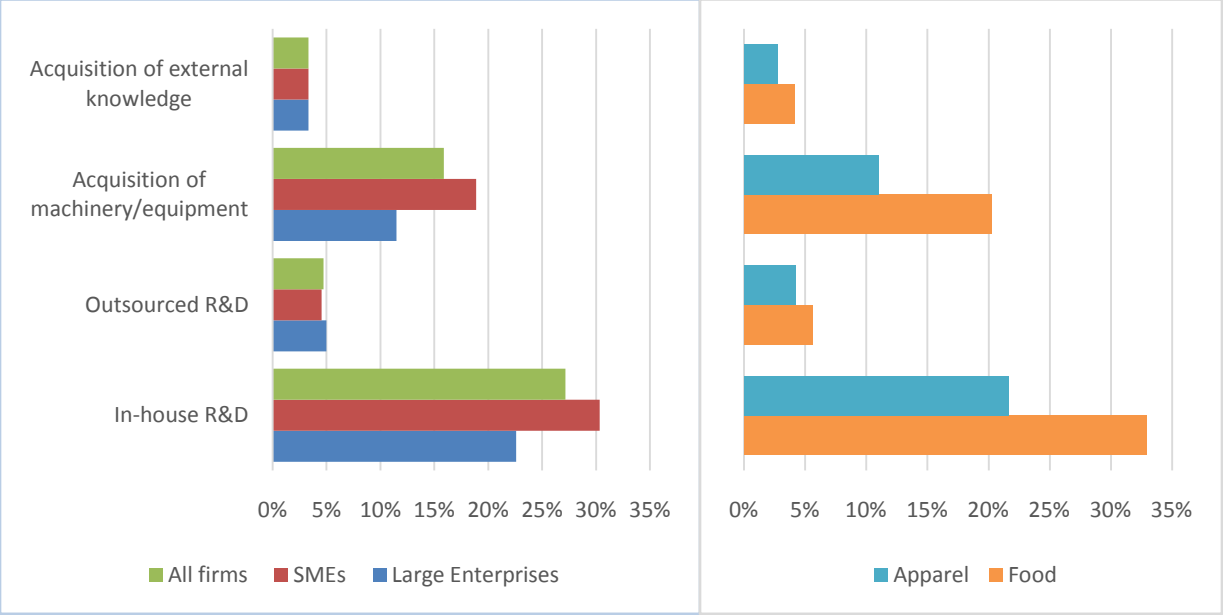
However, outside of email and website use, the uptake of ICT by Myanmar firms appears to be extremely low with less than 6% of firms reporting the use of ICT for online sales, purchases and payment. Interestingly, this tendency does not appear to change across differently sized firms, likely illustrating both the small benefits of adopting these technologies in Myanmar and different commercial contexts across sectors (see Table 19). Although this low level of adoption would tend to imply this as a

key area of reform for Myanmar, it is important to note this represents both a supply and demand side problem, with electronic payment systems only recently being adopted domestically and still only in urban centers, where the minority of the population lives.

To explore this further, an "ICT usage score" was given to firms in the sample depending on how many ICT tools they reported using. This was done by providing each firm with a score of 1 for each technology used, with the lowest score possible being 0 and the highest being 7. For instance, a firm with a website and using email would receive a score of '2', whereas a firm using no form of ICT would receive a score of '0'. Results have been provided in Table 20. From this exercise a number of trends appear clear. For instance, as before there is a clear trend for larger firms to be more likely to use some form of ICT, reflected in higher scores. Almost half of all food manufacturers don't use any ICT (thus having a score of '0') while 43% use one or two ICT services; in the apparel sector, the large majority (92%) uses one or two different ICT services while only 6% reported no ICT usage at all. As before, it can be assumed that much of this reflects the ownership structure and industry of firms with the apparel sector tending to use a larger number of ICT tools, likely both out of the need to communicate with overseas headquarters and/or international customers and reflecting the greater levels of competition they face.

Although the small uptake of ICT by SMEs in Myanmar is somewhat unsurprising given Myanmar's relatively recent efforts to engage in reforms in the telecommunications sector, it does illustrate the potential space SMEs may have to improve efficiency and access expanded markets through ICT. Despite this, when viewing firms by their efforts to innovate and technologically upgrade, a number of interesting tendencies emerge. First of all, as can be seen in the left-hand panel of Figure 9, between 2012 and 2014 only a very small percentage of survey firms have engaged in innovation and technology efforts at all. This corroborates the findings from the OECD-UMFCCI-UNESCAP survey where more than 60% of all respondents reported having made zero investment in R&D and innovation (Soans and Abe 2015: 34). Second, SMEs were more common than large enterprises to report investing in innovation and technology efforts in all but the 'R&D outsourcing' category. Although the precise nature of this investment was not clear from the survey, it is likely that the 19% of SMEs that reported acquisition of machinery, equipment or software are engaging in plant modernization such as the replacement of old machinery and technology with the vision of producing new and/or better products. In contrast, only 11% of large firms in the sample reported expenditures on the acquisition of machinery, equipment or software, possibly reflecting that these firms already have newer plants and use more modern technology and equipment. Comparing across sectors, we can see from the right-hand panel of Figure 9 that the food processing firms in the CESD sample have engaged much more in innovation and technology efforts than apparel producers. As mentioned above, most Myanmar garment manufacturers are integrated into regional and global value chains where they operate under the CMP model, governed by foreign lead firms and basically carrying out simple and labor-intensive assembly activities without much requirements in terms of innovativeness.

Figure 9: Innovation and technology efforts during 2012-2014 by firm size and sector



Interestingly, this tendency for SMEs to invest more heavily in innovation and technology efforts also seems to be reflected in a higher propensity to introduce new or significantly improved products and/or services, with large firms being the least likely to report having introduced a new product or service (see Table 21). Overall then around one-third of all firms surveyed introduced a new product and/or a new service between 2012 and 2014. Interestingly, the lowest percentage (22%) can be found among large firms, while 37% of small and 39% of medium-sized firms reported the introduction of a new product and/or a new service between 2012 and 2014. Another intriguing observation is that the share of firms introducing a new product and/or service was higher among fully domestically owned firms than among firms with foreign ownership (see Table 21). Comparing across sectors, we found that the percentage of food manufacturers in CESD's sample that introduced new or significantly improved products and/or services between 2012 and 2014 was higher than that for apparel manufacturer (see Table 22). This observation echoes the finding that food manufacturers have invested more in R&D and other innovation efforts than apparel producers. It may equally be a reflection of rather rapid changes in the tastes and preferences of food consumers, to which food manufacturers have to respond with new offerings, as well as low requirements on innovativeness of apparel firms operating under the CMP model.

Table 21: Introduction of new product and/or service during 2012-2014 by size and ownership

	NO	YES
SMALL	63%	37%
MEDIUM	61%	39%
LARGE	78%	22%
DOMESTIC	63%	37%
FOREIGN-INVESTED	82%	18%
TOTAL	*69%*	*31%*

Table 22: Share of firms having introduced a new product or new service during 2012-2014

	INTRODUCED A NEW PRODUCT		INTRODUCED A NEW SERVICE	
	No	**Yes**	**No**	**Yes**
10. MANUFACTURE OF FOOD PRODUCTS	62%	38%	67%	33%
14. MANUFACTURE OF WEARING APPAREL	87%	13%	90%	10%
OVERALL (ALL INDUSTRIES)	*75%*	*25%*	*78%*	*22%*

5.6 Access to finance

Access to finance was not a topic covered by CESD's survey. The World Bank Enterprise Survey, however, interestingly found that only less than a third of Myanmar SMEs identify access to finance as a major constraint to doing business. However, looking at a range of financial access indicators suggests that this is rather a consequence of SMEs' lack of awareness of and familiarity with modern financial services than of a well-functioning financial sector. For example, just 20% of small enterprises and less than half of medium enterprises have a checking or savings account. Less than 8% of SMEs use banks to finance working capital and less than 4% of SMEs use banks to finance investments. In fact, most SMEs finance their investments through internal funds (see Table 23). As a consequence, only about 3% of small firms and 13% of medium-sized firms currently have a bank loan or line of credit. One of the reasons for this low percentage is the heavy collateral requirements. Typically, loans have to be almost 100% collateralized (see Table 24).

The company perceptions captured by the OECD-UMFCCI-UNESCAP survey seem to be more in line with these hard facts. Among the top-10 major obstacles to business operations reported by companies surveyed by UNESCAP, OECD and UMFCCI, four actually related to access to finance (Soans and Abe 2015: 24). In a similar vein, around 54% of SMEs surveyed by DEval reported that they have additional, unmet funding needs (DEval 2015: 45). Accordingly, Myanmar ranks only 174th out of 189 economies in the ranking on the ease of getting credit in the latest World Bank *Doing Business* Report (World Bank 2015c: 55).

Table 23: Access to finance for Myanmar firms

Company size	Percent of firms with a checking or savings account	Percent of firms using banks to finance invest-ments	Proportion of investments financed internally (%)	Proportion of invest-ments financed by banks (%)	Percent of firms using banks to finance working capital	Proport-ion of working capital financed by banks (%)	Percent of firms identifying access to finance as a major constraint
Small (5-19)	19.4	1.4	90.4	0.8	2.0	1.0	18.3
Medium (20-99)	46.3	4.0	95.4	1.6	7.6	2.2	33.2
Large (100+)	92.7	8.8	85.2	5.5	26.8	6.2	8.8

Source: World Bank Enterprise Survey Database

Table 24: Access to bank loans for Myanmar firms

Company size	Percent of firms with a bank loan/line of credit	Percent of firms not needing a loan	Proportion of loans requiring collateral (%)	Percent of firms whose recent loan application was rejected
Small (5-19)	3.1	55.8	88.9	17.6
Medium (20-99)	13.2	55.7	100.0	7.7
Large (100+)	37.3	72.8	93.7	23.7

Source: World Bank Enterprise Survey Database

5.7 Workforce

According to UNDP's "One Pager Business Census", the average number of workers per firm is 15 while the median is only 4, pointing to a very heterogeneous and polarized distribution (UNDP 2014: 12). Both from UNDP's "One Pager Business Census" and the CESD survey we know that there is quite some variation across sectors. As highlighted above, the average food manufacturer in CESD's sample employs 105 workers while the average apparel company in CESD's sample has 657 employees. These averages are higher than those that UNDP (2014: 12) found for both the processed food and the apparel sector (namely 8 and 106, respectively) but also for other sectors (e.g. manufacture of wood products: 10; manufacture of textiles: 27; manufacture of electronics: 66; manufacture of electrical equipment: 51).

Only a tenth of small enterprises covered by the World Bank Enterprise Survey offers formal training to its workforce. This percentage is a bit higher for medium-sized enterprises where about a quarter offers employees formal training (see Table 25). In most cases, training is provided informally through in-house on-the-job training. Interestingly, the share of unskilled workers among production workers is lower for SMEs than for large firms. Similarly, top managers of SMEs, on average, have more years of work experience in the firm's sector than top managers of large firms. This might reflect the fact that top managers of SMEs are often the owner and founder of the company who has been with the business since its establishment. Overall, according to World Bank Enterprise Survey data, SMEs expanded their

workforce by about 4% during the last year. Only a few of them (between 6% of small firms and 9% of medium firms) perceive labor regulations as a major constraint for doing business, while between 12-15% of SMEs view an inadequately educated workforce as major obstacle (see Table 25). In the OECD-UMFCCI-UNESCAP survey, this percentage was a bit higher, with around 20% of survey participants identifying access to skilled labor as a severe obstacle for current business operations. These percentages may seem rather low, possibly reflecting that skills requirements are generally still low in Myanmar. However, with its 20% mentioning rate among survey respondents, availability of skilled labor was actually the second most frequently cited "very severe" constraint in the OECD-UMFCCI-UNESCAP survey (Soans and Abe 2015: 24). So, while filling low-skilled positions is easy in the context of an abundant supply of young and unskilled labor, finding adequate candidates for jobs that require higher skill sets seems tougher for firms. For example, nearly half of the SMEs interviewed by DeVAL (2015: 35-36) regard hiring skilled workers as quite or very difficult.

Table 25: Workforce characteristics of Myanmar companies

Company size	Percent of firms offering formal training	Proportion of workers offered formal training (%)	Years of top manager's experience working in the firm's sector	Proportion of unskilled workers (out of all production workers) (%)	Percent of firms identifying labor regulations as a major constraint	Percent of firms identifying an inadequately educated workforce as a major constraint
Small (5-19)	10.3	62.5	12.0	20.5	5.6	11.6
Medium (20-99)	25.6	49.3	10.8	31.2	9.1	14.9
Large (100+)	31.4	38.9	9.5	59.2	1.9	11.3

Source: World Bank Enterprise Survey Database

In addition to labor market bottlenecks at the workers level, both findings from the OECD-UMFCCI-UNESCAP survey (see Soans and Abe 2015: 37-39) and anecdotal evidence from CESD's qualitative research suggest weaknesses at the managerial level as well. In a number of firms that we interviewed by CESD, there was just a general manager or a factory manager or a head of administration but there was no functional division into different branches of management. That is, these firms did not have separate finance, marketing, procurement, production or in some cases even human resource (HR) managers. Instead, one general manager took care of the entire portfolio. Typically, the quality of management in such an arrangement without a division of labor between different branches of management and without formalized management practices is sub-optimal (Bloom et al. 2010). In addition, information collected by CESD through qualitative interviews with a number of different stakeholders points to deficiencies in the capabilities of staff in managerial positions. Their knowledge is often outdated or they have only limited formal education in the area they now work in. In fact, 35% of SMEs surveyed by DeVAL (2015: 36) said that finding management staff was quite or very difficult. This difficulty to find suitable candidates in the local labor market is one of the reasons why quite some firms hire foreign managers, as we will see below.

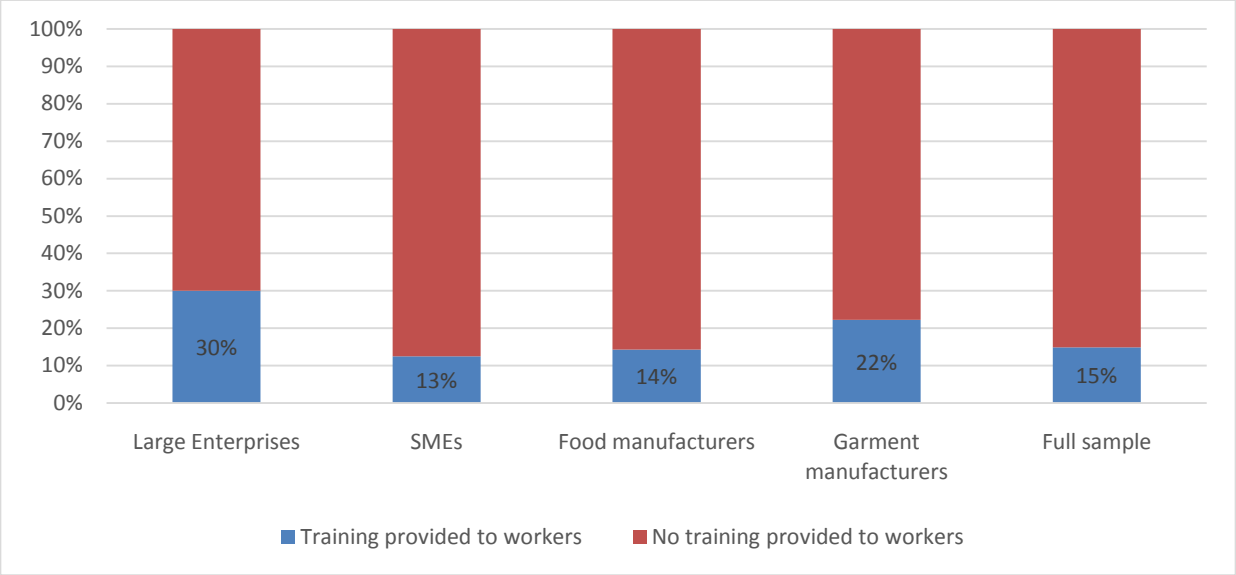
As noted earlier, the results from the CESD survey suggest that 92% of food manufacturing and 60% of apparel manufacturing firms were family-operated. CESD's survey then asked respondents from family-operated firms to indicate the highest educational achievements of their founder or owner. They seem

to vary across sectors. In particular, the founders or owners of family-run apparel manufacturing firms tend to be more likely to be university educated when compared with food manufacturers. In general, quite a large share of respondents (around 90%) indicated that the business founder or owner has secondary or even university education (see Table 26). Although strictly comparable questions were not asked as part of the World Bank's Enterprise Survey, it is interesting to note that smaller firms tended to have such well-educated managers.

