

# **The study on Small and Medium Enterprises (SMEs) in Myanmar**

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Submitted by  
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**BRAC University, Dhaka**

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## **Abstract**

The prime purpose of this dissertation was to learn the study on Small and Medium Enterprises in Myanmar. Particularly in a variety of surveys on Myanmar SMEs revealed financing to be one of the leading pitfalls of SMEs with deficient financing might pose visible and invisible complications, such as failure to advance machinery and human resources development, incapability of business growth, product and market development. These challenges might affect their efficiency and competitiveness. If Myanmar is able to troubleshoot it, Achilles heels on SME development can be vividly reduced. Thus, this paper spotlights multi-dimensions of SMEs in Myanmar and discussed troubleshooting strategies in short and long termed goal. The combination of systematic SMEs development programs in Myanmar might bring out fruitful efficiency and effectiveness of SME sectors and make best application of economic incorporation in respective areas for national welfare.

This thesis was organized with six chapters. The contribution of introduction and rationale of the study, objectives of the study, method of the study and organization of the study, focused on essence of SMEs in economic development, the strategic importance of SMEs and supporting economic expansion, background of SMEs in industrial growth and the role of SMEs in Myanmar and current situation and discussed of current state of SMEs in Myanmar such as official and working definition of SMEs, overview of SMEs development in Myanmar, key SME support agencies and services in Myanmar. And then this paper described suggestions for improving SMEs and finding and suggestion are pointed out in conclusion.

This paper finds out to point out how SMEs plays a vital role in industrialization and economic development and tackle financing SMEs dilemma and potential pitfalls. This study also aims at exploring out feasible approaches so as to pinpoint and resolve problems on the base of feasible and productive suggestion for Myanmar.

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## Abbreviations

- ASEAN - Association of Southeast Asian Nations
- LDCs - Least-development countries
- SEEs - State Economic Enterprises
- GDP - Gross Domestic Product
- OECD - Organization for Economic Cooperation and Development
- UNIDO - United Nations Industrial Development Organization
- BDS - Business Development Services
- SLORC - The State Law and Order Restoration Council
- SEZ - Special Economic Zone
- AFPFL - Anti-Fascist People's Freedom League
- UMFCCI - Union of Myanmar Federation of Chambers of Commerce and Industry
- MIDC - Myanmar Industrial Development Council
- MPC - Myanmar Privatization Commission
- ICT - Information and Communication Technology
- UN-ESCAP - United Nations Economic and Social Commission for Asia and Pacific
- JODC - Japan Oceanographic Data Center
- JICA - Japan International Cooperation Agency
- GMS - Greater Mekong Sub-region
- MIA - Myanmar Industries Association
- MAFPEA - Myanmar Agro-based Food Processors and Exporters Associations
- MWEA - Myanmar Women Entrepreneurs Association
- MCIA - Myanmar Computer Industry Association
- MCEA - Myanmar Construction Entrepreneurs Association
- MES - Myanmar Engineers Society
- AFTA - ASEAN free Trade Area
- ASAWG - ASEAN SME Agencies Working Group
- FDI - Foreign Direct Investment
- SMI - Small and Medium Industry
- EPZs - Export Processing Zones
- OVOP - One Village One Product

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Rationale of the study**

The urgent need in face of small and medium enterprises (SMEs) is explored out to be a trade of academic essence in successive years. This case is a compulsory basis of strategic SME development in developing and well-developed countries.

Despite of different definitions of small and medium enterprise, all of them are rooted in economy size and measures of economic development of the country. In case of optimal share in business institutions in practice worldwide, SMEs play a major role in national economy and make sustainable support to employment and outcome irrespective of economic developmental degree in a country. They are also essential for industrial development of a developing country. They have exceptional characteristics of their originality. They are in nature more laborious, effortless to set up, small markets-centered, economize expenditure, and promote customer's satisfaction. In SMEs, ownership and management are inseparable for prompt action on market demand, thus SMEs are ideally flexible and effortlessly adaptable for all in light of dynamic environment.

In day of economic incorporation and trade liberalization and deregulation, both prospects and pitfalls for local SMEs, are found out powerful. Liberalization of better communications and reachable transportation facilities worldwide, lead to both golden opportunities and highly competitiveness. Majority of SMEs in Asia countries including Japan are overwhelmed by the stress and strain in relation with China as regards produced goods. It conveys barrier for local SMEs to promote qualified products and services and enhance competition under international norm so as to vitalize the new model. Higher competition in SMEs should be taken into special considerations in light of government's energetic endeavor on policy making.

