

9. Concluding Remarks

The Special Chapter has assessed the actual and expected impacts of the current global economic crisis on workers and enterprises in Asia, including SMEs. It has also discussed how to foster greater dynamism in SMEs once the crisis is over.

The chapter's analysis suggests considerable diversity in how the crisis is affecting different sectors, enterprises, and workers across the region. Particularly hard-hit have been manufacturers of exported goods in East, Southeast, and South Asian economies, especially those engaged in the production of apparel, textiles, and footwear; electrical and non-electrical machinery; and road vehicles and components, among others. But other sectors have also been hurt as aggregate demand has slowed, with obvious adverse impacts for their workers.

Thus, while recent labor force survey data clearly indicate that declines in manufacturing employment are a common phenomena across most of the countries that track employment on a quarterly basis, employment in sectors such as construction and wholesale and/or retail trade services have also suffered. At another level, reductions in remittances have either already started taking a toll on economies—such as in Central Asia—or are expected to do so. To the extent that remittances have been a useful source for recipients to fund small businesses and start-ups, an adverse effect on these smaller enterprises can also be expected.

Efforts by governments to help their economies cope seem to be working, for example, through fiscal stimulus, loose monetary policy, and various efforts to assist enterprises. However, the crisis also provides an opportunity to think about longer-term issues. First, while a squeeze in available finance has by all accounts affected SMEs more than large enterprises, leading many governments in the region to step up efforts to improve their access to finance, the challenge of improving SME access to finance has no quick solutions. As this chapter has noted, improving SME access to finance requires building up an appropriate regulatory infrastructure. It also requires stronger informational infrastructure for the efficient functioning of financial markets. Both of these, especially the first, take time and sustained effort.

Second, while the global economy will no doubt recover from the current crisis, a return to a fast-growing developing Asia will require some rebalancing of growth toward domestic demand in the region as a whole. As

argued in this chapter, fostering dynamism among Asian enterprises, especially SMEs will be important to this effort.

Defining SMEs as enterprises with less than 200 workers, manufacturing statistics from the region reveal that they can employ anywhere from around 50% to 90% of total employment, and are even more important outside manufacturing. It is precisely because SMEs employ so many of Asia's workers that their productivity and the earnings and wages they generate become crucial in determining living standards for many Asians. Put differently, a dynamic SME sector is crucial to a vibrant middle class.

Public policy has an important role to play. This chapter argues that the design of public policy needs to be based on a clear understanding of the different types of enterprises in the region, how they are linked with one another, and their potential for growth.

In this context, the chapter notes that while microenterprises (enterprises with less than five workers and typically operating in the informal sector) can account for as much as a third or more of total nonagricultural employment, not all microenterprises represent nascent entrepreneurship. Indeed, many microentrepreneurs may be running their businesses because of a lack of stable wage employment elsewhere.

This is not to suggest that policy should neglect microentrepreneurs. First, assisting microenterprises can be an important way of alleviating poverty and hardship. Second, research shows that there are microentrepreneurs who can expand their businesses. In the context of policies aimed at generating good jobs and growth, it is important to figure out how to help such entrepreneurs expand their businesses.

Nevertheless, the big gains may well come from understanding how public policy can help other enterprises, especially SMEs, grow and become more productive. The list of factors that constrain the growth of smaller enterprises include difficulties in accessing finance, weakness in infrastructure (particularly transportation and electricity supply), and regulations that are especially costly for small enterprises or which take away the incentives for smaller firms to grow (for example by reserving production of certain products for small enterprises). At the same time, market failures—caused by learning externalities, for example—can lead to underinvestment in the adoption of new technologies and hold back diversification into new product lines and markets.

The challenge for public policy is then twofold. First, it involves understanding from a country-specific perspective which factors constrain the growth and diversification of SMEs. Second, it involves understanding how to design and implement interventions that effectively help SMEs grow and diversify.

In this context, the chapter has presented some design principles policymakers should adhere to when contemplating specific interventions. Crucial among them is the need for close collaboration between the private sector and government, with the aim of uncovering obstacles to enterprise growth and diversification and determining the specific interventions that would best remove them. Significantly, this collaboration should not be one that includes only large and well-connected firms representing the private sector. SMEs must be included also. Additionally, there will always be some uncertainty about how interventions will play out. It is therefore essential that interventions be undertaken alongside rigorous monitoring and evaluation efforts.

More generally, adopting more of an experimental mindset toward policies, combined with a commitment to rigorous evaluation, would greatly help in finding policies and programs to encourage greater dynamism among Asian enterprises, especially SMEs, and thereby offer better prospects for their workers.

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