Table 26: Education level of founders/owners of family-run businesses

	10. MANUFACTURE OF FOOD PRODUCTS	14. MANUFACTURE OF WEARING APPAREL
NO FORMAL EDUCATION	3%	2%
PRIMARY EDUCATION	9%	0%
VOCATIONAL/DIPLOMA	0%	2%
SECONDARY	29%	18%
UNIVERSITY	59%	78%

Figure 10: Percentage of firms reporting expenditures on training for workers



In terms of a firm's investment in training, CESD's survey seems to confirm what was found by the World Bank's Enterprise Survey, with a relatively small proportion of responding firms (15%) reporting expenditures on training for their workers (Figure 10). The proportion of garment producers reporting training expenses was somewhat higher than that of food manufacturers (22% vs. 14%). Comparing across firm sizes, the large enterprises in CESD's sample were found to be more than twice as likely than SMEs to invest in training expenditures (30% vs. 13%). Although it is not clear why such differences exist between SMEs and large firms, it is possible that this predominantly reflects larger organizations being more aware of the benefits of training and having more formalized structures and more financial potency for staff development. Furthermore, because this measure focuses on expenditure on training, it is likely that more informal training mechanisms, such as mentoring and on-the-job training, were not

reported in CESD's survey. At the same time, such more informal mechanisms of skill development and skill upgrading seem particularly important for SMEs. The DEval survey found that a large majority of SMEs (between 75%-80%) provide some sort of in-house training for their staff (DeVAL 2015: 32). Similarly, data from the OECD-UMFCCI-UNESCAP survey shows that when businesses experience a lack of skilled workers, they mainly organize in-house training (Soans and Abe 2015: 38-39).

One of the factors that possibly shapes firms' spending behavior on training for their workers is the extent to which they source skills domestically or from abroad. The hiring of foreign experts might be viewed as a substitute for organizing formal training for workers in that foreign experts are hoped to transfer knowledge and know-how to the local workforce. Although it is not possible to directly determine this from CESD's survey, the extent of employment of foreign staff provides a useful indication of this. As can be seen in Table 27, most of the sample firms have not hired any foreign worker.

The occupational group most commonly filled with foreign staff is managers and professionals. More specifically, 24% of all firms report having foreign managers and professionals, although of these the majority employ only two or less. Similarly, there were a total of 23% of firms in CESD's sample employing foreign engineers and technicians. In their case, employment numbers appear to be more equally distributed with 7.1% of firms reporting to have just one foreign engineer or technician, another 7% employing two to four foreign engineers and technicians, while another 7% of firms having hired six or more foreign engineers and technicians. This higher frequency of larger numbers of foreign engineers and technicians is likely a reflection of them being necessary at a relatively constant rate as a firm grows. Finally, only 4.5% of firms reported employing foreigners as supervisory and clerical workers, with this small number likely being a result of both the fact that it is possible to source these skills locally and due to the importance of language requirements of such roles.

Table 27: Share of firms employing foreign staff in different occupations

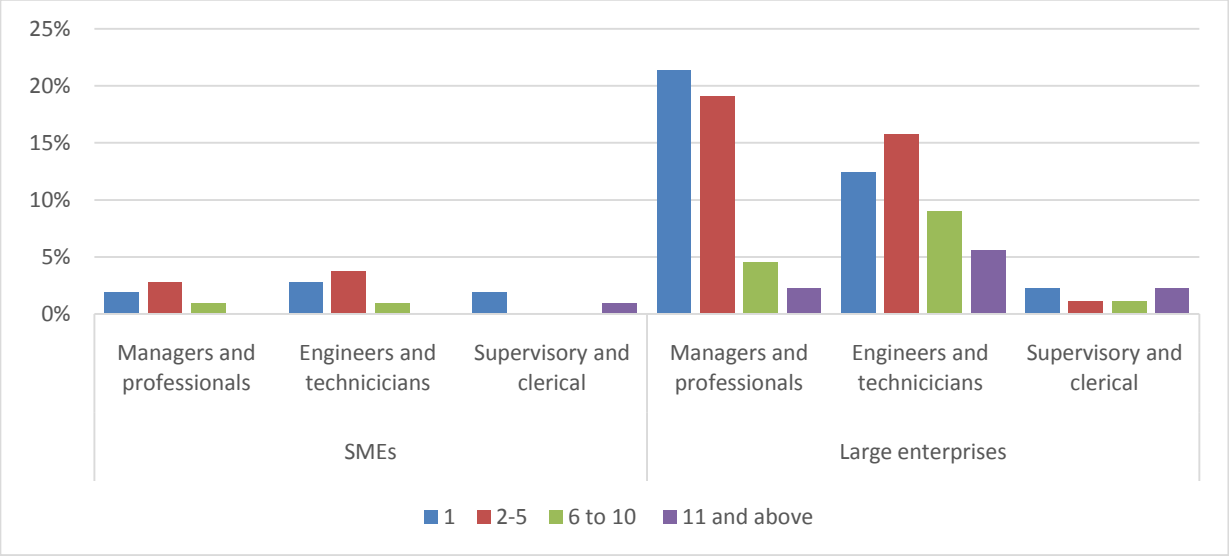
	NUMBER OF FOREIGN EMPLOYEES							
	1	2	3	4	5	6 to 10	11 and above	None
MANAGERS AND PROFESSIONALS	10.6%	6.1%	2.0%	1.0%	1.0%	2.5%	1.0%	75.8%
ENGINEERS AND TECHNICIANS	7.1%	3.5%	1.5%	2.0%	2.0%	4.5%	2.5%	76.8%
SUPERVISORY AND CLERICAL	2.0%	0.0%	0.0%	0.0%	0.5%	0.5%	1.5%	95.5%
PLANT AND MACHINE OPERATORS AND ASSEMBLERS	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	99.5%

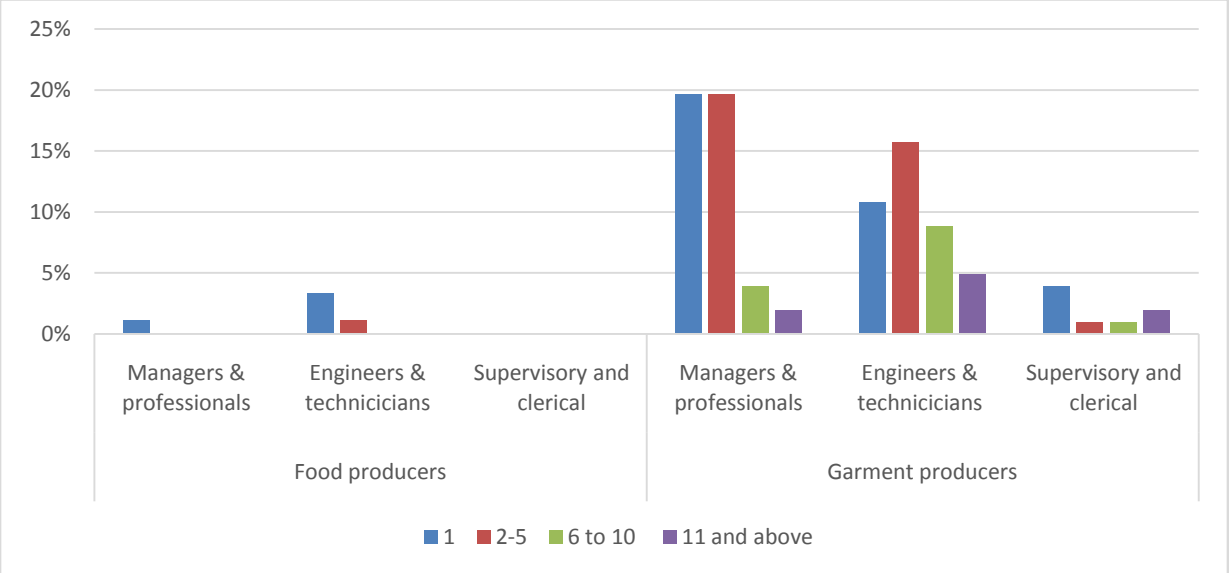
Figure 11 shows the percentages of firms in CESD's sample that employ either one, two to five, six to ten, or more than eleven foreign staff in different occupational groups, while allowing to compare the usage of foreign staff across sectors and firms sizes. As can be seen in the upper panel, the share of large firms reporting employment of foreign staff by far exceeds the corresponding share of SMEs for all three occupational groups displayed. The difference is particularly striking for the employment of foreign managers and professionals, and the employment of foreign engineers and technicians. While almost half of the large enterprises in CESD's sample reported having at least one foreign manager or professional in their workforce, the same was true for only 6% of SMEs. Moreover, 19% of large enterprises indicated that 2-5 foreign managers or professionals work for them, 4.5% said that they have 6-10 foreign managers or professionals, and 2.2% reported having even more than 11 foreigners in

these positions. At 2.8%, 0.9% and 0%, respectively, the corresponding percentages for SMEs are significantly lower. In a similar vein, 43% of large enterprises but only 7% of SMEs in CESD's survey reported having at least one foreign engineer or technician among their staff. Again, large firms are also more likely to employ larger numbers of foreign engineers and technicians, with 15% of them having five or more of them while the same is true for only 0.9% of SMEs. Overall, thus, hiring foreign staff seems to be more difficult or less important for SMEs. One possible explanation might be SMEs' lower degree of integration into regional and global value chains; when firms become suppliers to international lead firms, the latter often send foreign managers and specialists to supplier firms in developing country locations in order to serve as liaison between headquarters and production facility, to improve operations and to smoothen coordination and integration more generally.

Comparing across sectors, the lower panel of Figure 11 reveals that the share of garment producers in CESD's sample that employs foreign staff is much higher than the share of food manufacturers. More precisely, only 4.5% of food manufacturers have foreign engineers or technicians in their workforce and a mere 1.1% have a foreign manager or professional. By contrast, 45.1% of the garment producers in CESD's sample employ at least one foreign manager or professional (and 5.9% even more than five) while 40.2% of them have at least one foreign engineer or technician in their workforce (and 13.7% have even more than five). To a certain extent, this reflects garment firms' higher degree of integration into cross-border value chains (see also Table 28, Table 30 and Table 32 below).

Figure 11: Share of firms employing foreign staff in different occupations (by firm size and sector)





6 SMEs in the international economy: General considerations and the case of Myanmar

In the previous section we have shed light on some key characteristics of SMEs in Myanmar in general, and those operating in the food and apparel manufacturing sectors more specifically. This section looks at Myanmar SMEs' interactions with companies in foreign countries, with a specific focus on countries in ASEAN and East Asia. In doing so, it undertakes an investigation into the extent of Myanmar SMEs' integration into regional and global economic relations, addressing the following questions: What is the

state of Myanmar SMEs' participation in regional trade, production networks, and investment activities? How have regional and preferential trade agreements affected SMEs' activities and performance?

6.1 SMEs, FDI, GVCs and trade: Some conceptual foundations

In today's world economy, the production of an increasing number of goods and services is fragmented internationally and carried out in regional or international production networks whereby individual production steps take place in different locations around the world. That is, countries often no longer specialize in producing certain products in their entirety but they rather specialize in a set of tasks that makes up a given stage of production of an individual product. As a result, international trade increasingly takes place within regional and global value chains (VCs) that are governed by lead firms and multinational corporations. While implying new challenges, these developments have also created new opportunities for SMEs in developing countries to integrate into international trade flows by linking to and supplying to such regional and global VCs. (Bamber et al. 2014, Gereffi 1994, Harvie 2010b, Harvie and Charoenrat 2015, Kaplinsky 2005, Lim and Kimura 2010, UNCTAD 2010, Wignaraja 2013)

In many cases, the spreading of such cross-border VCs involves foreign direct investment (FDI) flows whereby lead firms from advanced economies (including large retailers, brand marketers and brand manufacturers) set up production facilities or enter joint ventures with local producers in developing countries (UNCTAD 2013b, World Bank 2014b). SMEs in developing countries can benefit from FDI inflows and the integration into regional and global VCs in various ways. First, the spreading of regional and global VCs opens up opportunities for SMEs to not only engage in direct exporting but also in indirect exporting, i.e. in acting as sub-contractors and second-tier suppliers to companies that export. Second, many foreign companies that sub-contract certain productive tasks to SMEs in developing countries provide (at least initial) training to these suppliers to familiarize them with better production processes and help them to improve quality and productivity. Third, in some cases doing business with foreign companies involves the transfer of technology and know-how. In such cases, local producers are given more modern machinery or at least support in making the right choices for new investments. Moreover, they may benefit from the transfer of know-how not only on production processes but also in terms of non-production activities such as managerial practices, research and development (R&D) sourcing, marketing, logistics or distribution. Fourth, foreign buyers are often quite demanding when it comes to volumes, quality and consistency of supply. They typically require their suppliers to have a minimum level of capacity to comply with technical, quality and other standards (both public and private standards). Being confronted with such stringent requirements can provide a stimulus to SMEs to improve production processes and the quality of their products and to become more productive and competitive (Bamber et al. 2014, UNCTAD 2010, UNIDO 2015, World Bank 2014b).

However, participating in international markets definitely also comes with a lot of challenges. The most important one is probably the intensified competition with suppliers from other countries both in foreign but also domestic markets. More productive foreign competitors are able to offer various products more cheaply and with better quality. Moreover, many SMEs in developing countries struggle to meet the consistency requirements of foreign buyers, both in terms of the quantities demanded and the compliance with their stringent technical and quality standards. Entering foreign markets also involves the need to obtain information about them; it also requires knowledge on distribution channels. Obtaining such information and developing such knowledge implies costs which many SMEs cannot easily cover. Participating in international trade is quite a risky undertaking, given that buyers locate in different countries with different political and legal systems as well as different currencies. This

is why most firms engaging in cross-border transactions seek to cover themselves against these commercial and political risks inherent in international trade. However, SMEs often lack the resources for such hedging (Harvie 2010a, Harvie and Charoenrat 2015, Puusaag et al. 2015, UNESCAP 2012). For SMEs in a country like Myanmar that only recently re-opened to the international economy, these challenges might be too much to overcome, not least due to a lack of experience.

6.2 Foreign Direct Investment in Myanmar

As discussed, recent years have seen an increasing international fragmentation of production, the spreading of global value chains (GVCs) and the increasing integration of developing countries in such GVCs with lead firms deciding where to locate production tasks and functions according to comparative and cost advantages of the host country. Foreign direct investment (FDI) is a key driver behind these developments, supporting the setting up, expansion and upgrading of production facilities in developing countries. These trends are also observable in Myanmar which has seen a rapid increase in FDI inflows ever since it opened its economy in 2011. As mentioned above, around the turn of the millennium, Myanmar attracted only a few foreign investors, mostly from East Asia, who almost exclusively invested in natural resource extraction and export-oriented hydropower projects. By contrast, in recent years, Myanmar has not only seen a significant increase in the number of FDI projects but also a diversification in terms of sectors and investor countries of origin. While there are still investments in natural resource and power projects, a lot of new FDI projects are in manufacturing, tourism, telecommunications, and other non-extractive sectors with an increasing interest also from Western investors (ASEAN and UNCTAD 2014). [10]

As we have seen in Table 10 above, in recent years, Singapore, Thailand, Vietnam and Malaysia have been the most prominent ASEAN foreign investors in Myanmar while China, Hong Kong and South Korea have been important sources of FDI from the East Asia region. By contrast, investors from non-Asian countries, for now at least, still play a rather subdued role in Myanmar. This is also revealed by Table 28 which shows a ranking of the countries of origin of foreign investors who have invested in the manufacturing firms in CESD's survey sample. As can be seen there, 11% of respondents reported that they have foreign investment from Japan; this includes both fully foreign-owned firms as well as joint ventures with Japanese asset-holding. This is interesting as, according to Table 10 above, Myanmar has not received much FDI from Japan in the recent past. The fact that Japan ranks number 1 as FDI source among the CESD survey companies, thus, largely reflects older Japanese investment from the early and mid-2000s, particularly in the garment sector (see Kudo 2013). Another 9% of CESD's survey firms report having foreign investment from Korea while about 6% indicated that they had investment from China and Hong Kong, respectively. By comparison, countries from the European Union (EU) are the most important non-Asian source of FDI for the Myanmar enterprises in CESD's survey sample – but their overall significance is limited as only 1.6% of companies surveyed reported investment from the EU, followed by 1% who reported investment from Australia and 0.5% who reported investment from Norway.

Table 28 also shows that the share of large enterprises in CESD's sample that are foreign-invested is much higher than the share of foreign-invested SMEs. While 92.3% of CESD's sample SMEs are entirely locally owned (i.e. have no foreign asset holders), the same is true for only 36.4% of large enterprises.