In spite of successive effort, SME growth in ASEAN countries is still found to be sluggish and delayed with heaps of problems of external sources and internal

incompetency. SME encounters challenges against their operations to degrade their prospect.

The similar hardships that SMEs in Asia countries came across in successive eras are unqualified infrastructure, costly materials and inputs, obsolete technical expertise, deficient R & D, unbending competitiveness, lack of knowledge, unsound administration of owners or managers and insufficient financial support. Access to formal sector financing tops the list.

SMEs in Myanmar are still trapped in this situation. Myanmar is of special financial hardships, such as strict collateral criteria (only real estate), insufficiency of loan amount on assessing value of collateral property, inaccessibility of long-term bank-credits, and lack of international funding agencies which are vital for financial assistance upon SMEs. If Myanmar wants to implement SME development program nationwide to polish the competitiveness of its indigenous SMEs and minimize the improvement gap between Asia countries and Myanmar. This is to primarily tackle this stern financing problem.

## **1.2 Objectives of the study**

This paper is carried out with the following objectives;

- (1) To explore the sector of SMEs in industrial and economic development;
- (2) To pinpoint potential problems and restraint that SMEs of Myanmar face and fight against;
- (3) To tackle the financial SMEs hardships and complicated root causes;
- (4) To propose strategies to troubleshoot these challenges by giving feasible suggestions for Myanmar on ground situation.

## **1.3 Method of the study**

This study mainly focuses on the development of SMEs after economic reforms; it will primarily focus on the relationship between SMEs and economic development of Myanmar. It uses the descriptive method based on secondary data and facts collected from different sources of literatures, different books. Other available data and information from internet will be used for the required data for study. The

method of the study is descriptive method. The researcher used many books and some websites for this study.

#### **1.4 Organization of the study**

This paper is divided into six chapters.

Chapter one is included introduction and rationale of the study, objectives of the study, method of the study and organization of the study.

Chapter two is focused on essence of SMEs in economic development, the strategic importance of SMEs and supporting economic expansion.

Chapter three consists of background of SMEs in industrial development.

Chapter four is about role of SMEs in Myanmar and current situation and discuss of current state of SMEs in Myanmar such as specified and practicable descriptions of SMEs, overview of SMEs development in Myanmar, key SME support agencies and services in Myanmar.

Chapter five describes suggestions for improving SMEs and Chapter six, last chapter describes conclusion by finding and suggesting.

## CHAPTER TWO

### ESSENCE OF SMEs in ECONOMIC DEVELOPMENT

SMEs are important in economic affairs in most countries. Over 90 percent of global employment relies on SMEs progress, especially for least-developed countries (LDCs) now that they can bring about the practical potentials so as to promote value added and employment rate. Grassroots level society should be provided with more job opportunities, that is why SMEs becomes the key for alleviation of crime and poverty rate.

The growth of SMEs is similar to the growth of private sector, because SMEs represent larger number of business in the private sector. The development of entrepreneurship spirit and the development of SMEs are highly correlated because these are formed and run by entrepreneurs. According to their private-ownership nature, entrepreneurial spirit, and the ability to adapt are to the ever employment generation in a prominent activity.

#### 2.1 The strategic importance of SMEs

The strategic importance of SMEs is acknowledged worldwide for the following reasons;

- SMEs are helpful hands for elevation of employment rate (around 50 percent to 70 percent in developing countries, 72 percent in Japan, and 66 percent in EU);
- The private sector, especially SMEs, conveys as the lifeblood of a market based economy and may create the majority of employment in time of economies transition of the long-run;
- Fulfillment of SMEs will reconstruct mega sized enterprises through updating manufacturing complexity. Units without direct correlation to the former activity may be differently sold off in privatizing economic enterprises of the state in East European countries;

- SMEs control the domination of the mega sized enterprises and offer services complementary that those offered by huge businesses and prevent from discrepancies in a prevailing economy;
- On the base of inter-company collaboration, SMEs promote expertise with their adaptability and innovation. Hence SMEs can make the good of creating competent industries, and raising well-planned services sector that can boost GDP on the base of higher value-added services;
- Small industrial enterprises chiefly manufacture for the local market that relies on national resources;
- The transition from the previous huge state possessed enterprises to small and private, SMEs can boost owners, a group of greater accountability and assignment than in the previous critically planned economies;
- Higher SMEs will be able to create more adaptability in society and the economy and may advance technical knowhow and bring out golden opportunities for the better creativity; and
- SMEs employ and promote chiefly local technical expertise.

