



**A COMPARATIVE STUDY OF ASEAN COMMUNITY AND
EUROPEAN UNION ON SME DEVELOPMENT TOWARDS
INTERNATIONALISATION**

BY

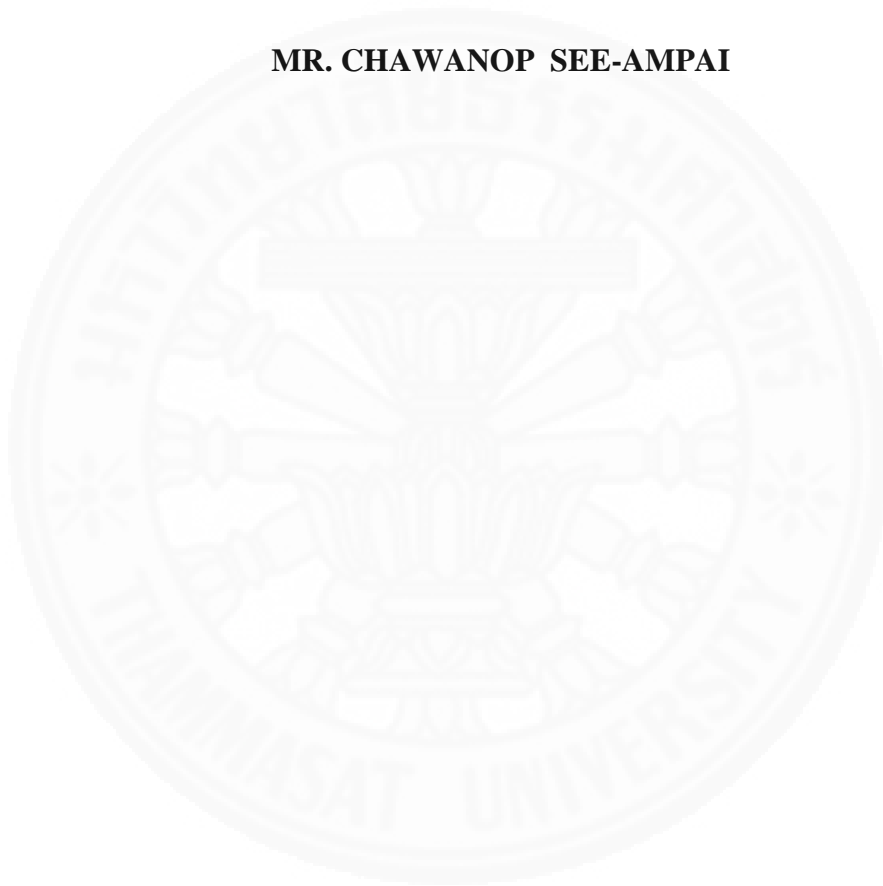
MR. CHAWANOP SEE-AMPAI

**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ARTS (ASEAN STUDIES)
PRIDI BANOMYONG INTERNATIONAL COLLEGE
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2015
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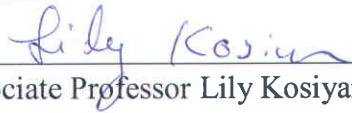
ENTITLED

A COMPARATIVE STUDY OF ASEAN COMMUNITY AND EUROPEAN
UNION ON SME DEVELOPMENT TOWARDS INTERNATIONALISATION

was approved as partial fulfillment of the requirements for
the degree of Master of Arts(ASEAN Studies)


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ABSTRACT

Small and Medium-sized Enterprise (SME) is a type of business entities increasingly contributes to growth and development of economy worldwide. In an emerging market like Southeast Asia, ten nations together created the Association of Southeast Asian Nations (ASEAN). With the official adoption of ASEAN Economic Community (AEC), the region merged into one single market and production base aiming at integration to global value supply chains. SME development towards internationalisation was an ideology potentially assisting the Community to reach its goal. This study hence looked at ASEAN's policies and implementations on the area. In the meantime, the equivalences in the European Union (EU) were reviewed in order to identify similarities and differences between those organisations. Using a qualitative approach to do documentary research, documents on ASEAN's and EU's policies/ implementations in the area were compared. The finding suggested both regions are on the same track, yet at a different stage of progress. At relative initials ASEAN made lots of preparatory actions, but limitedly deliberated to local enterprises. Along with the recently adopted Action Plan for SME Development 2016-2025, ASEAN could learn

from EU's successes and mistakes and identify the most suitable way to bridge ASEAN SMEs to international market.

Keywords: SME Internationalisation, ASEAN Community, European Union



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Mr. Chawanop See-ampai

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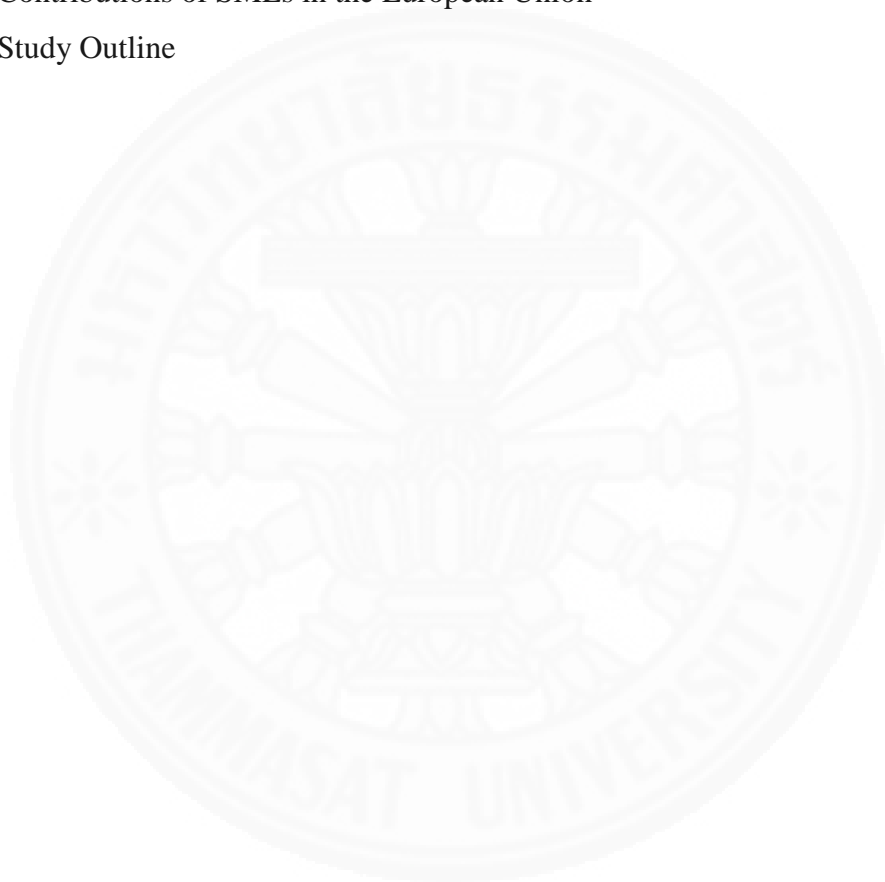
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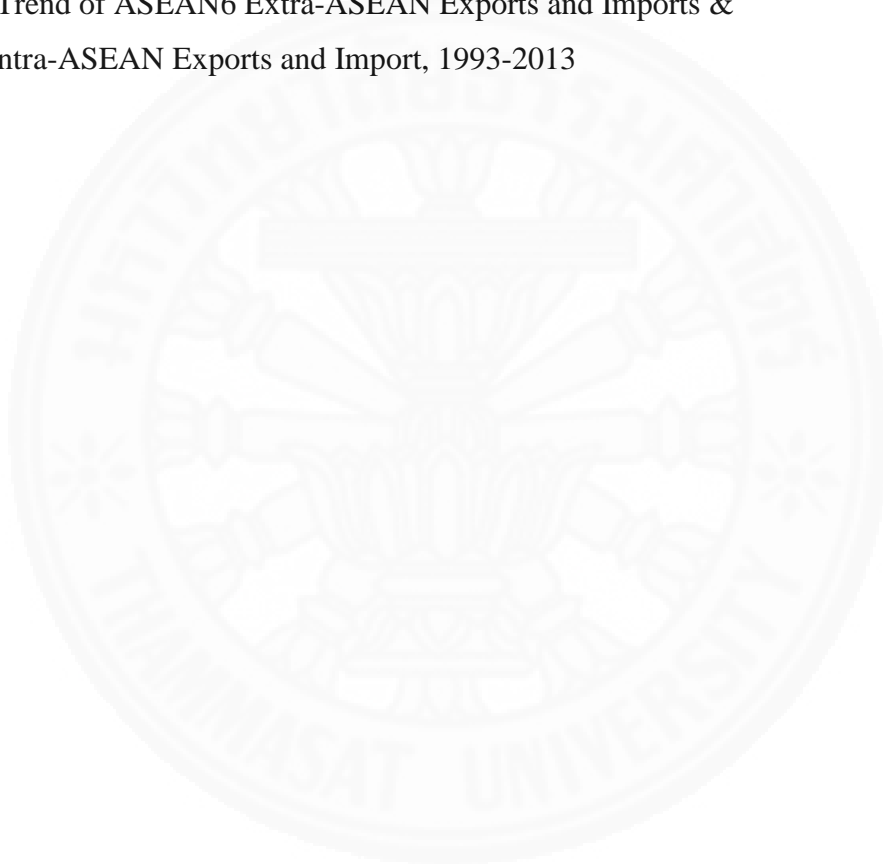
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LIST OF ABBREVIATIONS

Symbols/ Abbreviations	Terms
\$	US Dollars
£	Great Britain's Pound Sterling
€	Euros
AANZFTA	ASEAN-Australia-New Zealand FTA
ACCS	Association of Chartered Certified Accountants
ACECA	ASEAN-Canada Economic Cooperation Agreement
ACFTA	ASEAN-China FTA
AEC	ASEAN Economic Community
AEM	ASEAN Economic Ministers
AKFTA	ASEAN-Korea FTA
APSC	ASEAN Political-Security Community
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
CELAC	Summit Comunidad de Estados Latino ameri canos y Caribeños/ Latin America and Caribbean States Community
ECSE	European Coal and Steel Community
EEC	European Economic Community
EU	European Union
FTAs	Free Trade Agreements
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product

GVA	Global Value Added
ICT	Information and Communications Technology
ISO	International Standards Organisation
Lao PDR	Lao People's Democratic Republic
Mercosur	Mercado Común del Sur/ Common Market of the South
OECD	Organisation for Economic Cooperation and Development
SBA	Small Business Act
SMEs	Small and Medium Enterprises
SMEWG	SME Working Group
UAE	United Arab Emirates
UK	United Kingdoms of Great Britain and Northern Ireland
USA	United States of America

CHAPTER 1

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) is a type of business entities increasingly contribute to growth and development of economy worldwide. In an emerging market like Southeast Asia, ten nations gathered and created the *Association of Southeast Asian Nations (ASEAN) Community* forming cooperation in politico-security, economic, and socio-cultural. With the official adoption of *ASEAN Economic Community (AEC)* at the beginning of 2016, the region merged into one single market and production base aiming at integration to global value supply chains SME development towards internationalisation was an ideology potentially assisting the Community to reach its goal. This study hence looked at ASEAN's policies and implementations on the area. In the meantime, the equivalences in the *European Union (EU)* were reviewed in order to identify similarities and differences between those organisations. Findings from this study might guide ASEAN's considerations on further progress on SMEs development towards internationalisation which is efficient, yet matches ASEAN's contexts.