[10] See also the Department of Investment and Company Administration's (DICA) website: http://dica.gov.mm.x-aas.net/

Among SMEs, 2.9% report to have at least some Japanese and Hong Kong investment, while 1% report foreign investment from China, India, Australia and the EU. By contrast, 21.6% of large enterprises have foreign investment from Korea, 17% from Japan, 12.5% from China and 10.2% from Hong Kong, respectively. There are also some that reported foreign investment from Taiwan, the EU, Thailand and other Southeast Asian countries. Table-27 also allows comparisons between the processed food sector and the garment sector. In the former, the share of fully domestically owned enterprises (96.6%) is much higher than in the latter (38.8%), reflecting the facts that garment firms tend to be both larger and more integrated into cross-border value chains than food manufacturers. Most prominent among foreign investors in Myanmar garment producers are those from Korea, Japan, China, and Hong Kong; between 10% and 20% of garment firms in CESD's sample report foreign investment from these countries. While Japanese, Chinese and Hong Kong investors are also the most important sources of foreign capital in the food manufacturing sector, the percentage of food producers with investment from these countries is much smaller (at 2.2%, 1.1% and 1.1%, respectively). The Myanmar food processing sector, thus, is still largely in Myanmar hands.

Table 28: Countries of origin of foreign investors in Myanmar by sector and firm size

	Share of respondents				
	Full sample	**SMEs**	**Large Enterprises**	**Food producers**	**Garment producers**
Korea	9.80%	0.00%	21.60%	0.00%	19.40%
Japan	9.30%	2.90%	17.00%	2.20%	16.30%
China	6.20%	1.00%	12.50%	1.10%	11.20%
Hong Kong	6.20%	2.90%	10.20%	1.10%	11.20%
Taiwan	2.60%	0.00%	5.70%	0.00%	5.10%
EU countries	1.60%	1.00%	2.30%	1.10%	2.00%
Australia	1.00%	1.00%	1.10%	0.00%	2.00%
India	1.00%	1.00%	1.10%	0.00%	1.00%
Thailand	1.00%	0.00%	2.30%	0.00%	2.00%
Indonesia	0.50%	0.00%	1.10%	0.00%	1.00%
Norway	0.50%	0.00%	1.10%	0.00%	1.00%
Malaysia	0.50%	0.00%	1.10%	0.00%	1.00%
Singapore	0.50%	0.00%	1.10%	1.10%	0.00%
No foreign investment (locally-owned)	66.80%	92.30%	36.40%	96.60%	38.80%

Note: Multiple responses possible per respondent

6.3 Participation of Myanmar companies in global trade

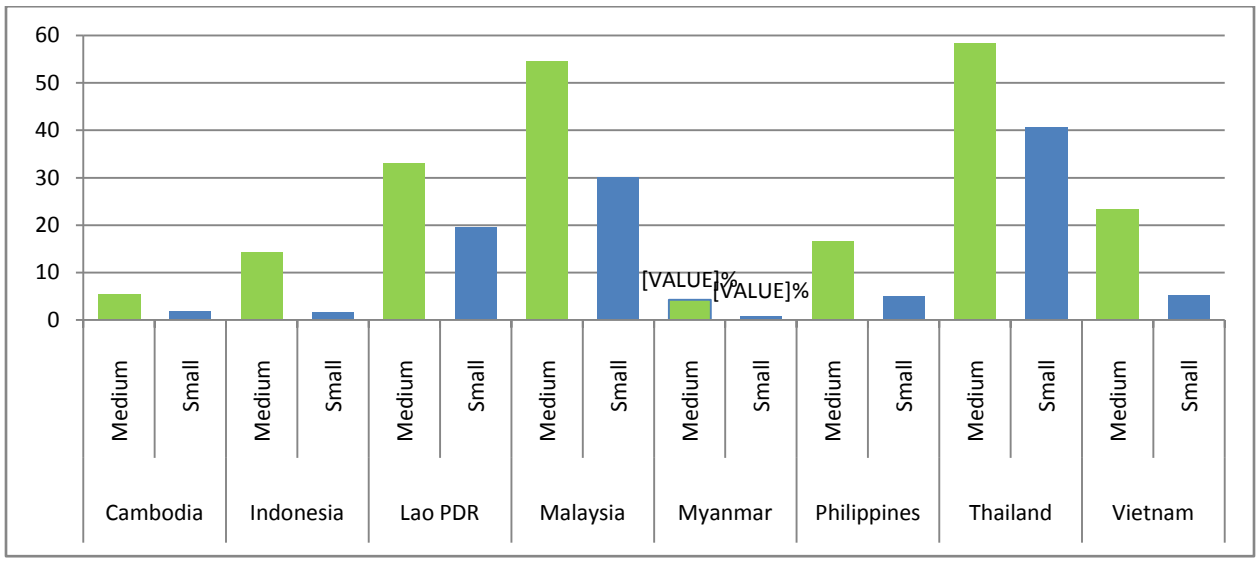
Exports to foreign countries play almost no role for most of Myanmar's SMEs. Compared to other ASEAN countries, Myanmar's SMEs appear to be less likely to export their produce (see Table 29 and Figure 12). According to the World Bank's Enterprise Survey, only 4.2% of medium-sized companies and 0.8% of small enterprises export directly or indirectly at least 1% of sales. Similarly, among the SMEs surveyed by

DEval, only around 4% stated that they export at all. These percentages are considerably lower than those for fellow ASEAN member states, which is at least partly a reflection of the long period that Myanmar had been closed off internationally.

Overall, the DEval survey found that "the main marketing channel for micro and small enterprises are their own shop(s) and wholesalers in the same region (see Figure-13). In general, micro enterprises tend to trade within their local areas, whereas small and medium enterprises also market their goods and services through traders from other regions" while "exports to foreign countries are largely irrelevant" (DEval 2015: 20-21).

However, there is some variation across sectors. This is what the results from CESD's survey point to. In fact, in CESD's survey 7% of small firms, 56% of medium-sized firms, and 91% of large firms indicated that they export at least some of their output. With that, the share of exporting firms in CESD's sample is significantly higher than those in the World Bank's Enterprise Survey and the DEval survey. The explanation for this significant difference lies in the fact that firms from export-oriented sectors dominate CESD's survey sample. In fact, more than half of the firms in CESD's sample operate in the apparel sector (which is heavily export-oriented in Myanmar; see MGMA (2015) but also Table 33 which shows that 84% of all apparel companies surveyed here are exporters) while another 45% of survey firms are food manufacturers (of which 27% export; again see Table 33).

Figure 12: Percent of SMEs exporting directly or indirectly (at least 1% of sales)



Note: Small enterprises are defined as having 5-19 employees, medium enterprises are defined as having 20-99 employees; figures reported are averages; sample sizes and survey years differ across countries

Source: World Bank Enterprise Survey Database

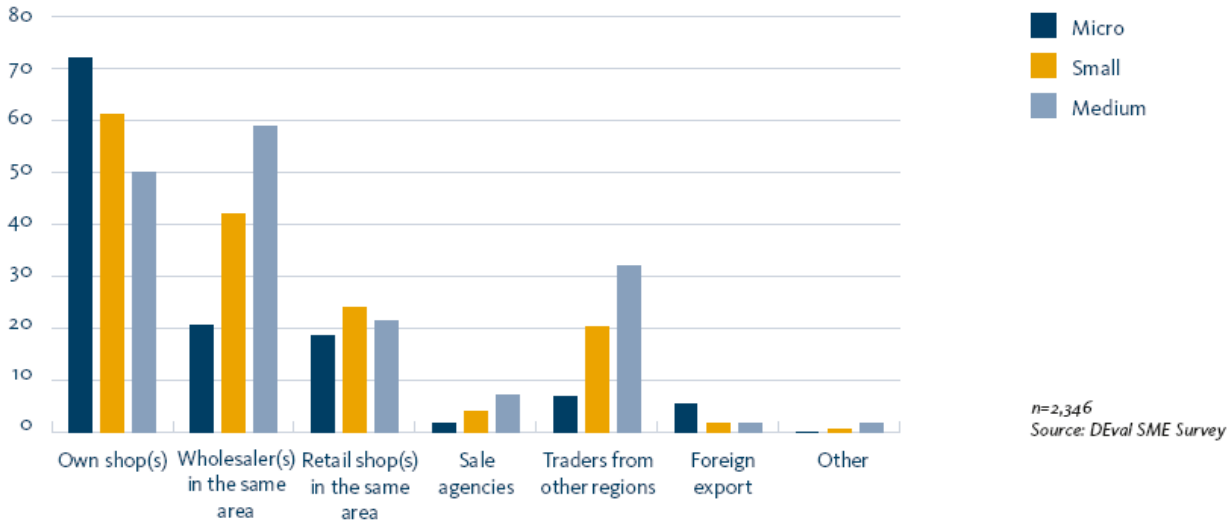
Table 29: SME participation in international trade, selected ASEAN countries

Economy and survey year	Firm size (no. of employees)	Percent of firms exporting directly or indirectly (at least 1% of sales)	Percent of firms exporting directly (at least 1% of sales)	Proportion of total sales that are exported directly (%)	Proportion of total sales that are exported indirectly (%)	Percent of firms using material inputs and/or supplies of foreign origin	Proportion of total inputs that are of foreign origin (%)
Cambodia	Medium (20-99)	5.3	4.4	3.0	0.5	n.a.	0.0
2013	Small (5-19)	1.8	1.0	0.7	0.4	n.a.	0.0
Indonesia	Medium (20-99)	14.2	8.3	3.8	4.3	12.5	6.0
2009	Small (5-19)	1.6	0.9	0.3	0.5	2.5	1.1
Lao PDR	Medium (20-99)	33.0	22.6	18.4	8.2	53.3	33.5
2012	Small (5-19)	19.4	9.9	6.4	6.9	25.4	11.3
Malaysia	Medium (20-99)	54.5	51.6	23.3	3.4	43.5	25.4
2007	Small (5-19)	30.0	25.1	13.5	3.1	30.3	16.8
Myanmar	**Medium (20-99)**	**4.2**	**3.0**	**2.5**	**0.3**	**26.8**	**14.3**
2014	**Small (5-19)**	**0.8**	**0.6**	**0.6**	**0.2**	**12.6**	**8.5**
Philippines	Medium (20-99)	16.5	11.3	7.3	3.6	57.3	40.3
2009	Small (5-19)	5.0	2.0	0.5	2.2	20.9	12.2
Thailand	Medium (20-99)	58.3	27.7	12.8	1.3	100.0	n.a.
2006	Small (5-19)	40.7	16.7	7.3	0.7	100.0	n.a.
Vietnam	Medium (20-99)	23.2	12.0	7.0	6.2	58.7	39.4
2009	Small (5-19)	5.1	4.6	4.4	0.3	42.5	15.2

Note: Figures reported are averages; sample sizes and survey years differ across countries

Source: World Bank Enterprise Survey Database

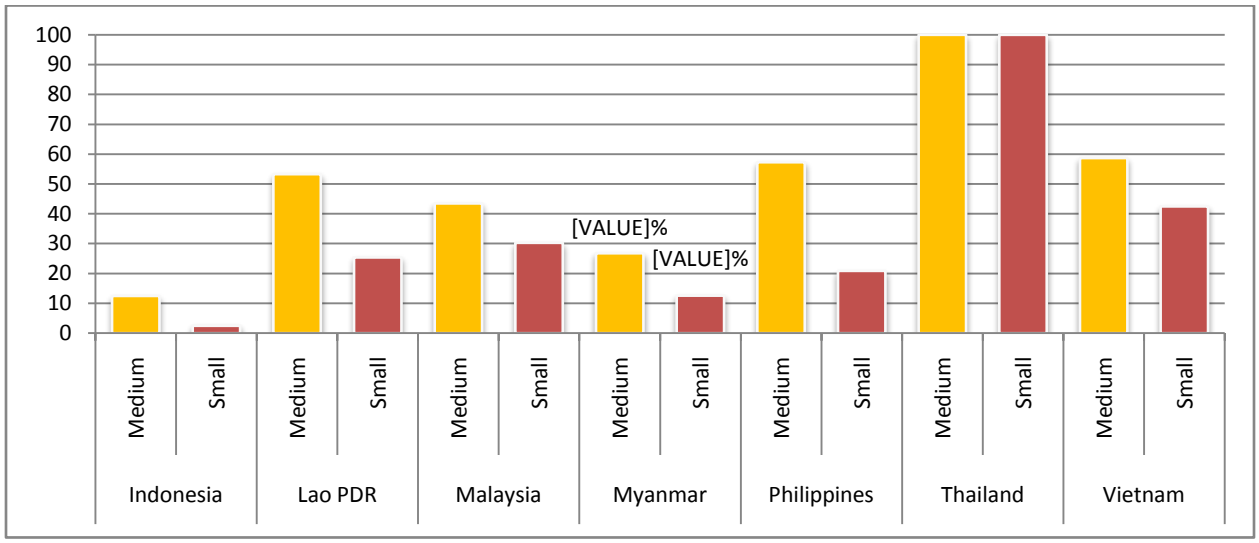
Figure 13: Main marketing channels (in %)



Source: DEval (2015: 20)

Looking at the import side, Myanmar's SMEs appear to source less of their material inputs and supplies from abroad, compared to other ASEAN countries, which points to their lower degree of integration into international production networks. More precisely, according to the World Bank's Enterprise Survey, the proportion of total inputs that Myanmar SMEs source from foreign suppliers (14.3% in the case of medium-sized firms and 8.5% in the case of small firms) is smaller than in other ASEAN countries (see Table 9). The World Bank's Enterprise Survey also finds that 27% of medium-sized firms and 13% of small enterprises in Myanmar use material inputs and/or supplies of foreign origin. These percentages are significantly lower than those seen in Laos, Malaysia, the Philippines or Vietnam, for example, where between 40% and 60% of medium-sized firms and between 20% and 40% of small enterprises source inputs or supplies from abroad (see Figure 14).

Figure 14: Percent of SMEs using material inputs and/or supplies of foreign origin



Note: Small enterprises are defined as having 5-19 employees, medium enterprises are defined as having 20-99 employees; figures reported are averages; sample sizes and survey years differ across countries

Source: World Bank Enterprise Survey Database

Again, however, there are differences across sectors. According to CESD's survey, 88% of Myanmar food manufacturers source all their inputs domestically with just 2% sourcing all their inputs from abroad and 10% sourcing at least some of their inputs from foreign suppliers. By contrast, foreign inputs are much more important for the Myanmar apparel sector. A staggering 45% of the apparel firms in CESD's sample indicated that they get all their inputs from abroad and another 50% source at least some inputs from foreign suppliers while just 5% of respondents said that they source all their inputs locally (see Table 30). This can be explained by the peculiar integration of Myanmar's garment sector into regional and global value chains: At present, the large majority of Myanmar apparel factories operate under the Cut-Make-Pack (CMP) model which is a form of contract work where foreign buyers take care of all the sourcing. That is, the buyer ships all necessary inputs to the Myanmar garment factory which then just carries out the labor-intensive CMP activities, assembling garment components that are purchased and supplied by the buyers themselves. In other words, the Myanmar apparel industry currently has little backward integration as the local textile and also packaging industries are underdeveloped and not able to supply inputs in the quantity and/or quality needed by the export-oriented garment producers (ILO 2015, MoC and ITC 2015a, MGMA 2015).

These cross-sectoral differences and sectoral specificities also explain why the findings from CESD's survey deviate somewhat from those of the World Bank's Enterprise Survey. According to CESD's survey, 26% of small companies and 64% of medium-sized enterprises source some or even all of their inputs from abroad (see Table 30). These percentages are higher than those found by the World Bank's Enterprise Survey – with these differences being driven by the fact that apparel factories, who (have to) import a lot of their inputs, make up over 50% of CESD's sample. However, the SMEs in CESD's sample are still less likely than the large enterprises in their sample to import supplies from abroad – with 95% of the latter reporting that they source some or even all their inputs from foreign suppliers.

Table 30: Sources of inputs by industry and firm size

	INDUSTRY		SIZE			
	10. FOOD	14. APPAREL	Small	Medium	Large	Full sample
ALL INPUTS SOURCED LOCALLY	88%	5%	74%	36%	5%	55%
ALL INPUTS SOURCED ABROAD	2%	45%	9%	36%	36%	18%
AT LEAST SOME INPUTS SOURCED ABROAD	10%	50%	17%	27%	59%	27%
TOTAL	100%	100%	100%	100%	100%	100%

6.4 Integration of Myanmar's SMEs into regional trade and production networks

In the previous sub-section we looked at the extent to which Myanmar SMEs interact with *global* markets, in terms of both exporting products and importing inputs. This sub-section addresses the question what the current state is in terms of Myanmar SMEs' participation in *regional* trade, production networks, and investment activities. When we say *regional*, we mean, on the one hand, ASEAN and, on the other hand, the East Asia region.

Table 31 and Table 32 give an overview of the extent and type of business relations that CESD's survey firms have with companies in other ASEAN member states. They show that Myanmar is hardly integrated into ASEAN business networks. As can be seen in Table 31, only 13% of responding firms report having any business relationship with companies in other ASEAN countries. The share is largest among medium-sized firms (16.7%), followed by large enterprises (16.1%) while only a tiny minority of small firms (5.7%) engage in business with companies in other ASEAN countries. Table 31 also shows that firms with foreign ownership are slightly more likely to have ASEAN business relations than fully domestically owned firms (15.6% vs. 11.9%).