## **2.2 Strategic Economic Development**

Through appointing poor labor, SMEs in rural areas chiefly assist in rural development in anti-poverty. It is effortless together poor workers in countryside in time of feeble period. Rural SMEs not only can enhance stronger and warmer partnership between employees and employer but also create social welfare for needy families.

Small and medium enterprises (SMEs) are specified as the driving force of an economy, whether we refer to a random state, or if we consider globally. Many companies represent an essential source of economic growth, dynamic and flexibility in advanced industrialized countries as they perform in emergent economies and in development. The critical argument for this is that SMEs are the influential form of business organization, representing roughly 95 – 99% of all companies. In light of the

Organization for Economic Cooperation and Development (OECD), SMEs are of over 95% of enterprises and ensure 60-70% of the job opportunities.

Small enterprises are vital in boosting competition and to produce new products or technical showcase in the market. SMEs promote the majority of their productivity through finance. Investments open feasible access to technologies and helps expand the business, thus ensuring the competitiveness of a company and, by extrapolating, the one of a nation as a whole. It's fair to say that the performances and the development level of a national economy depends a lot on the capacity to create a good environment for SMEs, which can supply quality services and competitive products at a low cost and in quantities that are adjusted to the market.

In 132 of covered economies, there are 125 million SMEs. From these, 89 million are located in countries in the developing world.

On average, there are around 31 micro-enterprises, SMEs to each 1000 persons globally. There are countries that are above average, for instance Brunei Darussalam with 122 companies to 1000 inhabitants, Indonesia with 100, Paraguay with 95, Czech Republic with 85 or Ecuador with 84. The countries with a bigger income per capita tend to have a larger number of registered companies for 1000 persons.

The SMEs have a direct effect on GDP growth. This effect represents the difference between the return on capital employed and its cost.

Putting emphasis to the promotion of SMEs in the rural areas is a move that helps to reduce income gaps between rural and urban areas. Also, the competitiveness of local SMEs is one of the push factors for foreign investors to invest in particular country. The potential to be reliable suppliers is credited by foreign investors who want to outsource their noncore activities to local suppliers.

Nabil Y. Barakat (2001) referred to the role of SMEs in national economic as follows;

There are many sound evidences of SMEs play a compulsory role in sustainability and prosperity of national economy of every country. The success of Taiwan is a nice image of SMEs role in national economy with affordable resources.

Taiwan has set up a globally standardized supplier for a variety of electronic hardware in the previous decade. SMEs of Taiwan are the hub of this block-buster success. SMEs are of 69 percent of total employment, 55 percent of Taiwan's manufacturing exports and 96 percent of total companies in 1993. The majority of Taiwan's prevailing 400 electronic companies founded as mini sized business. They can create the best part of entrepreneurship in economy of most countries.

Ayyagari and Beck (2003) observed a relationship between the contribution that SMEs give to GDP and national income in 76 countries. 51 percent of GDP and national income was pinpointed. They explored 51 percent of average-income countries and 16 percent of poor countries. Beck, etal (2005) pointed out the significant relation between GDP development per capita and the circumstances of SMEs. Derek Newberry (2006) illustrated an acceptable relation between a country's overall income and the declined number of SMEs per 1,000 heads. He highlighted that poor countries are due to degradation of SMEs per 1,000 heads. Again higher income level of a country is proportional to higher level of SMEs per 1,000 individuals. UNIDO also found out the circumstance of SMEs was concerned within equality and lesser income distribution.

SMEs are a must in reform of infrastructure for a country from agricultural-centered economy to an industrial and service-centered economy.

The challenge of the 21st century for SME-s is global competition. This conveys that customers are in need of being provided with consistent and trustworthy products and services of a standardized quality, while the market environment is accredited by gold standard of global competitiveness.