To begin the study on SME development towards internationalisation in ASEAN Community and European Union, it is necessary to understand the areas in relevance. Brief introductions to *ASEAN Community* and *European Union* were reviewed in the first two parts. The third part followed with *Small and Medium-sized Enterprises (SMEs)*. The author went down to definitions and typical characteristics making this type of enterprise stood out from others. Their important roles to economy was described, especially in the global arena. Understanding these subjects would subsequently help readers in rationalising actions of officials in any nation or region in response to SME growing. *SMEs Internationalisation* was next to be investigated. As an ideology of expanding a market beyond a domestic, it was expected to help maximising enterprises' sales and profits in a long period. The part afterwards was narrowed down to *ASEAN and SMEs Development towards Internationalisation*.

Starting from an overall picture of SME's contributions in each region, the author picked the policies on SME development in both regions to underlie the essences described. This chapter was coined up in the last section where research questions and objectives of the study were stated.

1.1 ASEAN Community

Founded in 1967, the *Association of Southeast Asian Nations (ASEAN)* originated from intention of 5 founding Members Nations- Indonesia, Malaysia, the Philippines, Singapore and Thailand- in preventing spread of communism. It started looking onwards for economic development through trade cooperation when Cold War ended in the 80s. ASEAN then welcomed the rest of Southeast Asian countries, Brunei Darussalam in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. The idea of closer tight amongst Member Nation in an *European Union-style* community can be traced back in 2003 when the heads of the governments from 10 Member Nations gathered in Bali in the 9th ASEAN Summit. The Bali Concord II was signed remarking mutual understanding on establishment of such community. And in 2007 ASEAN Charter was signed and enacted in 2008 promising ASEAN Community to be founded in 2020 comprising of three pillars; *the ASEAN Economic Community (AEC)*; *the ASEAN Political-Security Community (APSC)*; and *the ASEAN Political-Security Community (APSC)*.

Implementations of each pillar were developed after a specific blueprint of its own. The AEC Blueprint was signed in 2007 with mutual agreements amongst the Member Nations on accelerating merging of territories from 2020 to 2015. Aiming at being '*a single market and production base with competitive and equitable economy that integrated into global economy*', implementations therefore included various types of actions. Intra-regional tariffs and nontariff barriers were reduced or eliminated together with customs integration to ensure free flow of goods. All substantial regulations on services trade in all industries were removed starting from air transports, e-ASEAN, healthcare, tourism, and logistics as priority. New investment and reinvestment from inside and outside ASEAN were attracted through mechanisms of awareness creation and promotion, investment protection, facilitation through

transparent and consistent investment rules, and liberalisation of intra-regional investment to achieve free and open investment environment. Intra-regional capital markets were integrated through standardisation amongst Member Nations and greater mobility was expected through creation of driven factors, removals of restrictions for example. Exchange of skilled labour occurred freely through visas and work permits issuing together with standardisation of professionals through ASEAN University Network to develop core competencies and skills for professionals. Meanwhile, food, agriculture and forestry as the strengths of ASEAN were underlined to guarantee higher competitiveness in global scenario. Competitive policy, customer protection, intellectual property protection, avoidance of double taxation, and e-commerce in addition were seen as the ways to promote economic competitiveness.

On the respects of developmental gap amongst Member Nations, the Initiative for ASEAN Integration was set in 2000 targeting gap filling in sub-regional level, Cambodia, Lao PDR, Myanmar, and Vietnam in particular. Synergising with promotion of SMEs development, these would lead ASEAN to achieve the goal of equitable economy. In the meantime, outreaching towards extra-regional economy had been progressing through international economic relations and participation in global value supply chain by remaining *ASEAN Centrality*.

1.2 European Union

European Union (EU) is a league of 28 European nations. It can be traced back to Schuman Declaration in 1950, named after Robert Schuman the French Minister of Foreign Affairs who gave initiative idea about cooperation of European nations (Strasbourg l'Européenne, n.d.). The cooperation was founded in 1951 by the name of the *European Coal and Steel Community (ECSE)* and later became the *European Economic Community (EEC)* in 1958. From that time until present day EU made remarkable progressions on politics and economic development. In 2013, EU was equipped with €13.5 trillions of GDP larger than the US's in the same period of time.

In the governing perspective of decision making, EU consists of three institutions; *Council to the European Union*; *European Parliament*; and *European Commission* (European Commission, 2015). The Council represents the Member

Nations by being a voice of that nation and coordinating with EU upon laws and policies. The Parliament which is a directly-elected body works on legislations, supervisory and budgetary. And the Commission, as an executive body, represents interests of EU, responds in legislative proposal, implements EU policies and administrates daily business of the EU.

1.3 Small and Medium-sized Enterprises

Even though *Small and Medium-sized Enterprises (SMEs)* were regularly referred to in public daily life, it was not easy to define true meanings of this type of business entity besides a kind of business operating unit with certain specific stereotype. In Europe, the EU recommendation 2003/361 suggested SMEs' definition based on employment and annual turnover/annual balance of which categorised them into three groups (European Commission, 2015; European Commission, 2003). Ranking from the smallest, micro SMEs had less than 10 employees and annual turnovers not exceed €2 million. Stepping up one level was small SMEs having less than 50 employees and annual turnover not over €10 million. The next was medium-sized SMEs hiring less than 250 persons and annual turnover not over €50 million with additional condition on the annual balance sheet not exceeding €43 million. Another part of the world in the United States, the authority known as the US Small Business Administration used type of industry, number of employers and revenue as indicators. An American enterprise engaging with manufacturing with no export activity would be classified SMEs if they hired less than 500 employees. But in the case a company conducted farming or exporting, its revenue would be counted additional to the above criteria. SMEs in farming business should have turnover less than US\$ 250,000, while those in exporting needed to have less than US\$ 7 million (Hammer, 2010).

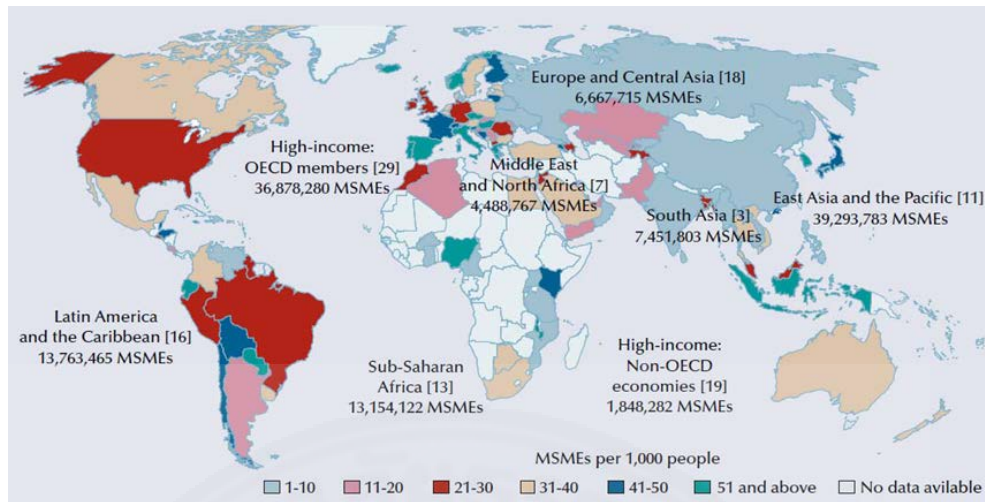


Figure 1.1. Density of Micro, Small, and Medium-sized Enterprises around the Globe. The figure showed density of micro, small, and medium-sized enterprises (MSMEs) around the globe in numbers of MSMEs and MSMEs ratio per 1,000 people. The high-income countries which also are OECD members featured roughly with 37 million MSMEs, while other high-income countries out of OECD featured 1.8 million MSMEs. By geography, East Asia and the Pacific featured the highest number of 39.3 million MSMEs followed by Latin America and the Caribbean with 13.8 million, Sub-Saharan Africa with 13.2 million, South Asia with 7.4 million, Europe and Central Asia with 6.7 million, and Middle East and North Africa with 4.5 million. MSMEs ratios per 1,000 people showed in colour schemes. Adapted from *Micro, Small, and Medium Enterprises around the World: How Many Are They, and What Affects the Count?*, by K. Kushnir, M.L. Mirmulstein, and R. Ramalho, 2010, Washington D. C.: World Bank/IFC.

Moving to their roles in the world's scenario, SMEs contributed a lot to global economy at least in 3 aspects; Number of world's enterprises population, Values created in terms of Gross Domestic Product, and Employment. It was obvious that SMEs dominated business entities regardless countries and levels of economic developed. The Organisation for Economic Cooperation and Development (OECD) predicted that SMEs represented more than 95% of enterprises and secured 60-70% of job positions worldwide (Robu, 2013). Conducted in 132 countries, the survey gave also an approximate number of SMEs around the globe at 125 million SMEs.

Interestingly, 89 million or 70% of them were in developing countries. The countless number of this type of enterprise reflected country's economic competitiveness and success in introduction of new technology. The report from the Association of Chartered Certified Accountants (ACCS) found SMEs create nearly a half of Global Value Added (GVA) and also about two-third of the world's employment. The numbers were even higher when in OECD member countries which comprised of 34 members mostly with well-developed economy.

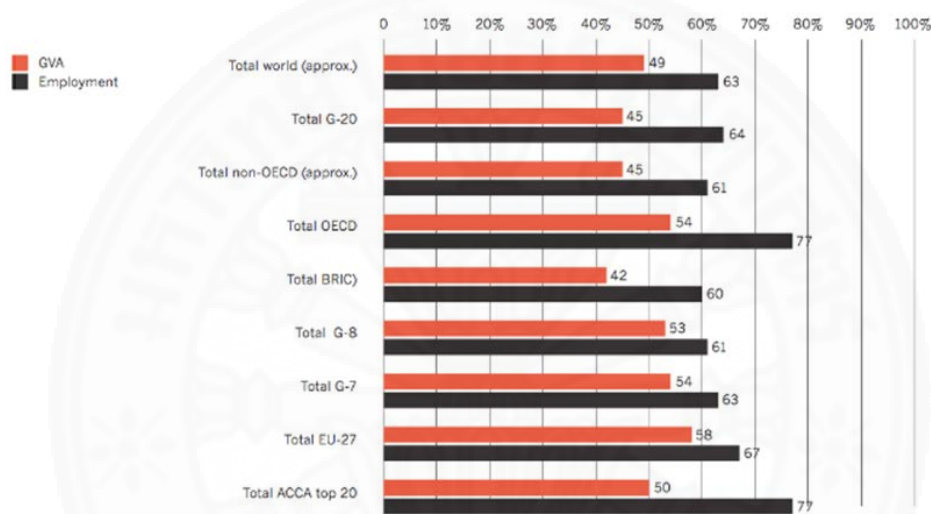


Figure 1.2. Contributions of SMEs to Global Economy. GVA; Gross value added, BRIC; Brazil-Russia-India-China, OECD; Organisation for Economic Co-operation and Development, ACCA; Association of Chartered Certified Accountants. SMEs created 42-58% share of GVA with 54% share in OECD member countries, 58% share in EU-27 countries, and 54% share in G-7 countries. In non-OECD member countries, the share featured 45% with 42% share of GVA in emerging market like BRIC. In term of employment, SMEs shared 77% in OECD countries which were 67% in EU countries, and 61% in G-8 countries. The group of non-OECD countries features a slightly lower number of 61% with 60% in BRIC. Adapted from *Small Business: a Global Agenda*, by Association of Chartered Certified Accountants, 2010, London: Association of Chartered Certified Accountants.