Table 31: Share of firms with ASEAN business relations by firm size and foreign ownership

	ASEAN BUSINESS RELATIONS?	
	No	Yes
SMALL	94.3%	5.7%
MEDIUM	83.3%	16.7%
LARGE	83.9%	16.1%
DOMESTICALLY OWNED (%)	86.6%	11.9%
FOREIGN-INVESTED (%)	82.8%	15.6%
TOTAL (%)	85.4%	13.1%

Table 32 provides more details on the type of these business relations and the countries of origin of business partners. As can be seen there, three of the nine other ASEAN member states do not show up on the business relationship map for Myanmar, namely: Brunei, Laos, and the Philippines. That is, none of CESD's survey companies reported any business relationship with companies in these three countries. By contrast, Thailand, Malaysia and Singapore seem to be most important business partner countries within ASEAN. Thailand is the source of imports for 4.6% of respondents and the destination for exports

for 2.6% of respondents. As for Malaysia, 3.1% indicated that they were importing from there, 2.6% said where exporting and 1% reported investment relations. By contrast, business interactions of CESD's survey firms with companies in Cambodia, Indonesia and Vietnam are almost negligible at the moment.

Table 32: Business relationships with ASEAN countries

	% OF RESPONDENTS IMPORTING FROM	% OF RESPONDENTS EXPORTING TO	% OF RESPONDENTS WITH INVESTMENT IN/FROM
THAILAND	4.6%	2.6%	NA
MALAYSIA	3.1%	3.1%	1.0%
SINGAPORE	1.0%	2.1%	NA
VIETNAM	0.5%	1.5%	NA
CAMBODIA	0.5%	NA	0.5%
INDONESIA	0.5%	NA	NA
ASEAN TOTAL	8.2%	7.2%	1.5%
NON-ASEAN	2.1%	1.5%	0.5%

In relative terms, the most important type of ASEAN business relationship is importing: 8.2% of survey firms reported that they import from one of the other ASEAN member states. Meanwhile, 7.2% of respondents said they were exporting to at least one other ASEAN country while only 1.5% reported any investment relationship with ASEAN businesses. Overall, thus, there is still very little business engagement of Myanmar firms with counterparts in other ASEAN countries.

Please note that, when asked to identify the countries of origin of their ASEAN business partners, some of the respondents in CESD's survey actually mentioned non-ASEAN countries such as China, Japan, Hong Kong or Taiwan. The percentage of respondents mentioning non-ASEAN countries is given at the bottom row of Table 32. The fact that some respondents mistake China, Japan, Hong Kong or Taiwan for ASEAN member states reinforces the notion that awareness of and knowledge about ASEAN is still quite limited among Myanmar enterprises.

Table 33: Exporting firms by industry, firm size and export markets

SIZE	***SHARE OF EXPORTING FIRMS (ALL)***	***SHARE OF FIRMS EXPORTING TO ASEAN***	***SHARE OF FIRMS EXPORTING TO EAST ASIA***
SMALL	**7%**	**4%**	**3%**
MEDIUM	**56%**	**9%**	**35%**
LARGE	**91%**	**7%**	**67%**
INDUSTRY			
10. MANUFACTURE OF FOOD PRODUCTS	**27%**	**11%**	**15%**
14. MANUFACTURE OF WEARING APPAREL	**84%**	**3%**	**59%**
TOTAL	***61%***	***7%***	***41%***

Looking in more detail at the composition of firms exporting to ASEAN, we see that while only 4% of small firms reported exports to ASEAN, the corresponding shares are 9% for medium-sized and 7% for large enterprises (see Table-32). Overall, East Asia seems to be a more important export destination than ASEAN: While merely 7% of responding firms reported exports to ASEAN, 41% reported exports to

East Asia. For medium-sized and large firms, in particular, East Asia appears to be an important market: 35% of medium-sized and 67% of large survey firms export to East Asia – while the corresponding percentages for ASEAN exports are much smaller at 9% and 7%, respectively. Small companies are the only group where the share of exporters to ASEAN (4%) is higher than the share of exporters to East Asia (3%).

Again there are important differences across sectors. While ASEAN is a more important export market for Myanmar food manufactures (of which 11% export to other ASEAN countries) than for Myanmar apparel producers (of which only 3% report exports to ASEAN), the reverse is true for East Asia. Almost 60% of Myanmar apparel firms export to East Asia but just 15% of food producers (see Table 33). This reflects the fact that in view of US and EU sanctions starting in 2003, Myanmar apparel producers began to target the East Asian countries of Japan and Korea as substitute export markets and these two countries are still the most important destinations for Myanmar apparel exports today (Kudo 2008; MoC and ITC 2015a).

Indeed, as can be seen in the right panel of Table 34, 46% of all apparel firms in CESD's sample reported exports to Japan (making it the single most important export destination among survey firms) while another 25% exports to Korea (giving it rank 4). However, as can also be seen in Table 34, the lifting of sanctions in recent years (and especially the EU's reinstating of Myanmar into its Generalized System of Preferences, GSP) led to both the US and the EU gaining ground again as export markets for Myanmar garment products. In fact, 33% of apparel producers in CESD's sample named the US as export destination and 32% of respondents said they ship products to EU countries. The US and the EU, thus, rank second and third in terms of frequency of being mentioned as export markets by survey participants. [11]

Apart from these top-4 (Japan, the US, the EU, Korea), other export markets were mentioned only by a small minority of survey respondents. Most of these other apparel export markets are in the region, however: China was mentioned by 6.6% of Myanmar apparel producers (rank 5), Australia by 3.9%, and Malaysia, Taiwan and Thailand by 2.6% each.

[11] Please note that these percentages only refer to the share of CESD's survey respondents mentioning a given country as export market. They do not say anything about trade volumes or values. That is, while the share of respondents mentioning the US and the EU as export markets is higher than the share of respondents identifying Korea as export destination, this does not necessarily imply that their total export volume or value to the US and the EU is higher than to Korea. Given that business relationships are still at an early stage, shipment sizes to the US and the EU might still be smaller than to Korea.

Table 34: Myanmar's major export destinations by industry

	FOOD		APPAREL	
EXPORT MARKET	% of Respondents	Rank	% of Respondents	Rank
JAPAN	10.0%	(1)	46.1%	(1)
EU COUNTRIES	5.0%	(2)	31.6%	(3)
CHINA	5.0%	(2)	6.6%	(5)
THAILAND	5.0%	(2)	2.6%	(8)
MALAYSIA	5.0%	(2)	2.6%	(8)
SINGAPORE	5.0%	(2)	1.3%	(11)
AUSTRALIA	3.3%	(7)	3.9%	(6)
HONG KONG	3.3%	(7)	1.3%	(11)
UNITED ARAB EMIRATES	3.3%	(7)	NA	NA
VIETNAM	3.3%	(7)	NA	NA
UNITED STATES	1.7%	(11)	32.9%	(2)
KOREA	1.7%	(11)	25.0%	(4)
TAIWAN	1.7%	(11)	2.6%	(8)
KUWAIT	1.7%	(11)	NA	NA
ASIAN COUNTRIES	1.7%	(11)	NA	NA
SAUDI ARABIA	1.7%	(11)	NA	NA
QATAR	1.7%	(11)	NA	NA

The picture is quite different for the food manufacturing sector. While Japan also ranks first there as the most frequently mentioned export market, it was mentioned by only 10% of respondents (compared to 46% in the apparel sector). Similarly, the three other markets that dominated the ranking in the apparel sector are much less important as export markets for Myanmar food manufacturers: only 1.7% of respondents report exporting to the US, 5% to the EU, and 1.7% to Korea. Other countries seem equally important as buyers of Myanmar processed food products. This includes countries that play no or just a minor role as export markets for Myanmar apparel, both within the region (Malaysia, Singapore, Thailand and Vietnam as ASEAN members as well as China, Hong Kong and Taiwan in East Asia) and outside the region, particularly in the Middle East. Unlike in the apparel sector, the United Arab Emirates, Kuwait, Qatar and Saudi Arabia are mentioned as importers of Myanmar processed food products.

Overall, thus, a comparison of the processed food and the apparel sectors based on the figures presented in Table 34 suggests three conclusions: First, a smaller share of Myanmar processed food producers actually exports; second, export markets for Myanmar processed food products seem to be more diversified (or, conversely, Myanmar apparel exports are more concentrated in a few, in fact four, dominant markets); and, third, more generally, Myanmar processed food exporters target other foreign markets than Myanmar apparel producers.

Meanwhile, Table 35 compares the export orientation of Myanmar SMEs against that of large firms. It shows the percentage of respondents who reported exporting to different foreign markets, ranking these export markets according to frequency of their mentioning. Comparing the figures for SMEs with those for large firms, first of all, reveals that the latter are much higher, reflecting the fact that large firms in Myanmar have a much higher export propensity than SMEs. Looking at the rankings of export markets of SMEs vs. large enterprises shows that large firms are able to export to high-income markets (such as Japan, the EU and the US), where customers are typically more demanding with regard to the

quality, sophistication and consistency of supply, whereas most SMEs are not. While among large firms 35% said they were exporting to the EU and 32% to the US, only 5.6% of SMEs reported exporting to each of these two markets. Japan ranks first as the most frequently mentioned export market among both SMEs and large enterprises – but whereas 47% of large firms in CESD's survey indicated exporting there, only 12.5% of SMEs did.

By contrast, regional markets with less demanding customers seem comparatively more important for SME exporters. For example, China was mentioned as often as the EU and the US as export market for Myanmar SMEs participating in CESD's survey (whereas among large firms it was mentioned three times less than the EU and the US). In a similar vein, Malaysia ranks as the fifth most frequently mentioned export market for SMEs – while it ranks only ninth among large firms.

Table 35: Myanmar's major export destinations by firm size

	ALL FIRMS		SMES		LARGE FIRMS	
EXPORT MARKET	% of Respondents	Rank	% of Respondents	Rank	% of Respondents	Rank
JAPAN	29.7%	(1)	12.5%	(1)	47.0%	(1)
EU COUNTRIES	19.6%	(2)	5.6%	(2)	34.8%	(2)
US	18.8%	(3)	5.6%	(2)	31.8%	(3)
KOREA	14.5%	(4)	2.8%	(6)	24.2%	(4)
CHINA	6.5%	(5)	5.6%	(2)	9.1%	(5)
THAILAND	3.6%	(6)	2.8%	(6)	4.5%	(6)
MALAYSIA	3.6%	(6)	4.2%	(5)	3.0%	(9)
AUSTRALIA	3.6%	(6)	2.8%	(6)	4.5%	(6)
SINGAPORE	2.9%	(9)	2.8%	(6)	3.0%	(9)
HONG KONG	2.2%	(10)	1.4%	(11)	3.0%	(9)
TAIWAN	2.2%	(10)	NA	NA	4.5%	(6)
RUSSIA	2.2%	(10)	1.4%	(11)	3.0%	(9)

So far, we have only looked at the export side of Myanmar SMEs' integration into regional trade and production networks. In the following, we shed some light on their backward integration, i.e. import relationships, with ASEAN and East Asian countries. Above, we have already seen that 74% of small Myanmar firms indicated that they source all their inputs locally while only 17% source at least some inputs from abroad and 9% import all their inputs. Among medium-sized firms, the picture is the opposite with just 36% getting all their inputs domestically and 64% sourcing at least some inputs from foreign suppliers (see Table 30).

Table 36 provides some details on the countries of origin of these foreign inputs as well as on the differences between the food industry and the apparel industry. As can be seen there, in general, non-Asian countries play a negligible role as foreign suppliers of inputs. That is, if Myanmar companies source inputs from abroad, they mostly do so from ASEAN and East Asian countries. Overall, China is the most important foreign source of inputs with 24% of respondents importing supplies from there, followed by Thailand and Japan (10% of respondents for both countries). For Myanmar food manufacturers, however, Malaysia is the most important source of foreign inputs; 5% of surveyed food processing firms indicated obtaining at least some of their supplies there. China and Thailand rank as second most frequently mentioned countries of origin of imported inputs in the food processing sector (with 3% of respondents, respectively, indicating to source inputs there).

By contrast, for the apparel sector it can be observed, first, that a much larger share of respondents source at least some inputs abroad and, second, that China and Japan are the most important countries of origin of these foreign supplies, followed by Thailand and Korea. More precisely, more than half of respondents are sourcing inputs from China, almost a third from Japan, and 16% from Thailand and Korea, respectively. Given this high incidence of regional sourcing and the great importance of East Asian markets for exports that was documented above, it can be said that apparel production is the most pronounced case of a Myanmar industry being integrated into regional production sharing and regional value chains.

Table 36: Sources of foreign inputs by sector and country of origin

IMPORT SOURCE	FULL SAMPLE % OF RESPONDENTS	FOOD % OF RESPONDENTS	APPAREL % OF RESPONDENTS
CHINA	24%	3%	57%
THAILAND	10%	3%	16%
JAPAN	10%	0%	30%
MALAYSIA	9%	5%	11%
KOREA	6%	2%	16%
EU COUNTRIES	5%	0%	11%
INDONESIA	4%	0%	11%
TAIWAN	4%	0%	11%
VIETNAM	3%	0%	8%
HONG KONG	2%	0%	5%
SINGAPORE	2%	2%	3%
UNITED STATES	2%	2%	3%

In summary, Myanmar SMEs appear to have a relatively low level of export orientation. At the same time, in some sectors, most notably garments, Myanmar companies depend to a large extent on foreign inputs. More generally, owing to the progressive opening of the country's economy, Myanmar SMEs increasingly come under pressure in their domestic markets (both for intermediate and final goods) from cheaper imports and foreign competition. The common preferential tariff scheme applied in the ASEAN community, for example, has led to an influx of often higher-quality and cheaper products from other ASEAN countries, threatening the future of many SMEs in Myanmar as they push the prices of products in local markets down to levels that local SMEs cannot achieve. In markets for products such as canned and snack foods, plastic products and toys, for example, local producers must compete with products from Thailand. Similarly, household products, appliances and consumer electronic products are facing price competition with cheaper products, especially from China (Abe and Dutta 2014). This competitive pressure from foreign firms can only be expected to intensify with the launch of the ASEAN Economic Community (AEC) at the end of 2015.Yet, local companies, and SMEs in particular, do not seem to fully be aware of this. This will be discussed in the next sub-section.

6.5 Awareness and perceptions of AEC, trade agreements and implications of regional integration

Most of Myanmar SMEs do not (yet) seem to be prepared to keep up with the global transformation of business strategies and practices. That is, they are unable to take advantage of the benefits and opportunities provided by global and especially regional integration. This is partly to be explained by their lack of awareness about business opportunities in foreign markets, for example those arising from trade preferences. Accordingly, the OECD-UMFCCI-UNESCAP survey found that firms still have more localized concerns and do not view issues such as foreign competition and international sanctions as particularly severe obstacles to their business (see Soans and Abe 2015).

In a similar vein, CESD's survey finds that a significant share of Myanmar SMEs is actually not aware of the AEC, let alone of its implications and the possible opportunities (e.g. in terms of access to ASEAN markets) that it offers. Figure 15 shows that only around 25% of the SMEs responding to CESD's survey indicated being aware of either the AEC and of the ASEAN Blueprint for SME Development. Interestingly, however, this is still a higher level of awareness than among the large enterprises in CESD's survey. This is quite a striking finding which requires further investigation. Similarly, when asked about how the AEC has affected or will affect their business in different areas, half or more of respondents said that they "don't know" or have "no opinion". That is, only half or less of survey participants expressed an opinion on the impacts they expect the AEC to have on their business – their responses are displayed in Figure 16. As can be seen there, optimism trumps pessimism when it comes to profits, access to intermediate inputs and particularly exports (where the share of respondents expecting an increase is larger than the share expecting a decrease). In general, large enterprises appear to be more optimistic with regard to these variables (and especially exports) than SMEs. Moreover, large enterprises also tend to be more optimistic with respect to domestic sales while among SMEs the share of skeptics (who are afraid domestic sales will decrease) is as big as the share of optimists (who expect domestic sales to increase).

Figure 16 shows that, in general, there are also concerns related to import costs, competition in local markets and especially competition in foreign markets where more respondents expect an increase than a decrease. Interestingly, there are quite some differences between SMEs and large firms in their expectations for these variables. Large enterprises seem particularly worried about losing out to competition in foreign markets, which 52% of them (but only 25% of SMEs) expect to increase and none expects to decrease. Similarly, large enterprises tend to be more pessimistic about import costs – which a third of them, but only a fifth of SMEs, expect to rise. By contrast, SMEs are more concerned about competition in the local market; 32% of them expect it to intensify while only 24% of large firms do so. These findings seem to reflect a general orientation of SMEs towards domestic markets and a higher degree of integration into international trade flows of large firms. Overall, these responses also point to survey participants' concerns that the AEC will expose them to more competition while the export and foreign market opportunities that it offers will be hard to capture.