### **2.3 SME Cluster Development**

In developing countries, the cluster perception stands for an important economic policy symbol which targets to encourage creation and development of competitive SME enterprise UNIDO put forward three main arguments to explain the focus on SME clusters as targets of development support (UNIDO, 2010). They are as follows;

- (a) Collective efficiency gains;

- (b) Spatial proximity effects; and
- (c) Pro-poor potential.

The potential of each and every SMEs is restrained by unavailability of vital resources and failure gain economies of scale. SMEs within clusters benefit from: (a) cooperative efficiency and effectiveness gain due to the availability of a specialized labor force, machinery and input suppliers; (b) the collective attraction of traders and buyers; and (c) a positive industrial atmosphere where information and knowledge are easily shared (Bellandi, 2002).

Though an SME cluster, specified as a portion of industry agglomeration, has no sound territorial specification, the result of cooperative efficiency gains is facilitated by spatial immediacy in SMEs operation in team. To refer UNIDO, *“spatial proximity also boosts the result of technical cooperation, now that it motivates ‘crowding in’ or ‘spontaneous replication’ effects among different stakeholders”* (UNIDO, 2010).

In light of the evaluation initiated by UNIDO: “a cluster approach is a priceless mark so as to handle poverty and set up a model of extensive growth. One of the distribution factors is the system of socio-economy in which the population of enterprises crowded with people and their families, dwelling and working in a restricted area. On review, making welfare of growth is found to be more inclusive than other systems” (UNIDO, 2010).

The cluster development conveys as a gear on drive of SME sectors in several countries. Clusters that can raise synergies of providing important advantages to SMEs since they are helpful hands for enterprises so as to win dynamic competitiveness cooperatively, rather than as individual does. Clustering can make SMEs connect and homogenous with local and global value chains by uplifting joint-venture between providers of BDS (ESCAP, 2009).

The wide spread of Myanmar SMEs had been existent before 1988, however the State Law and Order Restoration Council (*SLORC*) relocated SMEs to novice established industrial zones in cities and towns so as to upgrade efficient industry agglomeration (Thein, 2012) since 1990. To date, there are a total of 19 industrial

zone and major SMEs are in the industrial zones, while small enterprises or “cottage industries” are set up out of industrial zones. Small-sized enterprises include 57.5 per cent of tenants, medium-sized enterprises comprise 24.3 per cent and large-sized enterprises are composed of 17.3 per cent (Kyaw, 2008) in industrial zones. To promote industrial development and encourage foreign investors, three special economic zones (SEZs) are being developed: (a) Dawei SEZ, located in the Tanintharyi region; (b) Kyauk Phyu SEZ, located in Rakhine state; and (c) Thilawa SEZ, located 20km south of Yangon. SMEs fostered for active participation of services and manufacturing process run by the SEZs and industrial zones, while it will be generally essential for the Government to energize domestic competency of the responsible for better and more systematic management, regulation and monitoring in the SEZs and industrial zones. All in all, practical policy implementation is able to support correlation of local SMEs, as suppliers, to larger enterprises in the SEZs and industrial zones. It must be taken into special consideration to boost stronger attachment and better partnerships between larger enterprises and local suppliers for various inputs (OECD, 2013b). SME cluster development should be established to foster the innovation of a powerful /enriching/ nurturing business environment through which: (1) new clusters are founded and promoted; (2) current clusters initiate and develop (3) rural non-farm employment is upgraded by inviting small producers and enterprises to take part in the value chain process; and (4) SMEs stand for vital partners in local, national and global value chains.

In order to promote domestic SME clusters, training and BDS are important in providing tailor-made service on SMEs’ capacity building as well. Efficient and feasible training and BDS can be rapidly uplifted on the base of coordination, cooperation and collaboration among large enterprises, local SMEs, multinationals, training institutes, BDS providers, universities and public SME promotion agencies. The curricula of training can be upgraded by training institutes or universities so as to create more relevant modules that represent industry urgent needs. A well-planned BDS provision through modifying market demands might be a driving force on

development of local capability and gradually marching towards development of SME clusters as well.

So as to promote SMEs' correlation between large enterprises and their integration into local and global value chains, SME clusters must be able to negotiate buyer-seller forums, which may be led by either the Government or business organizations (or SME clusters themselves). Buyer-seller forums can provide valuable opportunities for business networking and compatibility between SMEs and regional and international buyers. The forums can enhance the development of market intelligence systems through collection of a variety of market resources to assess the most penetrable and beneficial local/export markets as focal hub of SME clusters development.