Another study collected data from 47,745 SMEs in 99 countries for 5 years from 2006 to 2011. It highlighted importance of this type of enterprise with the finding that companies with employees of 5 to 250 shared 66.75% of national employment and shared 86.01% of new job creation (Ayyagari, Demirguc-Kunt, & Maksimovic, 2011).

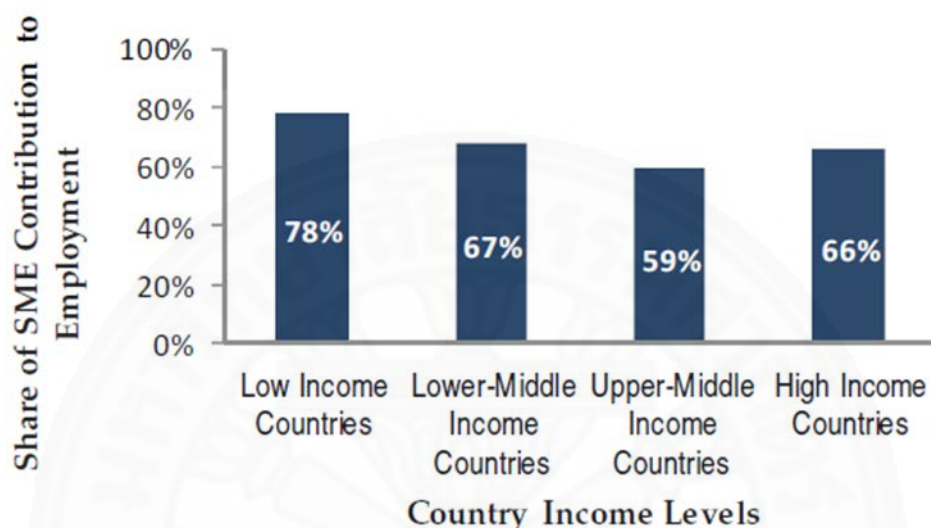


Figure 1.3. Contribution of SMEs to Employment. Contribution of SMEs to employment was shown in four groups of countries based on incomes. The low-income group showed the highest number of 78% shared by SMEs, while the upper middle-income group showed the lowest of 59%. The group of high-income and lower middle-income countries had relatively the same numbers. Adapted from *Report on Support to SMEs in Developing Countries Through Financial Intermediaries*, by The Steering Group, 2011, New York City: Dalberg.

Suggested by the policies towards SME development in ASEAN and EU, the author saw some commons in between both regions. However, the most interesting to the author was internationalisation which could not see in the ASEAN's. SMEs internationalisation was described export capability of enterprises which was a powerful driver of economic development in both national and regional levels (OECD, 2009). Numbers of literatures studied motives and incentives of some specific countries in engaging itself with this concept. Table 1.1 shows some examples of those.

Table 1.1

Motives of Countries Participated SMEs internationalisation

Country	Motives	Author
Australia	Growing market; Control supply chain, Reduce cost	EFIC, 2008
Belgium, France, Germany Greece, Italy, the Netherlands, Poland, Spain, and Sweden	Market position; Knowledge and relationship search	Kocker and Buhl 2007
Canada	Growth, Management capacity factors, Social capital, Immigrant links, R&D investment, Firm size/age/experience, Limited domestic market	Orser et al., 2008
UK	Growth, Profit, To reduce dependence on a single or smaller number of markets	Reynolds, 2007
USA	Global trade infrastructure	USA Today, 2008
Indonesia	Firm size/ resource base, Sector-level export intensity, Presence of foreign buyers, and Firm export orientation	Wengel and Rodieuz, 2006

Note. From *Top Barriers and Drivers to SME Internationalisation*, by OECD, 2009, Retrieved from OECD: <https://www.oecd.org/cfe/smes/43357832.pdf>

1.4 SME Development towards Internationalisation

Internationalising of SMEs became the issue of highlight to state's authorities to encourage enterprises in any level to participate. Nonetheless, the survey in ASEAN SMEs found that most of the enterprises still stayed supplying only to domestic demands (Akrathit, Sapprasert, Guelich, & Aksaranugraha, 2012). To empower local SMEs, systematically strategic planning was required to equip them with necessary resources together with creating favourable environment from the state's side.

One of models of SME internationalisation was from Thailand called *New Track Model*. It contained the list of supportive factors to internationalisation of SMEs from the most basic and measures of success at macro level, for example contribution of SMEs to country's export (Office of SME Promotion of Thailand, 2013). Tax privilege and access to the state's services on SMEs promotion and international market entering were some of supporting environments this model looking for. Meanwhile, facilitation of research on green business and innovation transfer through business incubation were also for building up enterprises' competencies.

As shown in the table 1.1, SME internationalisation brought growth, knowledge, and network and supply chain ties. The author regarded this portray future of SMEs in ASEAN Community that being closer to global value chains. Internationalisation additionally brought sustainability through gaining shares in new markets which would later return increasing profit together with higher competitiveness in a new competitive arena. However prior to step overseas, SMEs must be equipped with variety of competencies. And this is the roles of regional organisations like ASEAN and EU to take care. By studying the policies ASEAN and EU made on SME development towards internationalisation, the author expected better understanding on ASEAN's advancement, significance and impacts of such progress, and possible improvements to adapt and/or apply from EU's practices.

1.5 SME Development in ASEAN Community and European Union

As in a fast-pace global economy nowadays, most of countries pushed lots of effort to maintain and improve their economic performance. Regional economic cooperation was used as one of tool to increase intra-regional exchanges of trade and services. ASEAN and EU were very good examples. Amongst several types of business entity involving directly to regional economy as an efficient powerhouse, SMEs increasingly played pivotal role in reflecting their contribution to GDP growth, rate of employment, and exports.

In ASEAN, SME dominated 90% of business entities therefore it is called the ‘backbone of economy’ by Supachai Panitchpakdi, the former Secretary-General of the United Nations Conference on Trade and Development (UNCTAD Press Office, 2008). SMEs were also perceived a source of employment, competition, economic dynamism, and innovation. Wim Naudé, an economist specialised in emerging markets, once gave an interesting point of view on SMEs as a source of transformation of a low-income, traditional economy to a modernised (Naudé, 2013). These enterprises contribute significantly to production methods through creation of business outside a household, offering new products, growing a firm by making use of economies resulting localised economics that further encouraging innovation and specialisation. The information from the ASEAN Secretariat showed that SMEs account for 96% of all enterprises in the region. They also occupied 50-85% of domestic employment in the member states and account for 30-53% of GDP and another 19-31% of the regional exports.

Developed after the ASEAN Policy Blueprint for SME Development, the *ASEAN Action Plan for SME Development for 2010-2015* was adopted in 2009 the 14th ASEAN Summit. The *ASEAN SME Working Group* (ASWG), a responsible body, was given authority in developing local enterprises to meet ASEAN Vision 2020. Series of actions were made by aiming at uplifting ASEAN SMEs to world-class standard with capabilities of integrating into regional and global supply chains. At the meantime, SMEs were expected to hold capacity of taking advantage of ASEAN Economic Community and operating in a policy environment that is conducive for their development, exports and innovation. Amongst numbers of specific goals to achieve

indicated in the action plan, internationalisation is one of action plan that they focus as priority. Despite the favourable policy and environment for transboundary commerce inside and outside the region, it appears that the majority of ASEAN SMEs are conducting business only to supply the domestic demands whereas there is a vast space for them to grow (Akrathit, Sapprasert, Guelich, & Aksaranugraha, 2012).

Not much different from ASEAN, nowadays 23 million SMEs registered in Europe, representing 99% of the regional enterprises which created about 75 million jobs (European Telecommunications Standards Institute, 2016). Development of SME is in responsibility of European Commission. In 2011, the Commission launched the *Small Business Act for Europe (SBA)* which became a policy framework for SME development. Developed after *Europe 2020* strategy particularly on sustainable growth of SMEs, SBA aimed to support European entrepreneurship by providing regulations, policies, environments and supported tools. The areas of priorities to the Act were promoting entrepreneurship, less regulation burden, access to finance and access to markets and internationalisation. European Commission proceeded along SBA especially on SME internationalisation. Surveys on barriers of SME internationalisation were made which later brought to development as a SME portal for example. Both ASEAN and EU prioritised SME development through policies specifically, *ASEAN Policy Blueprint for SME Development 2004-2010* and *Small Business Act for Europe* as mentioned earlier. Table 1.2 summarises similarities and differences.

Table 1.2

Comparison of ASEAN and EU Policies on SME Development

ASEAN Policy Blueprint for SME Development 2004-2010 (ASEAN Secretariat, 2004)	Small Business Act for Europe (European Commission, 2008)
1) Human Resource Development and Capacity Building	1) Promoting Entrepreneurship
2) Enhancing SME Marketing Capabilities	2) Less Regulatory Burden
3) Access to Financing	3) Access to Finance
4) Access to Technology	4) Access to Market and Internationalisation

Note. Created by the author.

As the master plans of SME development, ASEAN Policy Blueprint for SME Development 2004-2010 and Small Business Act for Europe 2008 provided the areas of actions to prioritise in each region during that period of time. The subjects on *Human Resource Development and Capacity Building*, *Enhancing SME Marketing Capabilities*, *Access to Financing*, *Access to Technology*, and *Creating Conducive Policy Environment* were included in the ASEAN Policy. In the meanwhile, EU highlighted *Promoting Entrepreneurship*, *Less Regulatory Burden*, *Access to Finance*, and *Access to Market and Internationalisation*.

1.6 Research questions and Objectives

The researcher started the study by asking two simple questions ‘*What did ASEAN Community do on SMEs development towards internationalisation?*’ and ‘*How was it like comparing to other regional economic cooperation?*’ Hence, EU was

brought to become a subject of comparison as one of the most outstanding and successful regional economic cooperation. The objectives of this study were therefore as follow;

1) To study ASEAN's policies and implementations on SMEs development towards internationalisation

2) To study EU's policies and implementation on SMEs development towards internationalisation

3) To compare ASEAN's and EU's policies and implementation on SMEs development towards internationalisation

The researcher conducted the study in a quantitative approach by doing documentary review. Documents on policies and actions in SME development towards internationalisation released by ASEAN Community and the European Union were retrieved and compared to identify similarities and differences. Observations on those similarities and differences were also made based on historical, sociological, and political backgrounds of those regions. The findings from this study could be beneficial to ASEAN Community to select area to prioritise in order to improve SME internationalisation.

CHAPTER 2

LITERATURE REVIEW

In this chapter, the researcher had reviewed to policies and implementations ASEAN Community and EU made in the area of SME development towards internationalisation. Two parts of contents were looked at in the chapter; *ASEAN Community and SME Internationalisation*; and *European Union and SME internationalisation*. Each part was investigated in policies through blueprints and/or action plans adopted by each particular community as a policy guide. Series of implementations after the policies were examined in a coming part before ending with criticism of the actions in each region.

2.1 ASEAN Community and SME Internationalisation

2.1.1 Policies

According to Economic Research Institute for ASEAN and East Asia, SMEs account for 89-99% of the total enterprises in ASEAN Member Nations (OECD, 2012). They also created 52-97% of total employment making 30-58% of GDP, and contributed 19-31% of total export (ASEAN Secretariat, n.d.). With this knowledge, ASEAN positioned SMEs one of strategic elements to achieve the goal of ASEAN Economic Community on having equitable economic development.

