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# Small and Medium Enterprise Development in Equitable Growth and Poverty Alleviation

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## Abstract

Small and medium enterprises (SMEs) in manufacturing promote equitable growth in Asian economies. Some experts advocate subsidizing large-scale enterprises (LEs) to employ more people, as in the first phase of the Republic of Korea's industrialization. However, strong arguments oppose this kind of subsidization. Inequality correlates to the distribution of employment and productivity differences between size groups. Policies must increase the share of employment in SMEs, and reduce the productivity differential between SMEs and LEs. This study evaluates three patterns of size distribution and productivity differential. A more typical pattern of size distribution in Asian economies is "dualistic", with a bipolar distribution of firm sizes and a small productivity differential between SMEs and LEs. Another fairly common pattern is "SME promotion", a shift in size distribution toward SMEs without increasing the productivity differential between SMEs and LEs. The "even distribution" pattern, in which each size group employs roughly the same proportion of the labor force, is the most optimal.

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