#### **2.4 Policy Recommendations for SME Development**

There are some influencing factors over SME development. It is necessary to plan and realize inclusive policy structure that drives the development of SMEs' capability and competitiveness in effective ways so as to apply unemployed business opportunities nationally, regionally and globally. This section highlights well-established policy trends for targeted action on the base of: (1) the centralization of SMEs in adding value; (2) seven critical matters of SME development (i.e. helping entrepreneurship, access to financing, business development services, environment, innovation, market access and cluster development); and (3) stakeholders' active participation in process of policymaking and implementation.

## CHAPTER THREE

### BACKGROUND OF SMEs IN MYANMAR

#### 3.1 Historical Background

It is hard to pinpoint the background of the development of SMEs in Myanmar due to insufficiency of reviewed literature on SMEs development. Along successive eras, SMEs in Myanmar were inopportune to boost absolute potential excluding post-independence of Myanmar (from 1948 to 1962). Instead, conventional domestic enterprises such as handicrafts, jewel polishing, textile manufacturing, weaving, lacquer ware and goldsmiths and blacksmiths, have been existent in Myanmar villages since the era of the Myanmar kingdoms. They were originated in the Inwa(Ava) Dynasty about the 14<sup>th</sup> century.

In Myanmar, Blacksmiths who produce military arm such as swords and shields and farming devices on agriculture are considered to be the forerunner of private enterprises. Due to the survival level of economy, the scope of operation was very low even in domestic scale.

During the pre-colonial period, the country's indigenous industries were margined to cotton spinning and weaving salt exploitation, potter, brick, cart making, boat, carpentry, iron smelting, blacksmiths and so on. After the country had fully occupied by the British, the British government fetched foreign capital and technical knowhow into Myanmar. Production of consumer goods and food processing such as flour, coffee, soft drinks, oil, textile, sugar, rubber and match were initiated. The majority of foreigners including British, Indian, and Chinese, owned and managed businesses and local dwellers were systematically assigned as laborers.

Under reign of colonial period, the British did not foster the institution of industries for production of consumer goods. In light of the laissez-fair policy, domestic industries are lack of protection by the government. As a result, local industries were focused on agriculture, and resource based industries such as sewing mills and rice mills where the country has significant profit. Conventional domestic enterprises including handicrafts, textiles and goldsmith business began to apply and

became market base in time of the colonial period. In 1940, there were a total of 1027 factories. Out of them, 998 were private enterprises made of rice mills (67 percent), sawmills (11 percent), cotton gins and presses (5 percent) and vegetable oil mills (3 percent). Domestic owned rice mills and sawmills comprised 46.5 percent and 31 percent of the total in each.

The colonial government did not make energetic effort so as to upgrade local industries. The establishment of the Cottage Industries Department in 1923 was exemption, and chiefly regarding aiding and reviewing the higher pace of small-scale industries in pottery, lacquer and ware weaving.

After Myanmar had gained independence in 1948, the Anti-Fascist People's Freedom League (AFPFL) government fostered private sectors such as foreign investments for the rest sectors. Private industries prospered in time of 1948- 1962. Even when the government set up state-owned industries in light of the long term industrial plan, private industries were granted to perform parallels with the factories manufactured by public entities. There were 2468 factories, made up of 1294 foodstuff factories, 529 clothing and apparel factories and consumer goods factories during 1959 and 1960. Of these, 87.44 percent were possessed by national, 4.54 percent were foreign-owned and 8.02 percent were joint ventures with foreign and local involvement operating as small-scale and medium- scale industries.

The majority of mega- scale industries were regulated by the state accordingly, small and medium – size industries in the private enterprise had gained acceptable success in the early 1960s. The government offered motivational incentives like industrial credits and support of raw materials so as to encourage investments of the private enterprise. The private sector chiefly produces food, garment, and consumer goods (noodle, vermicelli, biscuits, ice, weaving, blankets, towels, nylon, plastic, soap, slippers, and cosmetics) businesses. Inasmuch as the factories of the private sector yearly rocketed in 1960s, the government restricts the issuance of licenses in order to set up new factories, since the state-possessed factories were on verge of loss. The ownership format (1961- 1962) explored that nearly 91 percent of the listed

establishments were owned by Myanmar nationals (up from 86 percent in 1953 - 1954), whereas those of under joint ownership inclined 4.5 percent up to 5.5 percent, by boosting the local trend designated in post-independence.