Table 2.1

SMEs' Contributions to Economy of ASEAN countries

Country	Share of Total Establishments		Share of Total Employments		Share of GDP		Share of Total Exports	
	Share	Year	Share	Year	Share	Year	Share	Year
Brunei	98.2%	2010	58.0%	2008	23.0%	2008	-	-
Cambodia	99.8%	2011	72.9%	2011	-	-	-	-
Indonesia	99.9%	2011	97.2%	2011	58.0%	2011	16.4%	2011
Lao PDR	99.9%	2006	81.4%	2006	-	-	-	-
Malaysia	97.3%	2011	57.4%	2012	32.7%	2012	19.0%	2010
Myanmar	88.8%	-	-	-	-	-	-	-
Philippines	99.6%	2011	61.0%	2011	36.0%	2006	10.0%	2010
Singapore	99.4%	2012	68.0%	2012	45.0%	2012	-	-
Thailand	99.8%	2012	76.7%	2011	37.0%	2011	29.9%	2011
Viet Nam	97.5%	2011	51.7%	2011	-	-	-	-

Note. Adapted from *ASEAN 2030*, by ASEAN Development Bank Institute, 2014, Retrieved from ASEAN Development Bank Institute: <http://www.adb.org/sites/default/files/publication/159312/adbi-asean-2030-borderless-economic-community.pdf>

Table 2.1 showed contributions of SMEs in 10 ASEAN Member Nations featured 4 aspects; Share of total establishments, Share of total employment, Share of GDP, and Share of total export. All Member Nations, except Myanmar, have SMEs shared over 95% of total establishments. Though shared relative less proportion, Myanmar's SMEs accounted for 88.8%. SMEs hired a half of total employments in Brunei, Malaysia, the Philippines, Singapore, and Vietnam. On the contrary in Cambodia, Indonesia, Lao PDR, and Thailand, SMEs represented three-fourth of the total employment. Those shares in total establishment and total employments created a

half of total GDP that SMEs shared in Indonesia and Singapore, and approximately one-fourth to one-third in Brunei, Malaysia, the Philippines, and Thailand. Albeit significant portions in three areas described earlier, the data depicted SMEs' contribution to total export only at 10-30% which Thailand performing the best.

ASEAN's interests in SMEs could trace back to formation of *ASEAN Small and Medium Enterprises Agencies Working Group (SMEWG)* in 1995. Comprising of representatives of SME agencies from ASEAN Member Nations, SMEWG was responsible for formulation of policies / programmes and implementation of flagship initiatives and projects for SME development and cooperation in the region. It served as a consultative and coordination forum to ensure development of SMEs under ongoing process of ASEAN integration, and supported establishment of the ASEAN Economic Community. The *ASEAN Decade of SMEs Development* was later announced during 2002 – 2012 and *the ASEAN Policy Blueprint for SMEs Development for 2004-2014* was followed. Shortly after, the *Strategic Action Plan for SME Development 2010-2015* was adopted.

ASEAN Policy Blueprint on SME Development was drafted with assumption on the 21st century's international trade and exchange. Surviving enterprises were presumed to be adaptive to more demanding, and fast changing behaviours of international market. As a result, information technology was undeniably crucial for enterprises to gain preparedness on intense competition. The Blueprint thus aimed at integration of SMEs into global value supply chain starting from promotion of SMEs capabilities. Business education and exchange of personnel amongst the Member Nations in between private and governmental sectors were meant to promote. Creation of favourable trading conditions with overseas partners was another to work along. In order to build up SMEs capabilities, the Blueprint suggested areas of priority to improve. These covered *Human resource development and capacity building, Marketing capabilities, Access to financing, Access to technology, and Conducive policy environment*. Details of actions were put into the following *ASEAN Strategic Action Plan for SME Development 2010-2015*.

After the official adoption of the Blueprint, the Economic Ministers of ASEAN Member Nations met in 2009 to discuss about fostering the Blueprint through development of the action plan. The *ASEAN Strategic Action Plan for SME Development* was thus drafted to guide the actions during 2010-2015. Its objective was made similarly to the Blueprint as uplifting ASEAN's SMEs in the world standard with capability to integrate themselves to global economy and ability to benefit from AEC. The list of actions included establishment of ASEAN common curriculum for entrepreneurship, founding of comprehensive SMEs Service Centre, Development of SMEs financial facilities, Regional internship and staff exchange programme for skill training, and SMEs Development Fund to be described on implementation in another chapter (ASEAN Secretariat, 2015).

2.1.2 Implementations

ASEAN's progress after its policies were seen in two dimensions; *Dialogue Relations* to create favourable trade and exchange conditions with dialogue partners; and *Building up SMEs Capabilities* after the list of actions describe in the Action Plan.

2.1.2.1 Dialogue Relations

ASEAN developed dialogue relations with partners in different strategic locations worldwide covering Asia-Pacific, Europe, and North America. Amongst those, Australia and New Zealand were amongst the first group of partners since 1974 and 1975 respectively. The *ASEAN-Australia-New Zealand Commemorative Summit* in 2004 launched negotiations on a Free Trade Agreement (FTA). Subsequently, the *Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)* was signed by the Economic Ministers of ASEAN, Australia and New Zealand in 2009. Beyond trade in goods, services, and investment, this FTA included provisions on standards, sanitary and phytosanitary measures, electronic commerce, intellectual property, competition policy, and movement of business persons (ASEAN Secretariat, 2015; ASEAN Secretariat, 2015).

Up to the North in the Far East region, China was the ASEAN's largest trading partner since 2009 while ASEAN was China's third largest trading partner since 2011. The two-way trade reached US\$ 366.5 billion in 2014, accounting 14.5% of ASEAN's total trade. In 2015, the *ASEAN-China Free Trade Agreement (ACFTA)* was fully adopted with the twin goals of increasing two-way trade and investment to US\$ 1 trillion and US\$ 150 billion respectively by 2020 (ASEAN Secretariat, 2016). Japan was also one of ASEAN's important trading partners. As of 2014, two-way trade between ASEAN and Japan reached US\$ 229.1 billion, accounting 9.1% of ASEAN's total trade. The number remarked Japan the ASEAN's third largest trading partner after China and the European Union. In 2012 the *ASEAN-Japan 10-year Strategic Economic Cooperation Roadmap* was endorsed aiming at doubling trade and investment flows between two sides by 2022 (ASEAN Secretariat, 2016). Another strategic partner in the Far East was Republic of Korea. Total value of ASEAN-Korea trade was US\$131.4 billion in 2014. This marked Korea the fifth largest trading partner of ASEAN. The *ASEAN-Korea Free Trade Area (AKFTA)* was officially adopted in 2010. After three-time revisions, the new Agreement targeted US\$ 200 billion of two-way trade by 2020 (ASEAN Secretariat, 2016).

Down to the South in Indian Subcontinental, India was an important strategic partner. Nonetheless, volume of trade and investment flows between ASEAN and India remained relatively low comparing other dialogue partners. Acknowledging this unsatisfied number and recognising potentials of closer linkages, both sides agreed on framework agreement of the *ASEAN-India Free Trade Area*. The Agreement allowed creation of one of the largest markets with almost 1.8 billion people and combined GDP of US\$ 4.6 trillion. The ASEAN-India FTA would further deliberate tariffs of over 90% of products to be taken place by 2016 at the soonest (ASEAN Secretariat, 2015). Another partner in the region was Pakistan. ASEAN and Pakistan undertook a *Joint Feasibility Study for an ASEAN-Pakistan FTA* to enhance and expand the overall ASEAN-Pakistan economic engagement. The study was completed in 2009.

In 2013, two-side trade amounted US\$ 6.3 billion of which US\$ 5.3 billion accounted for ASEAN's exports to Pakistan and Pakistan's exports to ASEAN recorded US\$ 1 billion (ASEAN Secretariat, 2013).

Turning to the West in Europe, ASEAN-EU dialogue relations (European Economic Community – EEC at that time) were formalised in 1977. Negotiations for ASEAN-EU FTA began since 2007 with seven ASEAN Member States, but was unfortunately suspended in 2009. In 2013 at the 12th ASEAN Economic Ministers (AEM)-EU Trade Commissioner Consultations, the EU Trade Commissioner reiterated that the EU would pursue the bilateral FTA negotiations with individual ASEAN Member Nations as building blocks towards the regional FTA. EU was also considering resumption of ASEAN-EU FTA negotiations realising the official adoption of ASEAN Economic Community (ASEAN Secretariat, 2012). On East Europe, Russia was a non-EU trade partner to ASEAN. In 2005, ASEAN and Russia concluded the *Agreement on Economic and Development Cooperation*. The Agreement was made on the basis of creating favourable conditions for development of multifaceted cooperation. In 2012, the *ASEAN-Russia Trade and Investment Cooperation Roadmap* was endorsed. This made bilateral trade between ASEAN and Russia grew 13.0% from US\$ 19.9 billion in 2013 to US\$ 22.5 billion in 2014 (ASEAN Secretariat, 2016).

On the opposite side of the world in North America, dialogue relations between ASEAN and the US was developed since 1977. The cooperation on development was reoriented in early 1990s focusing more on trade and investment, technology transfer and human resources development. The First ASEAN-U.S. Leaders' Meeting in 2009 issued a Joint Statement on the *ASEAN-U.S. Enhanced Partnership for Enduring Peace and Prosperity*. The Plan of Action during was later adopted as an implementation guideline during 2011-2015. This resulted the growth of two-way trade at 2.6%, from US\$ 206.9 billion in 2013 to US\$ 212.4 billion in 2014, making the US the fourth largest trading partner to ASEAN (ASEAN Secretariat, 2016). Another trade partner to ASEAN in North American was Canada. The first formal meeting between

ASEAN and Canada was held in 1977 which was later summarised by adoption of the *ASEAN-Canada Economic Cooperation Agreement (ACECA)* in 1982. Following after was adoption of *Joint Declaration between ASEAN and Canada on Trade and Investment* in 2011 and its Work Plan in 2012 to ensure implementations in from 2012 to 2015. Increased levels of cooperation resulted in growing numbers of bilateral trade by 9.2% from US\$ 12.3 billion in 2012 to US\$ 13.5 billion in 2013 (ASEAN Secretariat, 2012).

2.1.2.2 Building up SMEs' Capabilities

Included in the ASEAN Action Plan for SME Development 2010-2015 were four areas of action aiming at creating SMEs readiness to compete in a global market. Those were *Access to financing, Facilitation and Promotion, Technology development, and Human resource development*.

To increase SME's chances for access to financing, non-traditional sources were considered in parallel with making improvement of traditional financial facilities and credit systems. Initiation of the *ASEAN SME Regional Development Fund* as a non-traditional financial source, was included in both Policy Blueprint and Action Plan. A framework of the Fund was concluded in 2012 making the Fund a source of grant to SME agent at ASEAN's Member Nation level or community level to create/improve infrastructures for SME in their territory. The framework gave the details on the sources of finance, a governing body and its responsibility, and also criteria to apply for the Fund (Kenan Institute Asia).

On facilitation and promotion of SME, the *ASEAN Multimedia Self-reliant System Toolkit Package* and the *Feasibility Study of the SME Service Centre* were proceeded (ASEAN Secretariat, 2013). The Multimedia Toolkit project aimed at development of SME quality culture and creating awareness on necessity of providing high quality products or services. Highlighted in the Toolkit was quality systems for examples quality control and quality assurance based on ISO 9000:2008. The Feasibility Study of the ASEAN SME Service Centre concluded as a portal to disseminate services to SMEs. It also a directory where numbers of outstanding and innovative SMEs

archived, some of them were ASEAN Business Award winners. Launched in 2007, *ASEAN Business Awards* had been presented to more than 60 prominent enterprises throughout Southeast Asia excelled in one of these categories; growth, employment, innovation, and corporate social responsibility (ASEAN Business Advisory Council, 2015).