Figure 15: Awareness of AEC and ASEAN Blueprint for SME Development – by industry and firm size

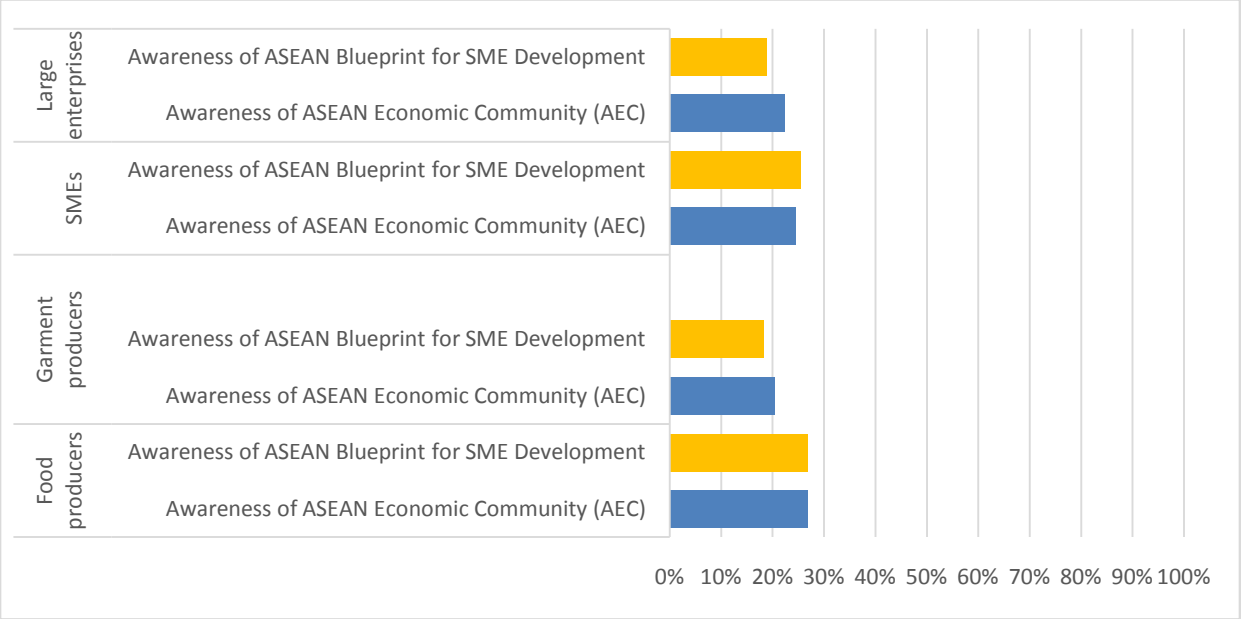


Figure 16: Firms' responses to the question: "How has AEC affected or will affect your business?"

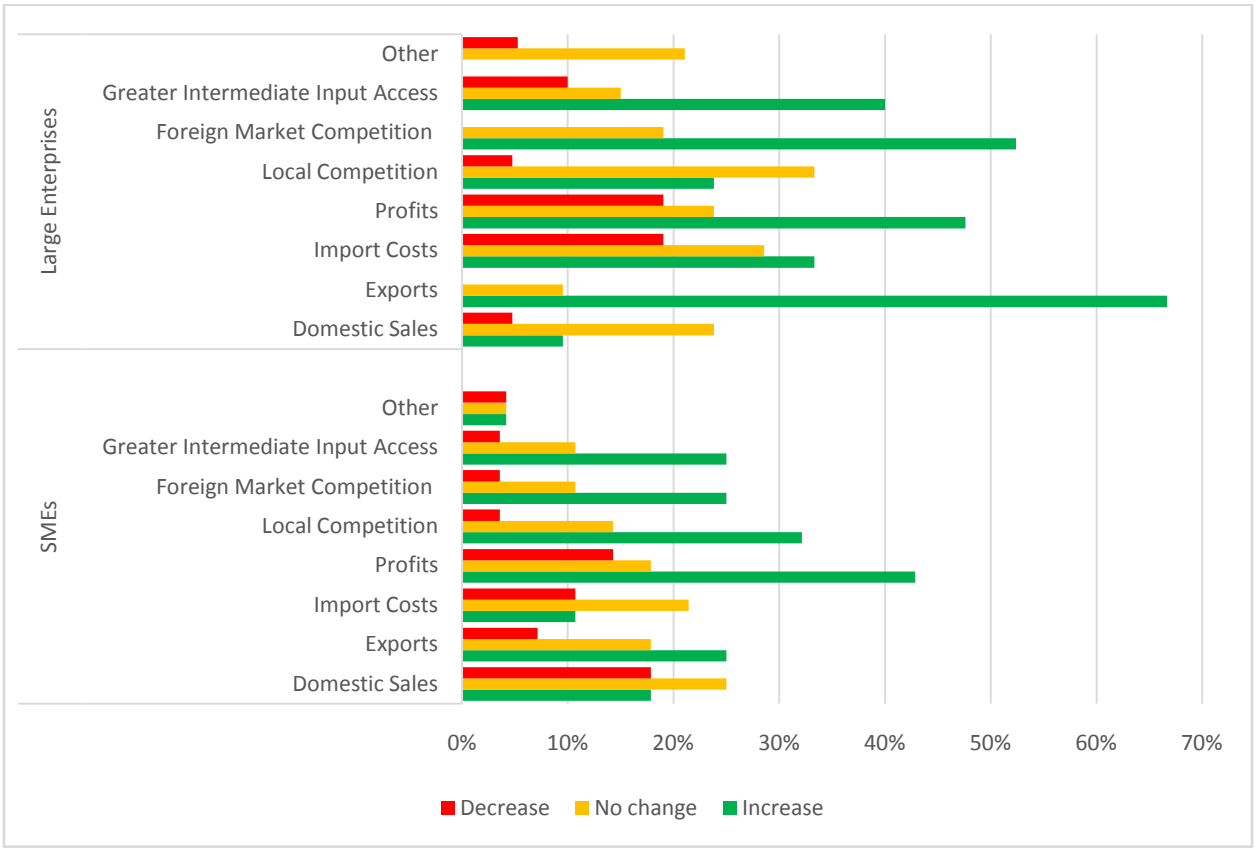


Figure 17: Firms' responses to the question: "What are key changes due to AEC that affect your business?"

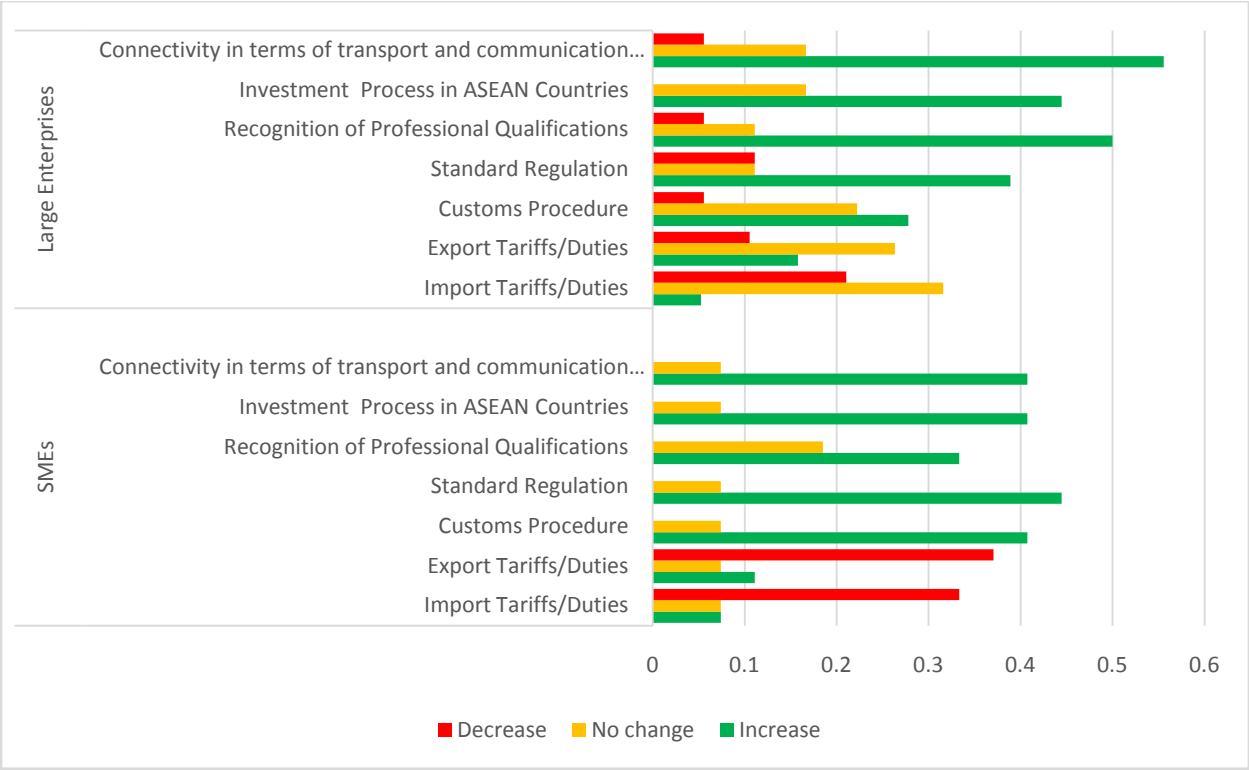


Figure 17 sheds some light on the underlying mechanisms that respondents think will drive these expected changes. Overall, responses do not differ too much between SMEs and large firms. As can be seen in Figure 17, around 40% of responding SMEs and more than half of the surveyed large enterprises expect connectivity in terms of transport and communication services to improve thanks to the AEC. Overall, a bit more than a quarter of respondents expect both export and import tariffs and duties to decrease as a result of AEC; however, SMEs are more optimistic in this regard than large enterprises. All this should facilitate market access to other countries within ASEAN for any ASEAN firm, thereby potentially leading to fiercer competition in the individual ASEAN countries' markets.

Figure 17 also reveals that around 40% of respondents (with slightly higher proportions among SMEs than among large enterprises) expect customs procedures, standards regulations, and the investment process in ASEAN countries to "increase". However, it is not entirely clear what exactly they imply with their responses. There might have been different interpretations and understandings of the underlying questions. When stating that they expect an "increase in customs procedures" due to the AEC, respondents likely meant an "improvement" in customs procedures – although some might actually have expressed their expectation that customs procedures will become more numerous and cumbersome. When indicating that they anticipate an "increase in standards regulations", respondents may have had more and/or stricter regulations in mind (given that such quality and safety standards are more stringent in the more advanced ASEAN economies such as Singapore, Malaysia or Thailand than

they currently are in Myanmar) – although some might as well have meant an "increase in harmonization" of standards regulations across ASEAN (given related initiatives at the ASEAN level) (see also MoC and ITC 2015b, UNIDO 2015). Meanwhile, when declaring that they expect an "increase" in the "investment process in ASEAN countries" due to the AEC, respondents likely meant that investment procedures within ASEAN will be simplified for ASEAN investors or that intra-ASEAN investment flows will grow – and probably not that the investment process will become lengthier and more cumbersome.

In a final note on Figure 17, it should be highlighted that 40% or more of respondents answered that they "don't know" or that they have "no opinion" on key changes related to the AEC that will affect their business.[12] This, again, reinforces the notion that awareness and understanding of the AEC are rather low among respondents, regardless of firm size.

In separate questions, CESD survey participants were also asked to provide additional comments, first, on how they think ASEAN economic integration will affect their firm and, second, on how increased competition from firms based in other countries of the region will affect their business. These comments can help better understand their concerns described above and implied by their responses in Figure 16. In these comments, some firms indicated that they were afraid of lacking the technological capabilities needed for withstanding the increase in competition particularly in foreign markets, while others fear that the size of their firm will become too small in the context of such market expansion. Moreover, quite a number of respondents stated that to become or stay competitive in more integrated regional markets, it will become more important to pay attention to product quality and quality control while there will also be an increased need for product and process innovation as well as for the ability to deliver at shorter lead times. All this likely requires new investments for which some respondents fear to lack the capital.

The additional comments that respondents provided in the CESD questionnaire also help us to better appreciate the concerns that they have with regard to the changes they expect for the situation in the domestic market. Here, one big concern is the influx of imports from more competitive foreign producers. Many respondents expect an increase in competition for market share while some are afraid that this could trigger a price war that hurts their business. Another concern that some respondents voiced relates to the labor market where they fear to lose out against foreign-invested firms coming to Myanmar, resulting in an increase in competition for labor and a shortage of skilled labor who will rather take jobs at foreign-invested firms as they are better paid, making it difficult for local firms to find sufficiently skilled labor. A few respondents are also concerned that increasing regional integration will stimulate labor emigration, further aggravating the shortage of skilled labor. One possible root cause of this concern can be seen in Figure 17: 47% of respondents expect the recognition of professional qualifications to increase due to the AEC, theoretically making it easier for qualified Myanmar labor to find (often better-paid) jobs in other ASEAN countries. Finally, a number of survey participants anticipate an increase in competition for raw materials, possibly leading to higher raw material prices.

There were, however, also comments that suggest that some responding firms are more optimistic about the effects of ASEAN economic integration. An, admittedly rather small, subgroup of respondents indicated that they hope for better access to foreign markets, more opportunities for export expansion, an improvement in the business environment (including better rules and regulations), as well as better

[12] That's the reason why the percentages shown in **Figure-17** do not add up to 100% in each of the different categories. The balance corresponds to the share of respondents that chose "don't know" or "no opinion" as answer.

transportation and lower logistics/transaction costs. Some companies expect the AEC to bring improved access to technology and packaging supplies, foreign investment inflows and an increased potential for joint ventures. There is also some disagreement among the more optimistic firms with the predictions of the more pessimistic respondents: For example, the former expect access to raw materials and intermediate goods to actually become easier and cheaper thanks to ASEAN economic integration. A few respondents even see bright spots for the labor market, predicting more and better job opportunities as well as an increase in the capacity of labor due to intensified competition resulting from ASEAN economic integration.

So far, our analysis has focused more narrowly on economic integration within ASEAN and related perceptions and expectations among participants in CESD's survey. Taking a somewhat wider perspective, we now will discuss companies' behavior and views with regard to Myanmar's trade agreements and trade opportunities more generally. Similar to our findings on ASEAN economic integration, both CESD's survey data and anecdotal evidence point to firms having very low levels of awareness and understanding of the fact that Myanmar has duty-free and quota-free access to the markets of various high-income countries, particularly through the Generalized System of Preferences (GSP) (see also Myanmar Times 2014). There is also little knowledge of the fact that Myanmar has signed various Free Trade Agreements (FTAs) which give Myanmar producers preferential access to the markets of other signatories. Figure 18 shows that only 14% of large enterprises and merely 3% of SMEs participating in CESD's survey have ever made use of an FTA. Figure 19 specifies the usage rates of different FTAs and trade preference schemes by the Myanmar enterprises that responded to CESD's survey. As can be seen there, most FTAs have hardly been made use of; only the GSP and the ASEAN-China Free Trade Area (ACFTA) benefits have been used by more than 20% of all respondents. There are, however, quite some differences between firms of different sizes and between different FTAs. While 37% of large enterprises have made use of the GSP and 7% used ACFTA, the same is true for only 10% and 5% of SMEs, respectively. ACFTA was used by 13% of the large firm respondents but by no SME. By contrast, 5% of SMEs but no large enterprise reported having made use of either the ASEAN Trade in Goods Agreement (ATIGA) or ASEAN-Australia and New Zealand Free Trade Agreement (AANZ).

Lack of knowledge is the main reason for CESD's survey firms not making use of FTAs and trade preference schemes, followed by too small trade volumes (see right panel of Figure 18). Interestingly, the share of respondents indicating these two reasons for non-usage of FTAs was larger among large enterprises than among SMEs (35% and 20% vs. 21% and 1%). Under "other reasons", quite a number of survey firms mentioned that they felt that the FTAs were not relevant for their business or that they did not relate to their area of business. One responding firm also indicated that it lacked the capacity to make use of FTA preferences and that it was "still far from using the FTA-related forms" (which need to be submitted to the Customs Department to enjoy FTA benefits). By contrast, difficulties to fulfill Rules of Origin (ROO) requirements or to get certificates of origin were not mentioned as important reasons for not using FTAs (see right panel of Figure 18 again).