The roar of private businesses came to a stop when the military took responsibility of the national affair in 1962. The Revolutionary Council endorsed the adoption of the socialist economic system and nationalized all sizable private businesses. Under socialist economic trend, methods of manufacturing and distributions were conducted by the state and cooperatives. Nevertheless, small private enterprises, the majority of them employing less than 10 workers, were retained. They are regulated against challenges of socialist economic system with consumers' good that private enterprises could not satisfactorily accomplish. However, the foundations were more than the combination of joint ventured and private enterprises. There were a total of 15,453 registered enterprises composed of 1,048 national private enterprises, 159 cooperatives, and 14,246 private enterprises in 1970. Instead, during 1961-1962, the production of private sectors was found to be unchanged. The control and restrictions of the state weakened the mindset of the private manufacturing industries that was the mixture of machinery and shortage of spare parts. This poses a vicious cycle of outmoded technology, lower quality and quantity of products, decreasing return of investment, and little or no investment activities.

Because of the economic crisis of the country during the socialist economic system, an institutional rebuilding with restricted reforms was initiated during the mid-1970s. Then and on, the role of private enterprises was totally approved by the state. To upgrade economic development on the base of private sector investment and employment, the Right of Private Enterprises Law was publicized in September 1977, which endorsed the legal form of private enterprises and granted them to complete specified economic affairs. However, private investments during the socialist period were restricted of small-scale activities, emphasizing on process and procedures of natural resources. The role of SMEs in the private sector was inferior to state-owned enterprise and the cooperatives.

After handing over the national power in 1988, the State Law and Order Restoration Council (SLORC) legally publicized the approval of market-oriented economic system. Under market economy, the government uplifts active participation of private-sector of the economy and granted foreign investment across the country. The Promotion of Cottage Industrial Law of 1991 and the Private Industry Enterprises Law of 1990 and were publicized so as to upgrade private business enterprises.

The Myanmar Citizen Investment Law was enacted in March 1994 for promotion of local enterprises. Through energetic endeavor of establishing the national industrial sector by the three pillars such as the state sector, the local private sector and foreign investment, the entrepreneurs in the nation were specified as the innovative economic driving force. Industrial zones have been set up since 1991 under the state industrialization policies. Moreover, the private sector was motivated to establish import compensation industries. As a result, the number of private business establishments was rocketed.

In January 1989, the Union of Myanmar Chamber of Commerce and Industry was founded for higher cooperation and collaboration among businesses of the private sector. It was reformed and promoted as the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) in 1999. The UMFCCI has been a hub for private enterprises' welfare and its memberships reached a total of 16,363, of 10,854 Myanmar companies, 1656 enterprises, 770 foreign companies, 185 cooperatives, and 2,898 individuals in 2007. The institutional members comprise of 16 state and division sectors of industries, commerce and nine border trade associations and 19 miscellaneous associations.

### **3.2 Current Situation**

To date in Myanmar, SMEs still stands tallest as the key pillar of private business. They influence the best part of the national economic affairs. They consist of 99 percent of the manufacturing sector and 90 percent of the industrial sector.

Despite their absolute number, SMEs in Myanmar face and fight against visible and invisible challenges on SMEs in most developing countries. Scarcity of

investment, technical competency, and lock and key-assignment are helpful the private sector to become entrepreneurs. Poor infrastructure and unfavorable business environment severely delay SMEs development in Myanmar, and even can pose Power shortage, rocketed fuel prices, soaring rentals and property prices, costly inputs, and the higher expenditure. Inflation can hold up the growth and potentiality. They are being pressed by soaring costs of running business and competitiveness through imported products of neighboring countries especially border trading trend.

## **CHAPTER FOUR**

### **ROLE OF SMEs IN MYANMAR'S INDUSTRIAL PROGRESS & PRESENT CIRCUMSTANCE OF SMEs IN MYANMAR**

The industrial role on national economy is as essential as the lifeblood in a country. Categorization of well-developed and less developed countries is able to represent for national industrial sector.