In the area of technology development, strengthening *SME Technology and Business Incubators* was prioritised. In collaboration with Japan, SME Working Group succeeded in developing a model to identify strengths and weaknesses of the existing Incubators in each Member Nation. *The ASEAN Business Incubator Network* was created to connect enterprises, academic institutes, and state agents to collaborate in driving developed technologies and innovations out to a market (ASEAN-JAIF, 2012).

In the area of human resource development, ASEAN SME Working Group in collaboration with Japan had agreed on the proposal for Fostering Competitive SMEs in ASEAN by Promoting Business-Academia Networking through Entrepreneurship Education later endorsed in 2014. Alongside with process on the incubators, the *ASEAN Entrepreneurship Curriculum* was developed. The programme was designed to provide students real time experience on business in ASEAN contexts through students, universities and local enterprises linkages (Asia SEED, 2012).

2.1.3 Criticism

Despite the Blueprint and the Action Plan were dedicated to development of ASEAN's SMEs, they barely paid attention on exploration further to extra-regional market. Most of the contents were on preparatory elements, such as human resource development, marketing capabilities, access to technology, access to financing, and conducive technology. Only one out of four areas of action according to the Action Plan considered relating internationalisation directly. Concrete success on the actions for SME facilitation and promotion were seen as ASEAN SME Service Centre where information on overseas market were stored and pooled. The portal was also a showcase the awarded winning enterprises. Besides having low levels of

relevancy to internationalisation, efficiency and impacts of the actions were also questioned. A survey found only fair impacts of the actions to internationalisation (Aldaba, 2013). Another publication pointed out limited information on international markets provided through SME Service Centre, and also indicated very little of those information reached ASEAN's SMEs (Abonyi, 2015). One of challenges ASEAN SME authorities should recognise was making improvement to family businesses, the most typical business entities in the region. The study found that most of SMEs in this type rarely had experience on international market, neither opportunity awaiting in such market (Tambunan, 2008). Therefore, policies and actions made by ASEAN officials should not miss this large group of SME population.

2.2 European Union and SME Internationalisation

2.2.1 Policies

European Union in 2012 recognised activity of nearly 22.3 million SMEs which account for 99.8% of total enterprises. Of this number, 92.2% were categorised micro-businesses while small business took 6.5% and medium-sized business took the rest 1.1%; large businesses shared only 0.2%. SMEs contributed 67% of the total workforce considering two-third of the whole. This number could break down to 29.6% from micro-businesses, 20.6% from small businesses and 17.2% from medium-sized business. The report showed that in certain industries, such as textiles, constructions, and furniture, SMEs possibly accounted for almost 80% of total employment in that particular industry. They also created 57% of added value that worth €3.69 billion. These numbers could be summarised as density of SMEs to 1,000 inhabitants which was 41/1,000 in EU. Table 2.2 showed contribution of SMEs in EU and each 28 EU countries. The data were defined in % share of total enterprises, % share of employment, and % share of Gross value added.

Table 2.2

Contributions of SMEs in the European Union, 2012

	Enterprises		FTE		GVA	
	Total	% SME	Total	% SME	Total	% SME
EU28	22 346 729	99.8	133 767 348	67.0	6 184 825	57.5
Belgium	566 006	99.8	2 718 355	70.1	189 086	62.2
Bulgaria	312 608	99.8	1 872 997	75.5	18 246	62.3
Czech Republic	1 007 441	99.9	3 521 520	69.8	84 142	56.0
Denmark	213 358	99.7	1 602 105	65.0	119 936	62.5
Germany	2 189 737	99.5	26 401 395	62.5	1 385 501	53.3
Estonia	58 408	99.7	393 545	78.1	9 338	74.9
Greece	726 581	99.9	2 198 986	86.5	54 703	72.8
Spain	2 385 077	99.9	10 923 323	73.9	434 156	63.0
France	2 882 419	:	15 495 621	:	890 597	:
Croatia	148 573	99.7	1 002 905	68.3	19 115	54.8
Italy	3 825 458	:	14 715 132	:	646 476	:
Cyprus	46 139	99.9	224 915	:	7 864	:
Lithuania	141 893	99.8	835 630	76.2	12 155	68.5
Latvia	91 939	99.8	573 580	78.8	9 269	69.2
Luxembourg	29 265	99.5	242 533	68.3	19 250	70.7
Hungary	528 519	:	2 430 681	:	46 497	:
Malta	26 796	99.8	119 224	79.3	3 548	74.9
Netherlands	862 697	99.8	5 359 446	66.7	310 022	62.9
Austria	308 411	99.7	2 671 477	68.0	164 976	60.5
Poland	1 519 904	99.8	8 326 839	68.9	171 627	50.1
Portugal	793 235	99.9	2 942 895	:	66 360	:
Romania	425 731	99.6	3 837 868	66.4	48 432	:
Slovenia	119 644	99.8	574 479	72.3	17 140	62.8
Slovakia	398 392	99.9	1 417 228	69.7	32 922	60.5
Finland	226 373	99.7	1 457 599	63.0	86 957	59.6
Sweden	661 822	99.8	3 025 006	65.4	210 859	58.5
United Kingdom	1 703 562	99.7	17 784 620	53.0	1 037 293	50.9
Norway	278 899	99.8	1 510 838	67.6	230 661	58.6

: missing data

Note. From *Number of enterprises, persons employed and gross value added (GVA) and the share of SMEs, 2012*, by European Commission, 2016, Retrieved from European Commission: http://ec.europa.eu/eurostat/statistics-explained/images/f/f6/Number_of_enterprises%2C_persons_employed_and_gross_value_added_%28GVA%29_and_the_share_of_SMEs%2C_2012.png

With this knowledge, EU started working on facilitating of SMEs promotion since 2000. Subjects on SMEs development marked their place on *Lisbon Strategy* aiming EU by 2010 being ‘the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion (European Council, 2000).’ A year after, the objective was redefined to include environmental concerns in order to well balance economic and social development. The *European Charter for Small Business* was adopted shortly after, guiding five areas of works to progress along; *Entrepreneurs’ capacities, Regulatory and financial environment, Online access to state’s services, Collection and dissemination of success amongst enterprises, and Participation of enterprises in policy making.*

When Lisbon Strategy concluded in 2010, *Europe 2020* was launched in replacement. It was a ten-year strategy for jobs and growth reinforcing characteristics of the EU’s economic growth to be smart, sustainable and inclusive. Seven areas of actions were prioritised through flagship initiatives. Amongst those, subjects on SME were included. Two year before Europe 2020 was adopted, *Small Business Act for Europe* was passed becoming a renewed Charter that gave directions for SME development in a coming period. Four areas of actions were selected to prioritise covering *Promoting Entrepreneurship, Less Regulatory Burden, Access to Finance, and Access to Market and Internationalisation.* Also in the same year with the official adoption of Europe 2020, *Integrated Industrial Policy for Globalisation Era* was enforced recognising challenges from higher competition and diversity of global business environment. Together with opportunities in emerging markets, the Policy suggested consideration of actions inside and outside the region such as improvement of *Enterprise Europe Network* and progress on *Bilateral/Multilateral Agreements.*

2.2.2 Implementations

Guided by the past *European Charter for Small Business* and the recently adopted *Integrated Industrial Policy*, EU made significant progress on foundations of SMEs development. Review of the Charter in 2011 suggested further

progress on assisting SME in reaching international markets. The European Commission, in response, allocated more resources to *European Enterprise Network*. The Network brought together over 600 business support organisations from over 60 countries worldwide to assist European SMEs exploiting benefits beyond a European single market. The *Market Access Strategy*, originally launched in 1996 was meant to improve in order to address better on overseas trade barriers overseas. The new Strategy highlighted tightening dialogue relations as a tool to create more favourable trade environment. Streaming down the Strategy was *Market Access Database*. Information on any specific market outside the region were achieved online where any European enterprises were able access freely. On regulatory aspects, the *European Customs Information Portals* were created containing guidelines and e-learning tools upon regulations in the market of the enterprise's interest. On top of the progresses made after the Charter, the Act, and the Policy, EU had developed other types of collaboration beyond trade and investment with its partners. The most underlying was business training and scientific exchanges. Despite having relatively poor returns on investment, this type of cooperation allowed EU to understand more on environments and opportunities in that foreign market. The cooperation appeared as *European Business and Technology Centre* or *EU SMEs Centre* in numbers of countries. The Centre presented currently in Japan, China, Korea, Hong Kong, India, Malaysia, and Thailand for examples.

2.2.3 Criticism

Investigation on EU's policies and implementations showed multi-faceted actions from foundations of SME development to improve enterprises' competency to numbers of specific actions dedicated specially to SME internationalisation. The evidences as mentioned above were the proofs of efficiency in both policy and implementation levels. The study suggested further step of EU to improve levels of internationalisation by identifying industries of priority (Floyd &

McManus, 2005). The study also found significant growth of international exports from European SMEs, reflecting efficiency of EU's policies and implementations.



CHAPTER 3

RESEARCH METHODOLOGY

This chapter dedicated to justification of methodology used in conducting this study. The author grouped the content into five parts: *Conceptual Framework*, *Samples and Samplings*, *Processing the Information*, *Study Outline*, and *Scope and Limitation*.

3.1 Conceptual Framework

This study is a documentary study conducting by using a qualitative approach to comply the research questions '*How did ASEAN Community do in SME development towards internationalisation?*' and '*How was it like comparing to other regional economic cooperation?*' Objectives of the study were set accordingly as mentioned earlier. Background and development of both ASEAN Community and EU were review as well as the theories in the area of SME definition, and SME development towards internationalisation. Policies and implementations on SME internationalisation in both regions were observed and brought to comparison in order to identify similarities and differences. The author tried to explain those similarities and differences to extract conclusion on what ASEAN Community lacks of in supporting SME internationalisation that would be suggestion for further improvement.