Figure 18: Usage of FTAs and reasons for not using any FTA

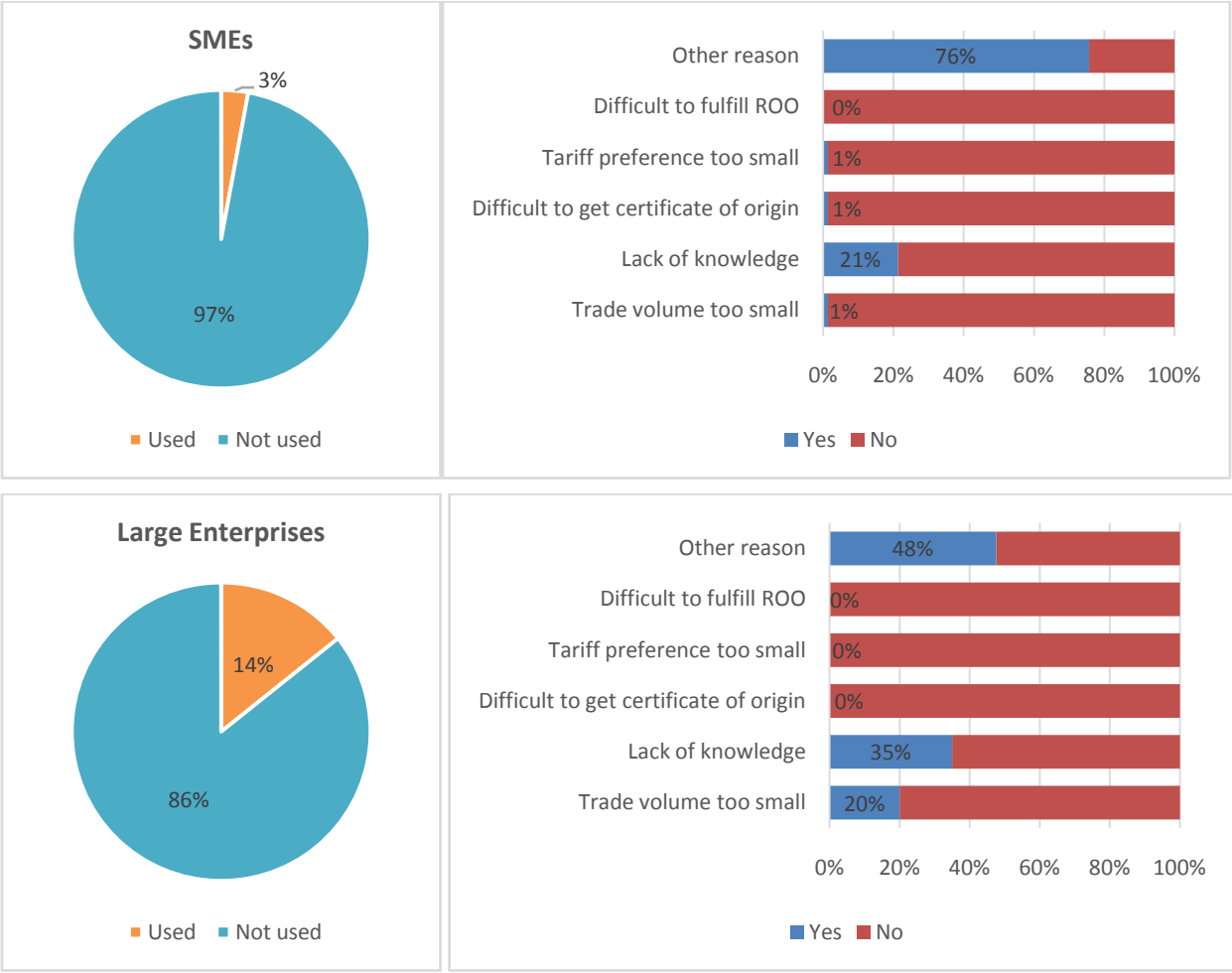
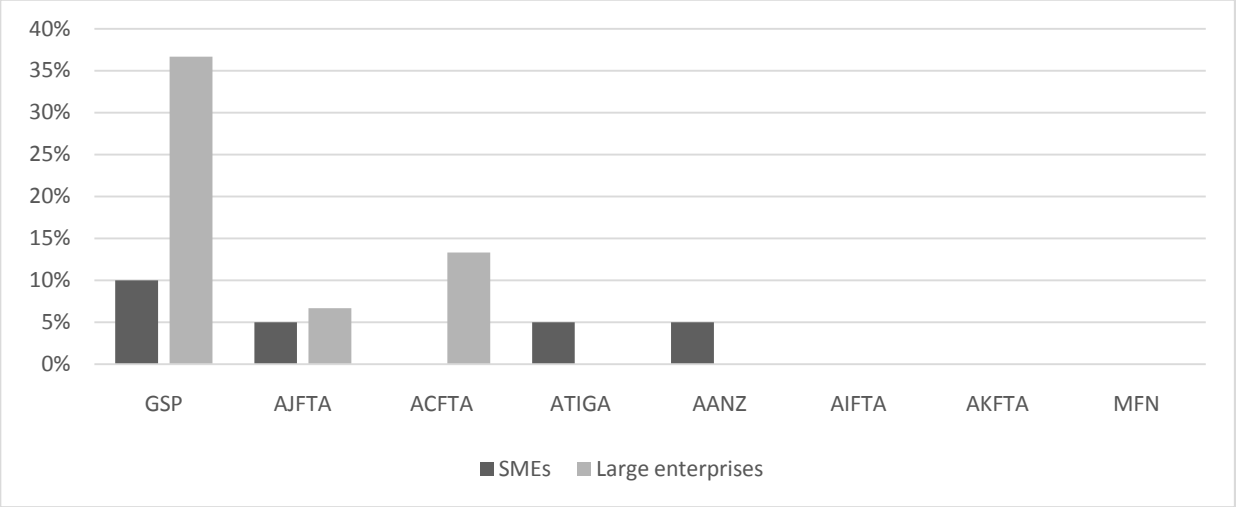
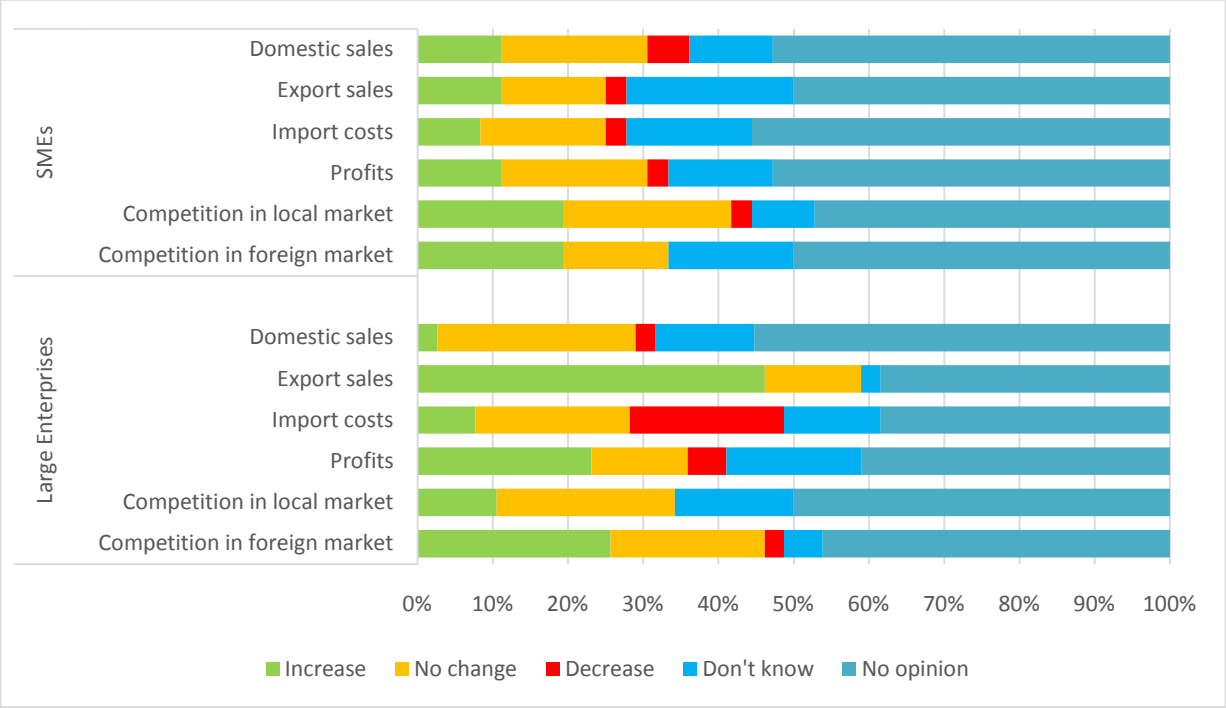


Figure 19: Reported usage of different FTAs and trade preference schemes



When asked about how FTAs have affected or will affect their business in various aspects, around 60% respondents were not able (or willing) to provide a concrete answer, saying that they "don't know" or have "no opinion". In other words, only two fifths of respondents expressed an opinion on the impacts that FTAs have on their business. Figure 20 provides details on their responses, revealing some differences across firm sizes. In general, SMEs seem more optimistic about FTAs' effects on domestic sales (which 11% perceive to have increased) than of the large enterprises (among whom only 3% report an increase). By contrast, almost half large survey firms but only around 10% of SMEs indicated that FTAs have increased or will increase their export sales. Similarly, the share of large enterprises saying that profits have increased or will increase is more than twice as high as the share of SMEs saying so (23% vs. 11%). These figures are somewhat lower than for comparable questions on the AEC where more than a quarter of SMEs and more than half of large firms expected an increase in exports and profits, respectively (see Figure 16 above). By and large, respondents, thus, seem to be a bit more optimistic about reaping benefits from regional integration within ASEAN than from FTAs with countries outside ASEAN.

Figure 20: Perceived impact of FTAs on business



Meanwhile, SMEs seem equally concerned about FTAs leading to increases in competition in domestic and foreign markets whereas large enterprises appear to be more concerned about increases in competition in foreign markets than about increases in competition in local markets, possibly reflecting their higher degree of export orientation. Overall, looking at the full survey sample, 15% and 23% of respondents said that FTAs have increased or will increase competition in local markets and competition in foreign markets, respectively. Again, these percentages are somewhat lower than for comparable questions on the AEC where 35% and 41% of respondents indicated that they anticipate an increase in local competition and foreign market competition, respectively. In a similar vein, only 4% of respondents stated that FTAs have reduced or will reduce their domestic sales while a three times larger share of respondents (i.e. 12%) expect the same to happen as a result of the AEC. This implies that respondents are more concerned about regional competitors within ASEAN than about competitors from non-ASEAN countries with which Myanmar has signed FTAs.

A final, open-ended question in CESD's survey invited respondents to provide comments on what they view as the three most important reasons impeding their firm's participation as supplier to other firms locally or internationally. These comments provide interesting insights on what firms see as key constraints to being successful. The most common response pointed to the scarcity or lack of raw materials; this mostly came from apparel companies who currently have to import (almost) all their inputs since there is no local supply chain which many view as jeopardizing their competitiveness. The scarcity of skilled labor and access to finance were the second and third most frequently mentioned impediments to firm's integration as suppliers into value chains. Both were already discussed to some extent above.

Another area that many respondents identified as a key impediment relates to deficiencies in the business environment (government procedures, getting permits, consistency of laws and government policies), the lack of government support, and political instability. Technology limitations, including the quality of machinery, and low investment rates were also mentioned by a fair share of respondents. Finally, survey participants also cited exchange rate fluctuations, infrastructure (e.g. transportation), and concerns about the quality of their products and their ability to comply with international standards and certification requirements as important reasons impeding their firm's participation as supplier to other local or international firms. This list of constraints to local, regional or international integration as supplier to other firms can be taken to point to some areas where policy support could be helpful. This is the topic to which the next, final section will be dedicated to.

7 Concluding remarks and policy implications

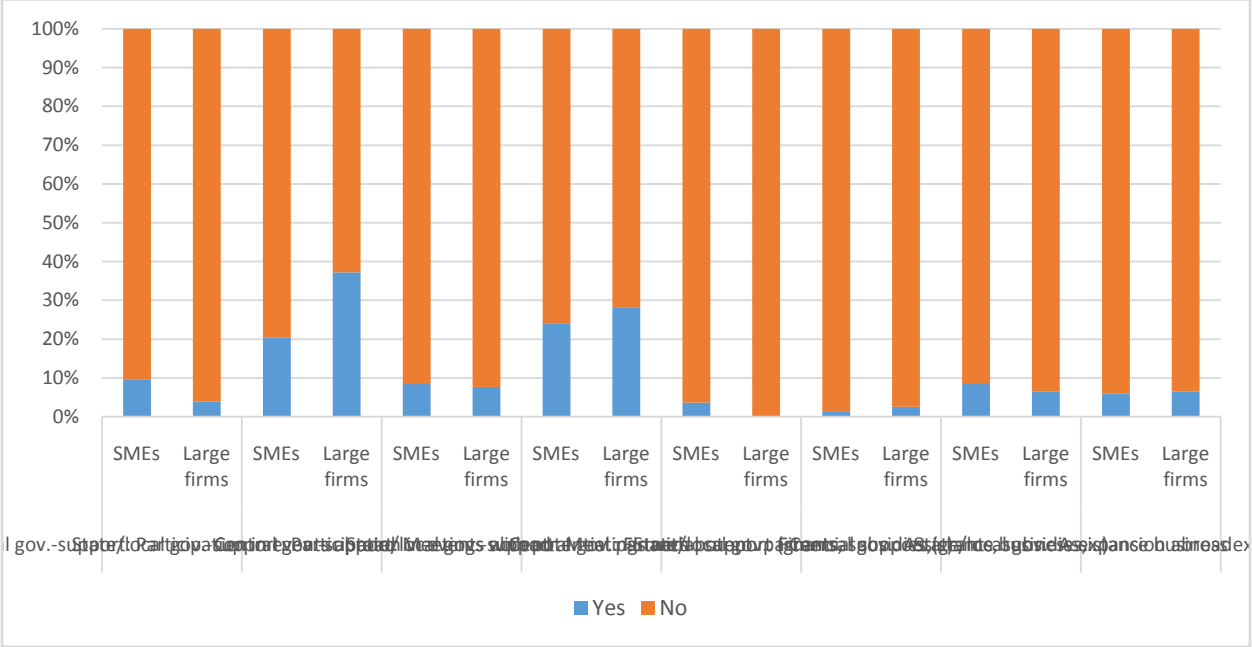
The opening of Myanmar's economy in general and the intensification of regional economic integration more specifically bring both opportunities and challenges to Myanmar's SMEs. However, the results from CESD's survey suggest that most of them do not seem to be well prepared for or even aware of the changes that such intensification of economic linkages with other countries in the region and the world will imply.

Myanmar's economic policy mix will be an important factor in shaping the prosperity of Myanmar's SMEs in general and their survival and success in the context of increasing regional integration, most notably through the AEC, more specifically. Obviously, some Myanmar SMEs will be more exposed to international and regional economic forces than others, depending, inter alia, on the sector they operate in. Accordingly, the need for policy support will vary across sectors and companies.

At present, Myanmar's SMEs seem to receive relatively little support from the government. Figure 21 presents different areas of possible government support for companies' internationalization and shows how many of CESD's survey firms indicated to have received such assistance during 2012 to 2014, distinguishing between support from the central government and state/local government.[13] The overall picture is clear: Only a minority of firms say that they have received any government assistance.

[13] There are three levels of government in Myanmar: (1) national (or Union) level (i.e. the central government), (2) state or region level, and (3) local level. For the purpose of the analysis here, state/region and local governments were lumped together into one category.

Figure 21: Extent and nature of government support by firm size during 2012-2014



Two general observations can be made from Figure 21: First, by and large, state/local government was identified as being more active in supporting firms' internationalization efforts. In most of the four policy areas shown in Figure 21, the share of respondents reporting support from state/local government is higher than the share of respondents reporting support from the central government. The area where government seems most active is the provision of support for companies' participation in events abroad (e.g. fairs and exhibition). Around 37% of large enterprises and 20% of SMEs indicated having received such support from state/local government while 4% of large firms and 10% of SMEs have obtained such type of support from the central government. By contrast, almost no company indicated to have benefitted from the provision of financial support (e.g. grants, subsidies, loans). In between these two extremes, government has extended some assistance to companies in terms of providing support for meetings with potential partners (about a quarter of firms received such support from state/local governments and 8% of firms from the central government) and in terms of providing assistance in business expansion abroad through bilateral FTAs and AEC (benefitting about 6% of respondents).

Second, and even more interestingly, the share of large firms reporting that they have received government support is higher than the share of SMEs acknowledging government assistance for almost every policy area covered in Figure 21. In other words, during 2012 to 2014 Myanmar SMEs were less likely to receive government support than large firms, which is a striking finding. This seems to be particularly true for assistance from local or state/region governments. The only exceptions of that pattern are central government support for companies' participation in events abroad (of which 10% of responding SMEs but just 4% of large firms benefitted) and central government financial support (which 4% of responding SMEs but no large firm enjoyed). Overall, thus, large firms seem to be more successful in securing government support. One reason for this is that larger firms are more knowledgeable about existing government support schemes. They tend to have a higher capacity to search for and process information about public policies and programs. They are also more likely than SMEs to have the time

and resources to go through the application processes for such government support and to submit application materials of higher quality. A second reason may be that large firms tend to have better connections to policy makers and more ability and clout to lobby for government support.