#### **4.1 The industrial Development**

The national industrial process includes manufacturing and exporting basic goods are such as marine products, agricultural utensils and timber accessories. Through conventional technology, it can step to a higher pace of export products, value-added goods. In such case, exports may be domestic utensils, textiles, home appliances, manufactured sea food and vegetables and cans. The second stage includes products and exports of technical investment and middle class- goods like vehicles, computers and electronic facilities and advanced goods. The circumstances of national industrialization can be evaluated by the investment and profit of the production through GDP and the prevalence of human resources assigned in workplace.

On the base of Myanmar historical background, the government failed to achieve acceptable industrial success in 1948, post-independence period. Myanmar happened to practice industrialization headed by the state that emphasize on compensation of import. Likewise, governments just depended on national industries to realize their tactics. Finally, private enterprises (mostly SMEs) failed to meet satisfactory result from government due to tax relaxation on subsidies, development grant-in-aid, and training support and technological transfer.

In September 1988, the SLORC government handed over national authority. They publicized the approval of commercial based norm. Four economic objectives are specified by the SLORC as the road map on creation of a modern and well-developed country. "Development of agriculture as the fundamental and well round development of the absolute economy" called the first economic objective mentioned that the government focuses on agriculture as the economic hub. In the fourth

objective, it endorsed that “The initiative to shape the economy must be maintained under the state and national races” Besides, the government promised to sustain national economy in their period.

To date, the government makes energetic effort to gain fruitful industrial result on the base of the public and private enterprises. They ratified Private Industrial Enterprises Law and the Promotion of Cottage Industrial Law in 1990 and 1991 respectively so as to uplift industrialization sector and procedures on the base of investment of private enterprise. The Private Industrial Enterprise Law specified the meaning of small, medium, and mega enterprises of private enterprises. The law is in need of SMEs to enlist official registration with the Ministry of Industry (1).

In 1991 industrial zones were founded, the adjoining sites of Yangon and Mandalay. On July 18, 1995, the Myanmar Industrial Development Council (MIDC) was established. It was composed of government ministers and deputy ministers of different ministries. MIDC comprised of 8 sub-committees set up plans on conclusive success of industrial zones and parks. The registration rate of private industrial sectors was rocketed year after year. Employment of below 10 workers and use of below 3 powers Cottage industries are excused from registration. The genuine number of enterprises of the private sector is higher than that of official registration.

Through the reform process, private sector's share of ownership in factories and industrial establishments soared from 93.8 percent in 1988 - 1989 to 98.41 percent in 2002-2003, whereas state's share declined from 4.4 percent to 1.3 percent at the same time. Out of labor, private industrial sectors are of 96.9 percent of total foundations of below 50 employees whereas state enterprises are of 63.8 percent of total foundations that assigned above 50 workers. Over 90 percent of the production sector in the country employed below 10 workers. The majority of the private industrial enterprises comprise in producing and processing food and beverage as 60 percent of all. They are chiefly supportive in local markets. Most of private industrial companies can be classified as small and medium enterprises (SMEs) and were vital driving force of importer placement.

The Myanmar Privatization Commission (MPC) was founded in January 1995, and publicized the list of members for privatization (chiefly movie theater, small processing plants and business grounds nationalization). The number of privatized assets goes up to 180 (out of some 600 enterprises identified by 18 ministries) with collective sales value of 2.87 billion kyats in early 2003.

SMEs stand for over 92 percent and 99 percent of the total numbers in the private producing firms. As matter of fact, a survey on SMEs means the business study of the private sector. The study of SMEs in Myanmar can pinpoint businesses and financial pitfalls and weakness that might occur in most private sectors in Myanmar.

#### **4.2 Specified and practicable descriptions of SMEs**

In light of the Private Industrial Enterprises Law 1990, classification of business enterprises in the private sector is originated in four criteria such as power usage, workers employed, invested capital, and annual manufacturing. This classification criterion is more complex than those of other countries, now that the second chiefly employ one or two criteria to categorize SMEs. That trend also neglects the business sphere, if they are considered retail, wholesale, or manufacturing. Table 1 illustrates the classification of SMEs in Myanmar.