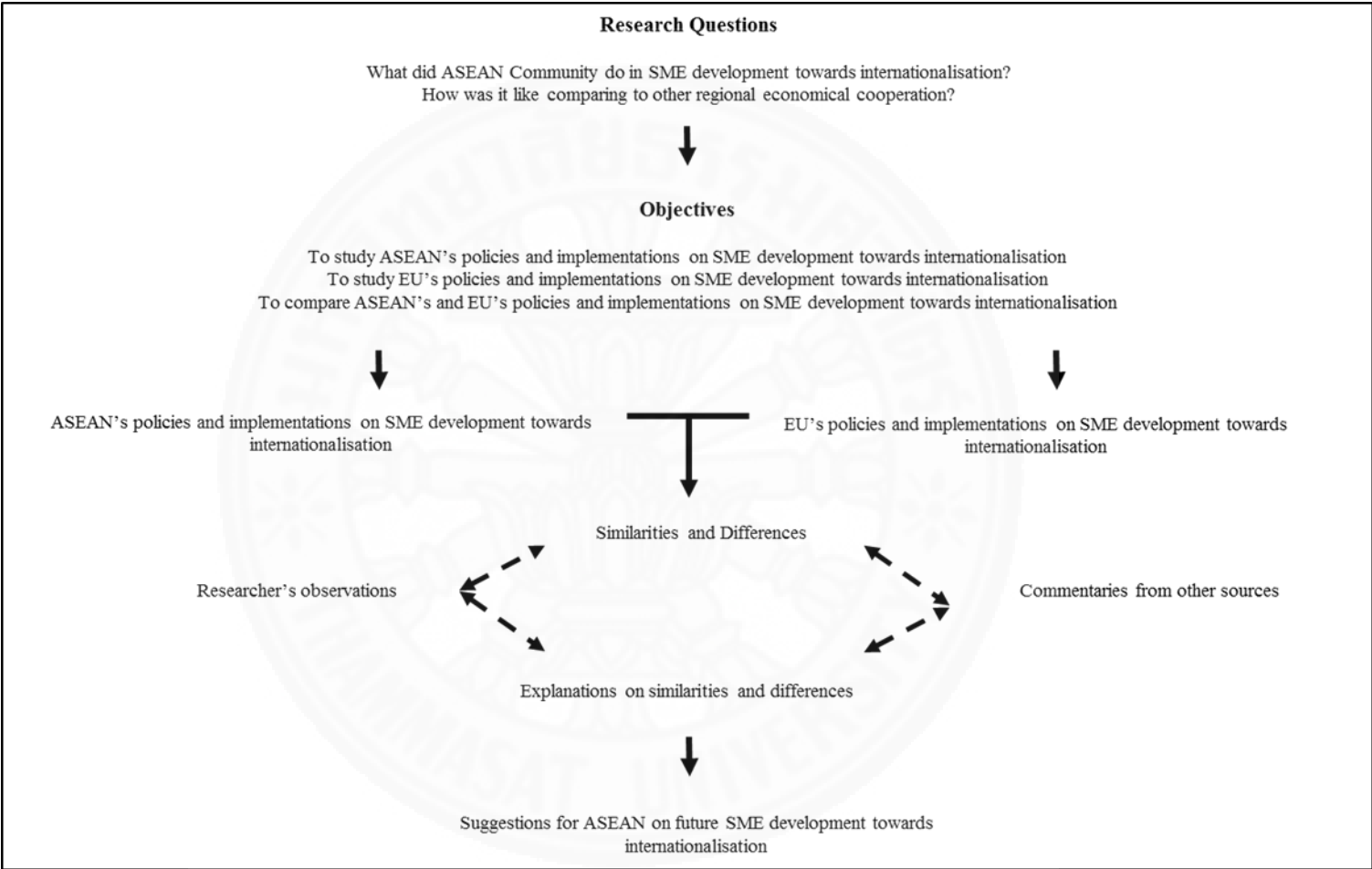


Figure 3.1. Conceptual Framework created by the author.

3.2 Samples and Samplings

This official documents released by both ASEAN and EU are the major resource of information. Relevancy of their essences to SME development and SME internationalisation were set as inclusion criteria. The researcher browsed those documents archived online in ASEAN Secretariat' website and European Commission's website using numbers of keywords in association, for example SMEs, SME development, SME internationalisation, exports, an foreign trade. Documents from other sources besides these two organisations were also used to reinforce and strengthen researcher's observations on findings. This type of resources included news reports, reports from other organisations upon ASEAN's and EU's policies/ actions in the area of research, and peer-review articles.

3.3 Processing the Information

Data obtained from ASEAN's and EU's documents were grouped and shown into two different angles; Policies; and Implementations. The implementation parts were sub-categorised into two based on whether the action was extra- or intra-regional. Comparison on those policies and implementations were made by researcher's observation which later described similarities and differences between those regional economic cooperation. Explanation on causes of those similarities and differences were made on historical, sociological, and political background of each organisation.

3.4 Study Outline

Backgrounds of ASEAN Community and EU had earlier reviewed in the *Introduction* in Chapter 1. Glimpses on SMEs status in both regions were shown also in that chapter. Next in Chapter 2 – *Literature review*, the content dedicated much on

exploration of SME definitions in different regions of the world. Then the subject on SME internationalisation had addressed in a following section *Methodology* was explained in Chapter 3 covering the outline of the study. Justification on policies and implementations on *SME Internationalisation in ASEAN Community and EU* was made in Chapter 4. The investigation focused on policy blueprints and action plans from ASEAN Community and EU. Examining implementations was made on creations for favourable trade conditions which was later referred to as Dialogue relations. Another half on implementations was the progresses made after the action plans of which called Building up SME Capabilities by the author. The facts addressed in Chapter 4 were brought into *Discussion* in Chapter 5 in order to identify similarities and differences, particularly on implementations, between these two regional communities. The study was concluded in Chapter 6 -*Conclusion*. Observations on the root-causes of differences in between ASEAN and EU were made before ending with suggestions to ASEAN on efficient SME development towards internationalisation.

Table 3.1

Study Outline

<p>CHAPTER 1 INTRODUCTION</p>	<p>ASEAN Community</p> <p>European Union</p> <p>SMEs in ASEAN Community and European Union</p> <p>Small and Medium Enterprises</p> <p>SME Internationalisation</p> <p>Research Questions and Objectives</p>
<p>CHAPTER 2 LITERATURE REVIEW</p>	<p>ASEAN Community and SME Internationalisation</p> <ul style="list-style-type: none"> - Policies - Implementations - Criticism <p>European Union and SME Internationalisation</p> <ul style="list-style-type: none"> - Policies - Implementations - Criticism
<p>CHAPTER 3 METHODOLOGY</p>	<p>Conceptual Framework</p> <p>Samples and Samplings</p> <p>Processing</p> <p>Study Outline</p> <p>Scope and Limitation</p>
<p>CHAPTER 4 RESULT AND DISCUSSION</p>	<p>Dialogue Relations</p> <p>Building up SMEs' Capabilities</p>
<p>CHAPTER 5 CONCLUSION</p>	<p>Ownership of Technology and Innovations</p> <p>Social Values and Institutionnalisation</p> <p>Epilogue</p>

Note. Created by the author.

3.5 Scope and Limitation

Since the study is a qualitative documentary research without additional data from surveys nor interviews, findings from this study suggested rough observations on commons and contrasts between the subjects of comparison. Narrative data on actual practices between ASEAN and EU, and numerical indicators are suggested to quantify levels of similarity and difference.



CHAPTER 4

RESULT AND DISCUSSION

The previous chapters had investigated both policies and implementations made by ASEAN Community and EU to internationalise their SMEs. This chapter brought the essences explored earlier to identify similarities and differences in between those two regional economic cooperation. Comparison was made on two areas of actions; creating favourable trade conditions outside the region; and improving intra-regional capabilities. Besides the policies and actions mentioned in the previous chapter, the newly launched ASEAN Strategic Action Plan for SME Development 2016-2025 was also brought to guide discussion upon future actions beyond 2015. The structure of the chapter was separated to; *Dialogue relations made by ASEAN and EU*; and *Building up SMEs' Capabilities* as follows.

4.1 Dialogue Relations Made by ASEAN and EU

Regarding the dialogue relations ASEAN and EU made especially on trade and economy, it was likely that both saw Free Trade Agreements as a strategic tool to promote two-way exchanges and bridge their local enterprises to international markets. However, levels of negotiation made by ASEAN and EU were various upon dialogue partners. The differences as observed were discussed as followed.

4.1.1 Asia-Pacific

As reviewed earlier, it was obvious that ASEAN made significant numbers of dialogue relations with strategic partners in different locations covering Asia and the Pacific, Europe, and North America. Amongst those, closer ties to neighbouring Asian nations were remarkable.

It was unarguable that the wind of global economy gradually changed to Oriental since 1980s and grew much stronger in the beginning of the 21st century. Japan, as the first Asian nation successfully transformed itself from defeated country in WWII to industrialised, looked outwards to find out manufacturing sources to lower its production cost in order to stay competitive in feeding its domestic demands. Thanks to a perfect location, Southeast Asia became a destination where several Japanese firms chose to outsource their production, to Thailand and Indonesia in particular. The most outstanding industries were automobile and electric goods which made these two ASEAN nations become major exporters of those supplies. Besides economic advantages received in national and regional levels, ASEAN SMEs also benefited from significant technology transfer and human capital improvement in close collaboration with Japan in both private and governmental sectors. Of notice, many of ASEAN's SME development programmes were co-sponsored by Japanese government. Following Japan's development footpath was South Korea. A few decades ago the South part of Korean peninsula made impressive progress on science and technology development and successfully became a world's new technology generator. Also looking southwest, numbers of Korean enterprises opened their plant in Southeast Asia and started collaboration with the region similarly to what Japan did.

Sharing cultural influences to ASEAN Member Nations since the past were China and India. Even though being less advance in technology, both China and India attracted ASEAN as sources of low-cost workforce and exceptional growth in middle class population. ASEAN, on the other side, was also attractive to China and India as a place where they could compete with replicas of technology supplies in a significant lower price. Economic cooperation between ASEAN-China and ASEAN-India therefore emphasised on regulations and standardisation in order to provide mutual acceptance and creditability. Progress in these areas greatly reliefs to ASEAN's SMEs when entering those highly state-controlled market and preventing ASEAN' domestic market from unqualified goods in the mean time.

Even though having advancing cooperation with Japan, Korea, and India which later came Free Trade Area agreement similarly to ASEAN, EU's collaborations with China stepped forwards relatively slower comparing to ASEAN. The democratic issues such as human right, freedom of speech, and transparency were still of EU's concern. Chinese government had been inquired from time to time to express its sincerity in making improvement (European External Action Service, n.d.). Nevertheless, the *EU-China 2020 Strategic Agenda for Cooperation* had been signed in 2013 to leverage degree of partnership, including negotiations on FTA agreement. No progress on FTA was made until now.

4.1.2 Other European Nations

Stepping aside Asia, ASEAN made dialogue relations with European nations such as EU and non-EU nations. Besides ASEAN-EU FTA negotiations which were suspended since 2009, relations with Russia made ASEAN stood out. After Russian annexation to Crimea most of Western nations pulled their ties to Russia off, EU were also amongst those. ASEAN-Russia cooperation continued, no matter what, and underlined the areas of cooperation on energy, minerals, tourism, and agriculture and forestry. Having the vast landmass full of natural resources, joint investment of both parties in exploration and exploitation of resources by local enterprises were promoted. Russia was also of note being the world biggest natural resource and energy exporter, these were also the industry which ASEAN Member Nations like Lao PDR, and Myanmar capable of. In tourism, Russian tourists were one of the largest groups visited Southeast Asia every year. ASEAN tourism stakeholders were hence encouraged to engage more with Russian tourists through improving understanding on Russian language and culture. On agricultural subjects which was ASEAN's strength, cooperation was made on sharing of best practices and technology transfers to ensure food security. Recently, the *Comprehensive Plan of Action to Promote Cooperation between ASEAN and Russia 2016-2020* was signed with emphasis on promotion of public-private partnership which SMEs were amongst the area of highlight (ASEAN Secretariat, 2016).

Different from ASEAN, EU reacted to Russia with sanction measures applied after the 2014 Crimea Crisis when the Ukrainian territory was annexed by Russia. The sanctions banned technology transfers, especially sensitive ones, and also dual use of goods and investment. Prior to the sanctions, Russia had been watched over regularly on human rights, freedom, security, and justice. The *European Initiative for Democracy and Human Right* was adopted in 2005 before the *Partnership for Modernisation* in 2010 which economic cooperation was covered (European External Action Service, n.d.).