Myanmar is in the middle of a profound and forceful political and economic transition. Despite comprehensive and ambitious reform efforts, operating a business in Myanmar is still not simple and exposure to foreign competitors will further grow in parallel with the increasing opening and regional and global economic integration of Myanmar's economy. The list of challenges for Myanmar companies is long. Accordingly, there is an almost infinite number of items that can be suggested for a policy reform agenda, ranging from infrastructure, tax legislation, business environment and investment climate to financial sector development or trade, technology and industrial policies. Recently, a number of different experts and stakeholders have published work that discusses wide-ranging policy imperatives for SME support in Myanmar (see Abe and Dutta 2014; ADB 2014, 2015; OECD 2013; Puusaag et al. 2015; or Soans and Abe 2015, for example). Here, instead of attempting to cover the whole universe of possible policy suggestions, we will focus on those that come from our analysis of the data collected by CESD's and other surveys on enterprises in Myanmar. In the following, we will, thus, present some policy conclusions that emerge from our analyses, highlighting a few rather broad policy areas where government measures appear to be most needed or most promising.

i. Efforts should be made to encourage firm registration and formalization

A large number of firms are currently unregistered and operating in the informal sector in Myanmar. We have seen that the number of SMEs per 1,000 citizens in Myanmar (namely 2.6) is far below the averages for LDCs (namely 9) and developing countries (at 27). While this possibly also reflects generally lower levels of private sector activity, one explanation for this small number also lies in the low rate of registration by SMEs in Myanmar. Although on the one hand this is unsurprising given registration and licensing have historically been cumbersome and expensive (Myanmar Business Today 2014, Eleven Myanmar 2015), it does provide an indication of weaknesses in the current regulatory regime; clearly, for many firms the costs of registration outweigh its benefits. Policies designed to expand firm registration therefore require that these benefits and costs are examined, both at the point of firm registration and for operating within the formal system. The data collected through firm registrations should be fed into a central business registry which would thereby provide a useful pool of information on Myanmar's business population.

Increasing the proportion of SMEs that are formally registered would, hence, not only allow policy makers to better understand the characteristics and needs of Myanmar's SME population but also provide a potential means of encouraging SMEs' engagement in wider institutional and economic reforms by allowing registered firms greater participation in policy-making around economic reforms. In addition, if structured properly, such measures to increase registration levels could both help government distribute the tax burden more equitably across a larger population, while also allowing better targeting of government support measures for SMEs, who hence would see the benefits of being registered. More generally, businesses need to feel that they get something in exchange for formalizing and registering, e.g. in the form of financial support, access to information and training programs, infrastructure improvements, getting a voice in policy decision-making, or assistance in business match-making and in participation in trade fairs and other events. Overall, this would provide a first step to rebuilding the social contract between government, business and the wider community.

While it is suggested that further research is conducted in the area, there exist a number of entry points that might assist increasing business registration rates such as reducing registration fees and

streamlining the registration process. One of the most cited impediments for being a supplier to other local or foreign firms provided by respondents to CESD's survey related to the business environment and government regulations. This also echoes the World Bank's Doing Business survey which ranks Myanmar at 160 of 189 economies in terms of the costs of starting a business. Specifically, the World Bank survey estimates that starting a business costs the equivalent of 97.1 percent of Myanmar's average per-capita income, requiring 11 separate registration processes and taking 13 days on average to process (World Bank 2015c). In addition to this likely discouraging registration procedure, many of these fees, such as stamp duty, are charged at a flat rate, implying that they are regressive and likely to increase the barriers for small firms establishing, thereby discouraging competition in domestic markets.

Given this, one means of improving firm registration could be to ensure business registration fees are not used as a means of generating revenue, while also streamlining the complexity and number of processes required for a business to register and obtain licenses. Although attempts have been made to do this already, CESD's survey suggests it is likely still an issue. One idea would be to establish one-stop services for business registration and services and making them easily accessible throughout the country. However, perhaps of equal importance is the need to ensure that efforts to reduce registration costs are coupled with wider reforms to ensure the formalized systems that businesses are subject to upon registering (e.g. payment of taxes, renewal of licenses, application for government support measures, etc.) are not excessively burdensome so as to ensure businesses benefit from registering and remaining in the formal sector.

Such reform measures could and should actually have the wider objective of not only encouraging the registration of existing (informal) firms but also encouraging the establishment of new firms. That is, a simplification of registration and licensing procedures could be linked to a program to promote new business start-ups, i.e. to stimulate new entrants in addition to just encouraging registration of existing firms. This could be complemented by measures to promote training to develop entrepreneurship in the country. The existence of an entrepreneurial spirit is, to a certain extent, reflected in vibrant informal sector activity, which can be taken as a latent advantage yet to be fully exploited.

ii. Improve data availability and collection to allow for better evidence-based policy-making

When using data from different sources, at various occasions we encountered conflicting information on one and the same issue. These discrepancies across data sources point to an important shortage in the supply of reliable data. At the same time, effective evidence-based policy-making requires the availability of reliable information and datasets. In view of this, establishing a system of regular and systematic data collection on businesses in Myanmar would be helpful. The collected data should then be harmonized and stored in a centralized database. The first step in this exercise would be to carry out a business census among, if possible, the entire population of Myanmar enterprises. This would result in an official count and record that would allow the mapping of Myanmar's business population. The availability of a central business registry, the establishment of which was suggested above, would obviously facilitate this undertaking. The more complete this central business registry is, the more comprehensive and reliable the resulting census dataset will be; so also from this perspective it is important to achieve high business registration rates. After the initial census, it will be necessary to conduct regular business surveys in order to keep the stock of information updated. For the implementation of such data collection efforts, the government can seek support from international organizations such as the World Bank, UNDP or UNIDO. The availability of such data will allow the government to take more informed decisions in its policy-making for SMEs but also to better monitor and evaluate the impact of its policy interventions.

iii. Increase awareness of and knowledge about ASEAN and FTAs

The results from CESD's survey clearly pointed out that there is very little awareness and knowledge among Myanmar SMEs about ASEAN integration, the AEC and FTAs more in general. On the one hand, this means that a lot of SMEs are not aware of possible business opportunities related either to attracting foreign investors (e.g. for joint ventures) or to preferential access to foreign markets. Part of the issue is that many firms only have very limited knowledge of how to make use of these trade preferences, i.e. what they need to do, which documents they need to prepare, etc., to benefit from these preferences. On the one other hand, this also means that they are unaware of the challenges they might face, e.g. in the form of increased foreign competition, as a result of the opening of Myanmar's markets through the AEC and FTAs. Lacking this awareness, they might be slow and reluctant to take the necessary measures to prepare themselves for the new circumstances and stiffer competition.

Against this backdrop, the government could take measures to help SMEs increase their awareness of and knowledge about AEC and the FTAs that Myanmar has signed. It could consider launching a public campaign on ASEAN integration and the AEC, including seminars, forums, workshops and other events for SMEs. This could involve the dissemination of reference materials. In fact, the Central Department of SME Development under the Ministry of Industry has already translated key documents and handbooks, including one on the AEC, one on law and competition policies for business in the ASEAN region, and an SME Guidebook towards the AEC; these would be more useful and effective if more widely disseminated. The government could also help organize industry and trade fairs with a specific focus on business opportunities within ASEAN. These events could also be used not only to disseminate the reference materials mentioned above but also to share market intelligence about the characteristics and dynamics of ASEAN markets, helping SMEs to identify potential markets to access and to better understand opportunities and challenges. Currently, most workshops and seminars for the business community are held in cities such as Yangon, Mandalay and Nay Pyi Taw, making participation costly for SMEs located in other cities and townships. Therefore, spreading such workshop and seminar offerings more widely across Myanmar would help increase participation rates.

To raise awareness and to disseminate information, the government can work with and through industry associations (such as UMFCCI, MGMA, etc.) but also piggy-back on existing initiatives such as the "Business Forum", a platform for public-private dialogue between the business community and the government initiated by outgoing President Thein Sein, and the "Saturday Talks" organized by the Department of SME Development. The latter in particular would, however, need some upscaling since so far it has been organized irregularly and only for a few times.

Facilitating access to information is a very valuable service that the government can provide to support SMEs. This is because, in general, SMEs often do not have the resources or capacities to regularly and consistently search for information, screen different sources of information, access information and process the information obtained. This is particularly grave in the case of Myanmar, where the ICT infrastructure is still relatively underdeveloped and ICT usage low, so that collecting information is even more time-consuming and cumbersome. Moreover, after years of economic isolation, limited exposure to international competition and markets trends, and generally low private business dynamics, a lot of Myanmar entrepreneurs lack the attitude and habit of seeking up-to-date information. At the same time, getting accurate and timely information on market opportunities, possibilities to partner with foreign investors, financial assistance, government support offerings or technology updates is becoming more and more important in an increasingly open economy setting characterized by a more competitive environment. By helping Myanmar SMEs to obtain such information, the government can contribute to

them being better prepared for the challenges and more aware of the opportunities that regional economic integration processes such as the AEC will bring with them.

iv. Human resource development

On the one hand, the results from CESD's survey suggest that the typical level of education attained by owners and founders of family-run businesses is high, with more than half having graduated from university in the food manufacturing sector and in more than three quarters of apparel manufacturing firms. Although the survey does not allow for this to be directly compared with the average education level of workers, based on the tendency for firms to import labor for higher-level positions and the lack of skilled labor being commonly cited as a business constraint in CESD's survey, it appears probable that there exists a wide gap in educational attainment across firms, with local workers being used for unskilled labor.

More specifically, already now many firms are indicating that they have a hard time to find skilled labor. What is more, a considerable share of respondents to CESD's survey expects the shortage of skilled labor to become even more severe under the AEC since an increasing number of foreign companies is anticipated to enter Myanmar and to compete with local businesses for skilled workers. In addition, we have seen that quite a number of firms in CESD's survey have hired foreign managers; one of the reasons for this is that they have difficulties finding suitable candidates in the local labor market.

Although this is not totally unexpected in a country with dynamic economic growth and in transition from isolation to liberalization, the apparent skill gap between local laborers, foreign workers and owners, combined with the tendency for firms to not spend money on formal trainings, presents a risk that enterprises soon face a ceiling in terms of how much they can improve productivity. The skill gap also presents a risk that local labor continues to be used for low value-added and poorly compensated activities. Furthermore, if the incentives are not created to encourage the transfer of skills and technology with foreign investment and foreign skilled labor, the local economy will likely lose an opportunity to encourage the creation of more economically productive and profitable domestic industries.

Although it is difficult to extrapolate the results of CESD's survey across all SMEs in Myanmar, the evidence collected suggests that the limited supply of skilled labor is a clear impediment to corporate competitiveness. Given this, it is suggested that government efforts should be focused on increasing the domestic supply of skilled labor. These efforts should not only cover technical skills needed by workers but also skills needed for white-collar, clerical and managerial jobs. On the one hand, from a longer-term perspective, this implies the need to upgrade the quality of the education system at all levels and increase funding for it. This ideally also involves the establishment of new Technical and Vocational Education and Training (TVET) institutes with a focus on the skill needs of priority sectors for the country. On the other hand, in the short- to medium-term, government policy can aim at expanding the supply of government-provided training as well as at supporting and strengthening existing private training institutes (such as the one owned by MGMA which offers technical training to garment workers, for example).

At the same time, in order to ensure that companies increase their demand for skill development programs and trainings, the government should consider introducing measures that incentivize firms to send workers or staff to training sessions or even to incur expenditures for formal, external staff training. This could come in the form of grants, subsidies or tax breaks, for example.

Finally, although further analysis would need to be undertaken to ensure this is properly designed and targeted, it is possible that programs which encourage the internal mentoring and training of staff as well as programs which expand access to formal training programs domestically and overseas would assist in expanding the local availability of skilled labor. Ultimately, more skilled labor can help firms to become more productive and to produce goods and services of higher quality.

v. Technology and investment

Both the CESD survey and other surveys revealed that the level of technological sophistication is low among Myanmar SMEs with usage of modern or foreign technology being quite limited. Moreover, the percentage of SMEs that put efforts and investments into innovation and in acquiring technology is small. At the same time, quite a number of participants in CESD's survey recognize this as an issue. As mentioned above, a considerable share of survey respondents mentioned technological limitations, quality of machinery and low investment as important factors that impede their participation as suppliers to other local or foreign firms. Some fear that they do not have the technological capabilities needed to withstand the increase in competitive pressures that they expect to result from AEC and regional integration more in general. They therefore feel an increased need both for more capital investment and for process and product innovation.

The government can play an important role in supporting such efforts. However, it has to be said that, up to now, technology development and innovation are areas that have largely been overlooked by Myanmar policymakers. Combined with low levels of education and difficult access to capital, this lack of government support has resulted in very reduced levels of innovative activities. The inception of the AEC should be taken as a trigger to change this. Indeed, in a positive development, technology adoption has been identified as a future policy priority area by the Department of SME Development, although a coherent and consistent strategy and an action plan for related policies and programs are still missing. This should be changed in an effort that receives sufficient budgetary funding and that involves all relevant ministries, e.g. the Ministry of Industry and the Ministry of Science and Technology.

Policy measures to consider include the strengthening of linkages between SMEs and innovation and technology agents (such as universities, R&D centers and laboratories) and the establishment of pilot science and technology parks (possibly within existing industrial zones or within the Special Economic Zones (SEZs) currently under development). Moreover, the existing network of both technological and, in particular, business incubators could be expanded and accessibility increased for private SMEs (since at present incubators mainly supply their services to state-owned enterprises).

Talking about investments in technology and productive capacity more at large, from the firms' perspective, part of the problem is the difficult access to finance in Myanmar, particularly loans with longer maturity which are essential for investments in equipment and machinery. While this topic was not covered by the CESD survey, other surveys highlight this as a key constraint for Myanmar companies and SMEs in particular (Soans and Abe 2015, World Bank 2014a). At a general level, the government tries to facilitate access to finance for SMEs through a subsidized loan scheme administered by the Small and Medium Industrial Development Bank (SMIDB), a semi-governmental bank operating under the guidance of the Ministry of Industry, and through a credit guarantee scheme for SMEs that has been set up as a department under the Myanma Insurance Company. However, pick-up rates have been very low so far, mostly due to very strict credit conditions (related to collateral requirements and repayment periods). To increase borrowing by SMEs, policy measures should aim at making credit available at more attractive conditions, raising awareness on existing government support schemes, and having programs to increase financial literacy among SMEs and also banks. To facilitate financing of enterprise activities

aimed at technology development and innovation more specifically, the government could envisage setting up direct support schemes such as grants (including matching grants), subsidies or other incentives.

Access to finance for investments can also be an important element to address the "missing middle" issue in Myanmar, i.e. the polarization of the private sector into small and very large firms. As was mentioned above, the large majority of firms in Myanmar are very small (with less than 10 employees) while large companies account for a significant share of employment. One way to help broaden and strengthen the medium-size segment of Myanmar's enterprise population is to support small companies to grow. To grow, companies need to invest which requires the availability of capital. By facilitating access to finance and fostering capacity-building (including technical, organizational, technological and managerial capacities) the government can play an important role in supporting the expansion of small firms so that they grow into more stable and competent medium-sized firms.

Apart from that, foreign direct investment can be important both as a channel for technology transfer and for bringing additional capital into the country. Myanmar's SMEs can possibly benefit from FDI by either becoming suppliers to foreign-invested companies or, if they are more mature, by entering into joint ventures with foreign companies. They may also benefit from spillover effects, i.e. positive externalities resulting from backward linkages from foreign firms to the local supplier base, knowledge diffusion through labor turnover as well as "competition effects" and "demonstration effects" (World Bank 2014b). However, for these linkages and spillover effects to materialize, a smartly designed and effective regulatory framework for FDI needs to be in place that not only provides security to foreign investors but also incentivizes them to establish such linkages. The levels of FDI that Myanmar currently receives per capita, both from ASEAN and other countries of origin, are still quite low by regional and international standards. The fact that the national elections in November 2015 went smoothly and brought a change in government signals that the transition to democracy is more solid than some skeptics have feared, which should help alleviate reluctance and hesitation among foreign investors. However, an important task for the new government will be to pass new legislation relevant for investment. In fact, the Myanmar Investment Commission has worked on drafting a new Myanmar Investment Law since 2014, which will combine the existing Foreign Investment Law and the Myanmar Citizens Investment Law, but its enactment has been delayed several times. Amongst other things, the new law includes stipulations on the approval and treatment of foreign investment as well as on investment incentives. It was originally envisaged that parliament pass the new Myanmar Investment Law as well as a revision of the Myanmar Companies Act, which dates from 1914 and is utterly outdated, in the course of 2015 but incorporating suggestions submitted from a wide range of stakeholders mean that this has been delayed until 2016. The quick processing of amendments and the enactment of the new law by parliament will be important to provide investors, both local and foreign, with the clarity and predictability they need to make investments with confidence.