Taking from ASEAN's relations to both China and Russia, it might presume that ASEAN's strategy on developing dialogue relations focus only on trader and economy without bundling with others sensitive issue to internal affairs like democracy-related. Those issues, for examples, human right, freedom of speech, and transparency of government, were often took seriously by EU. The issues were hence took into consideration when progressing economic and trade cooperation. Looking at this point, ASEAN seemed to make relatively more advancement in trade relations in Asia-Pacific and non-EU European nation. Nevertheless, it was undeniable that the dialogues which contained those issues missed by ASEAN considerably healthier in a longer period. Multi-facet cooperation would certainly pay EU off as soft powers beneficial to future trade and investment negotiations.

4.1.3 Rest of the World

There were some locations in the world with potentials to grow, but not yet formed official dialogue relations with ASEAN. Those regions were Africa, Latin America and the Caribbean, and the Middle East.

Although often perceived the least developed, Africa was undeniably rich in natural resources. EU realised such opportunity and made a move in 2007 when the *Joint Africa-EU Strategy* was signed. The *Roadmap for EU-Africa Relations 2014-2017* was adopted afterwards to deliberate implementations after the Strategy. The *Pan-Africa Programme* followed with the budget of €845 million for 2014-2020 to address the issues on migration, higher education and research, public finance

management, and developing essential statistics (European External Action Service, n.d.) Latin America and the Caribbean were considered one of fast-growing economy in a past few years. EU was likely to be the most successful in trade and economic relations with the region. Both sides enjoyed privileges from the biannual *EU- Comunidad de Estados Latinoamericanos y Caribeños (EU-CELAC) Summit* since 2013. The latest EU-CELAC Summit in 2015 summarised with adoption of *A Partnership for Next Generation, Brussel Declaration, and Action Plan* highlighting completion and modernisation of economic ties between the regions (European Council, 2015). EU's bilateral FTAs with Mexico and Chile were established since 2003 and 2005 consequently. The FTAs with Colombia and Peru were settled in 2013 while those with Ecuador and Central America were on the way. Negotiations with *Mercado Común del Sur (Mercosur)* or Southern Common Market, comprising of Argentina, Brazil, Paraguay, Uruguay, and Venezuela, was also proceeding (European External Action Service, n.d.). The Middle East was another potential market with high level of economic develop, but limited capabilities in producing agricultural goods. EU developed dialogue relations with the Corporation of Arab States of the Gulf, generally referred as Gulf Corporation Council (GCC), since 1988. The GCC consists of 6 nations Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. The Cooperation Agreement was made covering several areas of economic. EU became the biggest trade partner of GCC with the amount of €155.5 billion or 14.7% of the GCC's global trade in 2015 (European External Action Service, n.d.). However, several rounds of negotiation towards FTAs had not yet concluded.

With the example on these three strategic locations where dialogue relations with ASEAN were not been established, the author saw a room for ASEAN to explore these opportunities and move forwards little by little in negotiations. Those regions might turn to be significant markets to ASEAN's exports someday.

4.2 Building up SME's Capabilities by ASEAN and EU

4.2.1 Access to financing

The previous chapter had showed the progress ASEAN made after the ASEAN Policy Blueprint on SME Development 2004-2014 and the Action Plan for SME Development 2010-2015. In the area of access to financing, it would not overstate to say that developing *ASEAN SME Developmental Fund* was the most remarkable as an alternative source of financing to SME agents at Member Nation and community levels to improve their internal mechanism of support providing to local enterprises. Chapter 2 had mentioned the success in developing the Fund administrative body and acceptance criteria to apply for the Fund. So it could be presumed that the only task to accomplish is generating such opportunity to stakeholders in any level to allow access to this financial source. Besides, a regular monitoring system should also be considered to measure levels of success and impacts of the source. This could occur in a format of key performance indicators for instance. Beyond the Fund which was one of a non-traditional financial source, it might be important to develop other types of the source targeting SMEs especially when increasing investment flowed to the region. A source like joint-venture and angel investors were unneglectable. The latest *ASEAN Action Plan for SME Development 2016-2025* called for actions to formalise regular business matchings where enterprises and investors able meet Also it urged ASEAN stakeholders in both public and private sectors to meet roundtable to share best practices on policy making to facilitate incorporation and developing an online and interactive platform to access financial resources (ASEAN Secretariat, 2015).

Comparing to EU's measures in increasing level of SME access to financing, alternative/non-traditional financing was under spotlight in parallel with adjustment of rules and regulations on traditional ones similarly to ASEAN's policies (European Commission, 2011). A good example of achievement in the area of traditional financial sources was initiatives on *Late Payment Directive*. Although beneficial to enterprises in relieving financial constraints, the Directive might cause fiscal issues on

increasing bad debt rate without efficient preventive measures prepared before hand. Another interesting action in a non-traditional side was social enterprises funding. Social enterprises were considered organisations that applied commercial strategies to maximise improvements in human and environmental well-being (Wikipedia, 2016). Unlike charity organisations, social enterprises were interested in make profits for shareholders along with making social impacts. This type of business entity could present in a form of co-operatives, social businesses, benefit corporations, and community interest companies. Social enterprises were an emerging sector in the EU and facing the same financial access problem as general SMEs. The *European Social Entrepreneurship Funds* regime was then proposed to the European Parliament by the European Commission to dissolve degree of problem. It was later adopted and came to enforce in 2012 (European Commission, 2011).

4.2.2 Promotion and Facilitation

Chapter 2 had covered the actions in the areas of SME promotion and facilitation included in ASEAN Policy Blueprint and Action Plan. Three types of actioned were specified; *Self-reliant Multimedia Toolkit Package*; *ASEAN SME Service Centre*; and *ASEAN SME Business Award*.

Containing assistance on international standards, the *Toolkit Package* indirectly improved status of ASEAN products/ services making them become more welcomed in an overseas market. The recent ASEAN Action Plan for SME Development 2016-2025 continued what achieved through promoting the use of Toolkit. Nonetheless, being comply international standards alone could not guarantee product's competitiveness. Innovation and uniqueness were also important to create more value added and be able respond needs from a market. Such values were certainly a result from dedicated research and development which later became intellectual properties when done. The intellectual property issue was the area never been touched by ASEAN neither in the previous Action Plan nor the most recent one. Without consensus amongst Member Nations on the policies and regulations towards on the

area, technology inventors or developers were at risk of illegitimate exploitation of their innovations. Not only harming environments on technology development, inefficient rule of law in the area also held international trades and technology transfer back. The EU made the intellectual property issues amongst the top of the list. The *Intellectual Properties Rights Helpdesks* were then released to educate SMEs about their rights and regulations in association.

One another action made by ASEAN in the areas of SME facilitation and promotion was *ASEAN SME Service Centre*. Using an online platform, ASEAN SME Service Centre (<http://www.aseansme.org>) became a portal where information and services related to SMEs were archived. These services covered numbers of area important to enterprises, for examples technology and innovation, finance, market access, regulation, and human capital development. The portal contains variety of service providers in research and academic, government, privates, professional, and non-profit organisations of both inside and outside ASEAN. The website offered an e-market place where products and contact to local SMEs were shown. This provide chance for business matching in the same time. ASEAN SME Service Centre users were allowed to share their topics of interest as a *Forum* on the web board where others with the same interests could review. The portal itself made a good source of reference for officials in both ASEAN and Member Nation levels containing complete FTAs ASEAN made and best practices in many perspectives from Member Nations.

Comparing to the EU's equivalent *European Enterprise Network* (<http://een.ec.europa.eu>), the only thing ASEAN SME Service Centre still lacked of was grouping or categorising those service providers achieved on the portal based on industry types. In the case of European Enterprise Network, seventeen industry sectors were appointed across a vast landscape of business. From the most fundamental like agrofood and raw materials growing and processing, the portal made the way to another end at services and retailing. The portal provided numbers of place for science and technology-related industries, those were construction, automotive and logistics, energy, environment, maritime industry and services, nanotechnologies, biochemical

technologies, healthcare, ICT, and aeronautics. On the opposite side to scientific business, the industry which culture and heritage influenced a lot like tourism also had a place in the portal. And the last but not least were creative businesses such as textiles and fashions. By grouping services and SMEs, a more specified information was expected to match interests of the users in a shorter period of time. This finally turned out as efficiency in business matching.

Another action ASEAN made in the area of promotion and facilitation was *ASEAN SME Business Award*. The awards became issues of critics especially on impacts as spreaders of the best practices to other SMEs. In EU, the *European SME Business Award* wasn't organised by EU's agency nor state agency in a Member Nation level. It was a European network of business professions, RSM International, who in charge of this award instead (European Business Awards, n.d.). There was another recognition to SMEs in EU known as the *European Enterprise Promotion Awards*. The prize was given by the European Commission to authorities in any levels, town, province, county, region, and state, succeeded in promotion of their local SMEs through creating policies environment and deliberation to inspire/encourage potential entrepreneurs to step in. Since 2006 the awards recognised over 2,800 projects of which resulted creation of thousands of companies (European Commission, n.d.) This was a good example to future improvement of ASEAN Business Awards. Of note, ASEAN's latest 2016-2025 Action Plan for SME Development said nothing about awards. It is hence the action to follow up whether ASEAN has other way to recognise SMEs.

4.2.3 Technology Development

One of ASEAN achievement on technology development was *ASEAN Technology and Business Incubator*. Chapter 2 explored the progress ASEAN made in collaboration with Japan in developing the model urging participation of enterprises, academic institutes, and state agents. In EU's case, the equivalent was known as *EU-XCEL, European Virtual Incubator*. The programme was a part of the EU

Horizon 2020 aiming *European Industrial Renaissance* by 2020. Kicked off in 2015 in 6 Member States, EU-XCEL recruited ‘start-up scrum’ to attend customised virtual incubators which included tools and supports to assist team develop and refine products (European Commission, 2015). The participants were later brought to the EU-XCEL Challenge where leading venture capitalists, angel investors, and successful tech entrepreneurs gathered. The model provided potential entrepreneurs not only ‘how to’ on both product development and business operation given by a panel of experts, but also a chance to gain financial resource to start their real business.

Operations and actions did in EU-XCEL could a case study that ASEAN can learn from in order to leverage incubator end-results to become real businesses. Nonetheless, a direction for further technology development was made in the new ASEAN Action Plan for SME Development 2016-2025 which required enhancing industrial linkages amongst SMEs and between SMEs large enterprise also multinational companies. This was expected to provide local SMEs more opportunity to on product and service development through technology transfer and research and development along with other necessary factors to business such as financing and market channels, for instances.

4.2.4 Human Capital Development

The actions after the past ASEAN Action Plan for SME Development in the area of human capital development was success development of *ASEAN Common Curriculum on Entrepreneurship* with Japan’s assistance as reviewed earlier. The author had marked the challenges along implementing the curriculum in a Member Nation level where business education has long existed. In the meantime, issues on standardisation and qualification after local implementation were amongst the issue to consider. For the EU, business education was seen a key driver of SME development and internationalisation similarly to ASEAN. The *European Entrepreneurship 2020 Action Plan* placed entrepreneurship education in the first priority (European Commission, 2013). The Plan itself was set after *Europe 2020* strategy to be foundations of growth and competitiveness. The Plan urged EU to invest more on business education

even though the survey suggests only 20% of students start their own company. The training, however, provided business knowledge, skills, and attitudes considerable make 'an entrepreneurial mind-set' when combined. Those with this qualification made quality workforce to drive local business and improve productivity of their organisation. The common entrepreneurial education similarly to ASEAN's was addressed in EU, giving the European Institute of Technology a leading role in developing the programme. It wasn't only institutes in higher education the programme paid attention to, but also preceders in every levels including primary, secondary, and vocational institutes. The programme in joint-collaboration with the Organisation of Economic Cooperation and Development (OECD) also took responsibility in establishing a guidance framework to encourage entrepreneurial education in parallel with academic driven mechanisms. To assure success of implementation, Member Nations were urged to take parts in embedding this education framework in their education system and ensuring deliberation of training to reach young population.

By looking at integration of works from stakeholders in delivering business education in EU, ASEAN might need more concrete works to settle its entrepreneurial training through incorporation with any education level with development of additional life-long entrepreneurial learning. Nonetheless, ASEAN's recent Action Plan for SME Development didn't ignore this area completely. Priority was gave to promotion of entrepreneurial education in women and young adults. Actions to comply the Plan is to follow up.

CHAPTER 5

CONCLUSION

Based on comparison between ASEAN and EU approach on SME development towards internationalisation discussed in Chapter 4, some commons and contrasts between these two regions were shown. Two main areas had been brought out to discuss which were; (1) *Dialogue relations* helping SMEs move beyond intra-regional market and seeking for easiness in setting up their business in a market place; and (2) *Building SMEs' capabilities* to improve their qualities and efficiencies to fight in a wider competition. Looking at the differences between these two regions, the author evaluated numbers of factors such as history, sociology, and politics between those regions. Here came explanations to those differences; *Ownership of Technologies and Innovations*, and *Social Values and Institutionalisation*.

5.1 Ownership of Technologies and Innovations

Due to the fact that European nations went through the age of *Scientific Revolution* from the 17th century to the late 18th century, the region accumulated enough understandings on basic sciences. Most of them were productions of world's renowned master-minds, for examples Nicolaus Copernicus, Galileo Galilei, Johannes Kepler, and Sir Isaac Newton. Their breakthrough discoveries were crucial in driving the society forwards entering the age of *Agricultural Revolution*. In concerts with increasing population, scientific knowledge brought a well-managed farming for higher productivity in a lesser period of time. People at that time knew crop rotation and grew certain kind of pants to fix nitrogen into soils (Wikipedia, 2016). Increased produces became surpluses which reshuffled trade and exchange to a new era. With a growing demand, scientific advancement allowed invention of powerful technologies necessary for mass productions. At this point, the European nations entered the age of *Industrial Revolution* when industries we know nowadays were born. Textiles, steam power, and

iron making were some important examples during that time. With the invention of electric light by Thomas Edison in 1879 and the electric power distribution three year after, production yields from each pant went skyrocket.

On the other side of the world, one could hardly say that the same developmental process ever occurred in Southeast Asia. All nations in the region stayed in their medieval until early 19th century. Ironically, it was colonialism that brought those scientific advancement. In concerts with Japan's rise a century later, technology transfer to the region began sequentially. By the late 20th century, *4 Asian Tigers* including 1 Southeast Asian nations (Singapore) and *4 Southeast Asian Tiger Cubs* (Thailand, Malaysia, Philippines, and Indonesia) emerged with capability to develop technology of their owns for the first time. With this matter of fact, the author saw that capacity to develop technologies and innovations are the very first step for any enterprise. ASEAN was aware of this subject and provided business incubators as solution. However, it is interesting to evaluate capacities of entities in an upstream level, research capability in ASEAN academic institutes to be specific. Up to 60 Southeast Asian universities were ranked Asia's top 350 to date (QS Top Universities, 2016). Unfortunately, no academia institutes from Myanmar, Lao PDR, and Cambodia features on the rank. According to the Global Competitiveness Index, Cambodia and Myanmar fell below the global median of 3.91 on the scale of 7.0 with the score of 3.9 for Cambodia and 3.3 for Myanmar. Deep down to technological readiness and innovations indices, Cambodia (score 3.0 and 2.7), Lao PDR (score 2.8 and 3.0), Myanmar (score 2.2 and 2.5), and Vietnam (score 3.3 and 3.2) were below to slightly above the global median of 3.8 and 3.18 (World Economic Forum, 2016). These evidences stressed out again different levels of development amongst Member Nations, at least in terms of science and technology. This is the major challenge await both ASEAN and officials in those nations to deal with along with addressing other factors associating SME internationalisation.

5.2 Social Values and Institutionalisation

On the establishment of ASEAN, the Member Nations mutually agreed upon *ASEAN Way* in interacting and engaging with one another. *ASEAN Way* is an ordinary value of being politically neutral to internal affairs of other nations. Such value became a norm which the Member Nations strictly followed. Follow were situations which *ASEAN Way* was applied.

Disputes on Thailand – Cambodia Boarder from 2008-20011 involving the area surrounding Preah Vihear Temple. Increasing tensions ended up in combat between Thai and Cambodian troops caused nearly 50 casualties to both sides. The situation resolved in 2013 as the International Court of Justice awarded all of the promontory of Preah Vihear to Cambodia. However, the Court rejected Cambodia's argument that the judgment had also awarded the hill of Phnom Trap (three kilometres northwest of the temple) to Cambodia (Wikipedia, 2016). From the beginning of the dispute until the International Court of Justice's verdict, ten ASEAN Summits were held. However, ASEAN had no reaction on the issue, only concerns and calls on both sides to exercise restraint from the Member Nations.

Another case study on the *ASEAN Way* was the *Disputes over Spratly Islands*. Located in the South China Sea, the islands were claimed by China, Taiwan, Vietnam, Malaysia, Brunei, and the Philippines. Even though the claimants never confronted one another, the tensions affected relations amongst them and the situation was still far away from settlement. ASEAN responded to the disputed firstly in 2002 with ASEAN Declaration on South China Sea of which emphasise solving of the situation by peace without resorting to violence. The Declaration was sadly broken in 1995 by China, Malaysia, and the Philippines that landed on the dispute territory. On 2002, the Declaration on the Conduct of Parties in the South China Sea was again signed by 10 ASEAN Member Nations and China. It was by far the best reaction from ASEAN,

still attempts to enter the area from the conflicted nations were ongoing (Wikipedia, 2016).

Personally, the author regarded the ASEAN Way a double-edged sword, assuring sovereignty and independency of Member Nations, yet rendering progress of the whole Community due to lacks of formal institutionalisation with legitimate powers. Unlike to ASEAN which ASEAN Secretariat is the only governing body, EU consists of European Council, European Parliament, and European Commission as explained earlier in this article. Clear appointment of responsibilities allowed each institutes to focus on their functions. One of the most interesting approaches EU made in implementing its policies, SME development towards internationalisation in this case, was calling for participations from stakeholders in every levels. The chapter before discussed about EU's SME Promotion Awards given to local agents at any levels in the Member Nations. ASEAN's actions, on the other hand, were mostly in hands of authorities. This, to the author, was one of the best practices ASEAN could learn from EU. To the Member Nations' sovereignty and independency issue, those are always kept in EU's priority. This was shown in an immediate sanction to Russia after annexation to Ukrainian territories. Nevertheless, one should not misunderstand that the author suggest EU's governing better. Applying regulations over the Member Nations at the same level regardless the background of that Nation recently became a time bomb. British Prime Minister David Cameron had been pushed to call for the UK's EU Membership Referendum – also known as Brexit- to be taken in June, 23rd 2016. The Vote Leave campaigners blamed EU on immigration-related issues and also believed their Nation has better economic performance outside. The UK was only behind France and Germany in giving contribution to EU's budget with the figure of £8.8 billion during 2014-2015, nearly double the figure in 2009-2010. Breaking with EU was also believed saving £30 million to be spent on 30,000 migrants from continental Europe (Wheeler & Hun, 2016).

5.3 Epilogue

To conclude this work on *Comparative Study of SME Development towards Internationalisation in ASEAN Community and European Union*, the author found that both regions have been on the same track, however at a different stage of progress. At a relative initial after the ASEAN Policies Blueprint for SME Development and the first ASEAN Action Plan for SME Development ended in 2015, most of preparatory actions were achieved awaiting continuation on deliberating to local enterprises. Even though it could be too early to observe concrete export improvements, the statistics suggested a constant low-rate growth since the year the Blueprint adopted. Along with the recent Action Plan for 2016-2025, ASEAN authority and Member Nations have some room to learn from EU's successes and mistakes and identify the most suitable way to bridge ASEAN SMEs to international market.

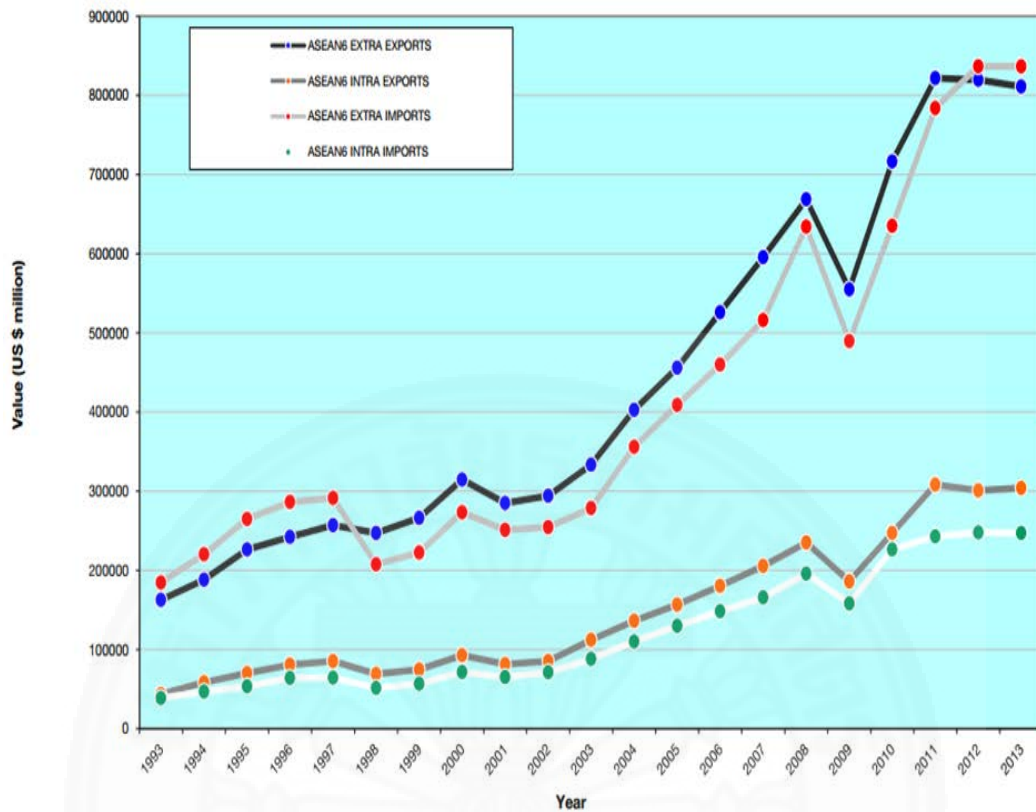


Figure 5.1. Trend of ASEAN6 Extra-ASEAN Exports and Imports & Intra-ASEAN Exports and Import, 1993-2013. The chart showed ASEAN-6 extra-regional exports (black-blue), intra-regional exports (red-grey), extra-regional imports (orange-dark grey), and intra-regional import (white-green). Since ASEAN Policy Blueprint was adopted in 2004, extra-regional grew significantly from US\$ 400,000 million to nearly US\$ 700,000 million in 2008. After that it decreased slightly to US\$ 550,000 million in 2009 due to financial crisis. After the first Action Plan was implemented in 2010 revamped to over US\$ 700,000 million and went slightly above US\$ 800,000 million a year later. The figure remained constant during 2012 to 2013. Adapted from *ASEAN Statistical Yearbook 2014*, by ASEAN Secretariat, 2015, Jakarta: ASEAN Secretariat.

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