Finally, given the underdevelopment of Myanmar's own capital goods industry, importing capital goods and technology can be another potential avenue for technological upgrading and productivity enhancements. The government could consider facilitating the import of such capital goods, at least for priority sectors, e.g. through trade policy measures (such as reduced import tariffs or duty drawback schemes), support for companies' participation in technology fairs and exhibitions (where they can learn about the newest technologies and the different models of how to acquire them, e.g. through licensing

or leasing), and/or the lifting of restrictions on payment arrangements for international transactions.[14] However, the possible adverse effects on Myanmar's trade balance, which already is in deficit, need to be kept in mind. Not only for this reason, in the longer run, it is desirable that Myanmar strengthens its own capital goods industry.

vi. Encourage ICT usage of SMEs

This point is somewhat related to the previous point but offers insights into some intricacies related to ICT usage that merit a separate focus. The results from CESD's survey and other surveys have shown that Myanmar SMEs currently use ICT to a limited extent only. This is little surprising in a country that only opened up again a few years ago and where liberalization of and investment in modern telecommunications only started recently. Rigid regulation, a monopolized telecommunications sector, and lack of economic opportunities for decades have left Myanmar SMEs behind their regional peers when it comes to ICT proficiency and usage. However, in the wave of several political and economic reforms, the telecommunications sector has received more attention, attracted foreign investment and, thereby, become more modern and competitive which, in and of itself, increases the potential for new economic opportunities. However, the density, quality and penetration of ICT infrastructure and services in Myanmar still lag far behind that of more advanced countries in the region such as Malaysia, Thailand or Vietnam. Further government efforts, through either direct investments, public-private partnerships or tendering, will be necessary in the future to expand the underlying infrastructure, to enhance connectivity, and to improve the reliability, quality, speed and diffusion of ICT service provision.

Apart from these infrastructural shortcomings, another main reason for the very low usage of ICT, both among SMEs and enterprises more generally, is that there is a generation gap among Myanmar entrepreneurs. Older entrepreneurs and SME owners who have started running a business under previous regimes often do not have the habit to seek ICT solutions for their business. Many of them are therefore still relying on traditional ways of communicating, networking, trading, organizing production, and managing. At the same time, there is a large younger generation of potential or would-be entrepreneurs and employees with great interest in and appetite for ICT applications. These differences should be taken into account by the government when it designs policies and programs to encourage ICT usage among Myanmar SMEs.

One way to encourage ICT usage could be through subsidization or provision of other incentives. The government could, for example, grant certain tax breaks if registration or license applications are done online, or if annual reports including balance sheets are submitted online. Financial support could be provided to SMEs that want to introduce business management software or set up web-based portals to offer online sales and online payments. SMEs that introduce such online services could also be given free entry to participate in local and national product exhibitions to present their solutions. Another option to consider is to offer mobile ICT training for SMEs across the country, especially targeting older entrepreneurs and rural areas, to enhance SMEs' awareness of the advantages of applying ICT in conducting business and their knowledge about how to use it. Policy initiatives like these would encourage the usage of ICT among Myanmar SMEs by increasing their understanding of the likely benefits (such as reduction of information search costs, transaction costs, and communication costs,

[14] In some industries it is standard practice that purchases of large capital goods (e.g. farm machinery) require the importer to make a down payment prior to shipment. Myanmar law restricts citizens from making down payments on imported goods prior to receipt without a substantial burden of documentation, severely reducing enterprises' access to certain capital goods (MoC and ITC 2015c).

particularly over the long run) and by letting them explore the opportunities that ICT usage can bring to their business, for example in terms of improving efficiency.

vii. Simplify the SME definition

A final suggestion may be to simplify the definition of what constitutes an SME, at least the definition to be applied when designing policy support measures targeted at SMEs. Admittedly, the new SME Law has been enacted only recently, thus changing it again for such a minor issue would not make too much sense. However, the SME definition stipulated there is quite complex and not greatly in line with definitions in other ASEAN countries or elsewhere.

This situation may contribute to complicating or even hindering the proper implementation of policies targeting SMEs, both at national and state/region levels. A simpler SME definition will make it easier for government agencies to determine whether or not applicants for certain government support programs and measures are eligible in the first place, or whether or not certain exemptions from rules and regulations apply to a given company. Similarly, it will help other stakeholders involved in SME support programs, such as banks extending loans to SMEs under the SME credit guarantee insurance scheme offered by the Myanmar Insurance Company or training providers offering subsidized training programs to SMEs, to distinguish those companies that qualify from those that do not. Overall, a simpler SME definition can, thus, contribute to guiding and designing more targeted SME development policies and other promotion measures.

Future research

Our analyses also pointed to areas where further research would be beneficial. For one, the CESD survey which forms a focus of the analyses undertaken here was restricted to a relatively small sample of firms from Yangon Region and Mon State who predominately operate in the food processing and apparel manufacturing sectors. Additionally, due the unavailability of adequate business registration data the sample frames used for selecting firms to be surveyed were based upon non-representative sources, such as business association membership lists and lists obtained from industrial zone management committees. This, when coupled with the survey being conducted during sensitive political and economic times dominated by uncertainty related to upcoming national elections and minimum wage negotiations, also limited the willingness of some firms to participate and their likeliness to answer honestly.

Given these difficulties and the clear importance of SMEs to the Myanmar economy, future research addressing similar research questions and using a similar survey instrument could be useful while building on this work. This future research agenda could be envisaged to include (but is not limited to) the development and application of a more representative sample frame of randomly selected firms; and the implementation of a more detailed survey over a bigger sample of firms, covering a larger number of sectors and states/regions within Myanmar, so as to allow more detailed but also more representative analyses and sector-specific insights. Conducting such a new survey under more stable political circumstances should also help to achieve a higher response rate. A bigger survey sample and a higher response rate would, moreover, allow more meaningful econometric analysis, for example on the determinants of Myanmar SMEs' participation in regional trade and production networks or on the factors that act as barriers or enablers of such regional integration.

Another interesting task for future investigations would be to do research on the extent and nature of Myanmar's bilateral economic relationships with its ASEAN peers. Such research could examine in more depth the obstacles that inhibit further deepening of bilateral economic ties with individual ASEAN

member states, as well as identify opportunities for the further strengthening of bilateral economic linkages. Finally, additional research could also look more specifically at policy conclusions for the regional level which would serve as useful inputs into policy debates at fora such as the ASEAN Secretariat or AEC negotiation roundtables.

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Appendix 1: Exports to and imports from ASEAN and East Asian countries (2005-2013)

Table A.1: Exports to and imports from ASEAN and East Asian countries (2005-2013)

Exporter	Export value (mn. US$) 2005	2010	2013	Growth rate (2005-2013)	Import value (mn. US$) 2005	2010	2013	Growth rate (2005-2013)
Brunei	1,892	n.a.	2,651	*40%*	803	n.a.	1,843	*130%*
Cambodia	143	703	1,293	*805%*	792	1,684	2,832	*258%*
Indonesia	15,825	33,348	40,630	*157%*	17,040	38,912	53,851	*216%*
Lao PDR	339	1,048	2,049	*504%*	887	2,381	4,237	*378%*
Malaysia	36,849	50,498	63,926	*73%*	28,168	44,580	54,828	*95%*
Myanmar	**2,090**	**3,274**	**4,633**	***122%***	**1,644**	**3,947**	**7,559**	***360%***
Philippines	7,150	11,545	8,615	*20%*	9,325	16,434	14,171	*52%*
Singapore	71,929	106,634	128,781	*79%*	52,119	74,650	77,890	*49%*
Thailand	23,969	44,333	59,287	*147%*	21,624	30,328	41,737	*93%*
Vietnam	5,744	10,365	18,584	*224%*	9,326	16,408	21,287	*128%*
China	55,367	138,160	244,040	*341%*	74,994	154,678	199,559	*166%*
Hong Kong	1,567	1,938	2,159	*38%*	38,446	63,392	69,779	*81%*
Japan	75,575	112,859	110,970	*47%*	72,587	101,021	117,791	*62%*
Korea, Rep.	27,432	53,195	81,989	*199%*	26,064	44,099	53,339	*105%*
Macao	29	23	12	*-58%*	333	327	494	*48%*

Table A.2: Exports to ASEAN and East Asian countries – per capita and as % of total (2005-2013)

	Exports to ASEAN per capita (US$)			Share of ASEAN in total exports (US$)		
Exporter	**2005**	**2010**	**2013**	**2005**	**2010**	**2013**
Brunei	5,144	n.a.	6,345	25%	n.a.	23%
Cambodia	11	49	85	5%	13%	14%
Indonesia	70	139	163	18%	21%	22%
Lao PDR	59	164	303	56%	51%	52%
Malaysia	1,426	1,786	2,151	26%	25%	28%
Myanmar	**42**	**63**	**87**	**55%**	**49%**	**43%**
Philippines	83	124	88	17%	22%	16%
Singapore	16,862	21,005	23,852	31%	30%	31%
Thailand	366	668	885	22%	23%	26%
Vietnam	70	119	207	18%	14%	14%
China	42	103	180	7%	9%	11%
Hong Kong, China	230	276	300	8%	13%	11%
Japan	591	881	871	13%	15%	16%
Korea, Rep.	570	1,077	1,633	10%	11%	15%
Macao	63	44	n.a.	2%	8%	5%

Note: Figures for Laos and Myanmar are mirror data; for Brunei, data for 2005 is actually from 2006
Source: UN COMTRADE database and WDI databank

Table A.3: Imports from ASEAN and East Asian countries – per capita and as % of total (2005-2013)

	Imports from ASEAN per capita (US$)			Share of ASEAN in total imports (US$)		
Importer	**2005**	**2010**	**2013**	**2005**	**2010**	**2013**
Brunei	2,182	n.a.	4,412	48%	n.a.	51%
Cambodia	59	117	187	31%	34%	31%
Indonesia	76	162	216	30%	29%	29%
Lao PDR	153	372	626	79%	74%	64%
Malaysia	1,090	1,577	1,845	25%	27%	27%
Myanmar	**33**	**76**	**142**	**52%**	**44%**	**41%**
Philippines	109	176	144	19%	28%	22%
Singapore	12,218	14,704	14,426	26%	24%	21%
Thailand	330	457	623	19%	17%	17%
Vietnam	113	189	237	25%	19%	16%
China	*58*	*116*	*147*	*12%*	*12%*	*11%*
Hong Kong	*5,643*	*9,025*	*9,708*	*13%*	*14%*	*11%*
Japan	*568*	*789*	*925*	*14%*	*15%*	*14%*
Korea, Rep.	*541*	*893*	*1,062*	*10%*	*10%*	*10%*
Macao	*711*	*611*	*872*	*9%*	*6%*	*4%*

Note: Figures for Laos and Myanmar are mirror data; for Brunei, data for 2005 is actually from 2006 while the 2013 data for Macao is actually from 2014
Source: UN COMTRADE database and WDI databank

Appendix 2: CESD survey methodology

For the purpose of this study, a survey was conducted by CESD among a sample of Myanmar firms in order to compile a new enterprise-level dataset with a focus on regional economic integration issues. The questionnaire used in this survey was provided by ERIA. It consisted of different types of questions, including dichotomous questions, multiple-choice questions, constant sum questions, rank order scaling questions, demographic questions and closed-ended questions.

Survey sampling:

The survey sample was determined through convenience sampling, selecting companies from two sets of enterprise lists: First, lists provided by different Industrial Zone Management Committees and, second, a list of apparel producers provided by the Myanmar Garment Manufacturers Association (MGMA). Survey participants were then selected randomly from these two sets of enterprise lists. Part of the convenience sampling was to restrict survey locations to Yangon Region and Mon State in Myanmar, and to focus on certain industries, primarily the manufacturing of food products and of wearing apparel, while also surveying a few firms from the wood products, paper, and other manufacturing sectors. As discussed above, we acknowledge that this sample is not representative of the full business population of Myanmar companies. In total, 205 companies were contacted and asked to participate in the survey. Seven of them refused to do so, leaving a sample size of 198 enterprises.

Pre-testing and survey implementation:

Before its actual implementation, a pre-testing of the survey was undertaken in June 2015. Ten garment firms operating in Yangon Region were randomly selected and visited by CESD's research team leader, a research associate, and a research assistant who then conducted face-to-face interviews, using the questionnaire that had been provided by ERIA. This pre-testing revealed that, on average, it took about two hours to complete the survey and that many respondents were not able to provide answers to questions that required numeric information such as asset values, sales values, export ratios, production costs, number of employees and their wages. In view of this, it was decided to divide the questionnaire into two parts in order to elicit and collect as much information as possible from survey firms. This meant that the first part of the questionnaire was to be covered by face-to-face interviews during firm visits while the second part was to be left with respondents for a week to give them time to check back with their accounting records, contact different departments, or contact the owner (in cases where lower-level ranks served as respondents) in order to gather the information needed to answer the survey questions.

The actual survey was then carried out from July to November 2015 among a sample of firms operating in different industrial zones in Yangon Region and Mon State. Based on the lists received from the Industrial Zone Management Committees and MGMA, participating firms were randomly selected and then contacted for appointments. Implementation support was provided by the different Industrial Zone Management Committees who helped the survey team to contact firms and to arrange survey

appointments and questionnaire collection times. Further support was provided by the Ministry of Labor, Employment and Social Security (MOLES) through issuing request letters to firms, arranging survey appointments, and sending officers from labor departments to serve as enumerators for data collection. In general, the survey team who visited firms to conduct face-to-face interviews consisted of the research team leader, research associates, research assistants and enumerators from MOLES.

Company owners and high-level management staff were targeted as respondents. In practice, however, sometimes mid-level administration officers were delegated to respond to the survey team's questions during factory visits. In various cases, this proved to be an issue as the overall knowledge about the firm and the ability to respond to certain questions often vary according to the positional rank of the respondent. Overall, respondents included business owners, directors, managing directors, factory heads, HR managers, General Managers, Administration Officers, and Accounting Officers.

As mentioned, Part I of the questionnaire was covered through on-the-ground interviews which typically took about an hour but sometimes also longer if extensive explanations of survey questions were necessary. Part II of the questionnaire was left at the companies with the request to return it within a week; if that did not happen, the survey team followed up about once a week. A total of 198 firms responded to Part I of the questionnaire. However, by the end of November 2015, only 108 firms returned (at least partially) completed Part II questionnaires.

Difficulties:

The CESD survey team had to face certain difficulties. It often proved hard to make an appointment with firm owners or higher-level management such as directors, managing directors, general managers, especially for large and medium-sized firms. In some cases, the interest from respondents and their willingness to avail more than 30 minutes were limited, resulting in a low degree of reflection about survey questions.

Leaving Part II of the questionnaire with the firm proved to create problems of its own as respondents who were not owner, director, managing director or general manager often did not fully understand some of the questions and had to ask higher-level management to respond, but the latter then often did not take the time, not least due to a lack of knowledge about the survey context. In some cases, lower-ranking respondents also had to ask permission from higher management to provide certain types of information in response to survey questions, but this permission was not always granted.

As such, questionnaires returned by companies were often incomplete as they were unwilling to provide responses on certain topics. This can largely be explained by, first, a certain survey fatigue among companies (who have been surveyed a lot in recent years by both local and international institutions) and, second, the specific historical context in which the survey was carried out where many firms were concerned and felt uncertain because of ongoing negotiations on a new minimum wage on the one hand and the upcoming national elections on the other hand.

Usage of complementary sources of information

To deal with the issue of incomplete questionnaires, the data collected through the survey, especially the data on garment factories, was complemented with some additional data from the following sources:

1) Balance sheets submitted to the survey team by participating firms;
2) The MGMA company directory, primarily to get information on apparel firms' numbers of full-time employment, on whether or not they are exporting, on whether or not they had foreign ownership, and on whether they had a website;
3) Company websites, where applicable;
4) Social security cards and registration numbers, to calculate employee numbers.
5) Qualitative interviews by CESD researchers at the margins of factory visits;
6) Notes from enumerators; some firms, while not responding to the questions in the questionnaire, provided narrative answers (e.g. on total number of workers)which enumerators could write down on separate sheets of paper.

Data caveats:

Survey data collected on the value of fixed assets such as land and building have to be interpreted with caution. These should just be taken as approximate values since most firms provided the expected value based on market prices – but land and building prices are currently inflated in Myanmar (and especially in Yangon) due to a real estate bubble.

Similarly, it cannot be guaranteed that respondents provided accurate figures on sales values and production cost as they do not want to admit making profits, not even in a survey like CESD's. Several respondents even openly told the survey team that they do not want to provide true values in order to not disclose their avoidance of profit taxes.