**Table 1: Classification of SMEs in Myanmar**

<b>Categories</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Power used (horse power)	3 - 25	26 - 50	Over 50
Number of workers	10 - 50	51 - 100	Over 100
Capital investment ( million kyat)	Up to 1	1 - 5	Over 5
Annual Production (million kyat)	Up to 2.5	2.5 to 10	Over 10

**Source: Private Industrial Law (1990)**

This by-product poses stumbling blocks. It is hard to make enterprises meet all four specifications simultaneously so as to effortlessly make a business categorization. It is tough to rate a business if it is big or small if it assigns below three horsepower, 15 workers and employs yet invests above five million kyat. The necessary amount of

capital, 5 million kyat, for a firm to be categorized as huge business was termed in 1990 after enacting the Private Industrial Enterprises Law 1990. No transformation or alteration has been made ever since. Currently the gold standard of capital is not sufficient for big and small enterprises. If a person has a car and uses his car as a cab, it conveys he runs an impressive business as assessed by capital investment now that the expenditures for a taxi in Myanmar areas much as 15 million kyat and even above. The definition based on monetary value should be timely amended; or, it may pose misunderstanding.

Hence, a practical definition is termed to define SME in this paper, as follows: “SME is a business processing in private sector by employing 100 workers. It may be regulated in business made up of inseparable control and ownership. On the other hand, it shall not be a subsidiary of any holding company or institution.” In this description, it is assumed that over 99 percent of all enterprises of the private sector will be the part of this category. Hence, financing SMEs in this circumstance is almost similar to financing the private sector.

In the “World Bank Group’s SME Strategy”, the following is written about the SME definition:

- What is an SME? There is no universal definition.

Some analysts use objective standards, classifying firms with fewer than 10 employees as “micro enterprise”, those with 10 to 100 employees as “small” and those with 100 to 500 as “medium” even listing any company with annual turnover below 10 million as an SME.

### **4.3 Overview of SMEs Development in Myanmar**

Major driving force for the development of economy SMEs provide opportunities for entrepreneurs, workforce and utilization of natural resources Agricultural product, forestry product, garment and food & beverages product are major output. Private sectors significantly contribute the industrial production. Establishment of SMEs in Mining, manufacturing, construction, trade and services was estimated 99 percent. Critical factors limiting the growth: Financing, Human

resource capacity building, Technology, Market access, ICT, energy, infrastructure etc.

Main Committee of Small & Medium Economic Development was formed on (9.1.2013) with the order no. 11/ 2013 of the President's Office.

In order to support SMEs for skill, management effective policy and law, high investment, high technology and market, the following implementation groups were set up by the working Committee of SMEs Development.

1. Business Initiative,
2. Policy Implementer for the ease of access to finance,
3. Policy Implementer for Market penetration,
4. Access to Information & Research,
5. Human Resources Development,
6. Regulatory of SME and related laws,
7. Cluster Development,
8. Monitoring and Evaluation, and
9. Standardization and Implementation.

#### **4.4 Key SME Support Agencies and Services in Myanmar**

##### **Government Support Agencies for SMEs**

- Directorate of Industrial Supervision and Inspection (Ministry of Industry),
- Central Department of SME Development,
- ASEAN SMEs Working Sub-Committee (Ministry of Industry),
- Small-scale Industries Department (Ministry of Cooperatives),

##### **International Agencies & Organizations**

They are providing technical and financial assistance to SMEs -

1. UN-ESCAP and UNIDO of UN agencies,
2. JODC, JETRO, JICA, AOTS, SMECA of Japan,
3. ZDH and Hanns Seidel Foundation of Germany,
4. ACCIM and FMM of Malaysia,

5. Myanmar ASEAN SME working Committee,
6. GMS Business Forum,
7. Entrepreneurship Development Institute of India, and
8. Myanmar-Japan Center for HRD.

### **Non-Government Organizations**

The following Organizations are also taking part in the support of SMEs development-

- Union of Myanmar Federation of Chambers of Commerce & Industry (UMFCCI),
- Myanmar Industries Association (MIA),
- Myanmar Agro-based Food Processors & Exporters Associations (MAFPEA),
- Myanmar Women Entrepreneurs Association (MWEA),
- Myanmar Computer Industry Association (MCIA),
- Myanmar Construction Entrepreneurs Association,
- Myanmar Engineers Society (MES),
- Myanmar Forest Products & Timber Merchants Association,
- Myanmar Garment Manufacturers Association,
- Myanmar Pulses, and Beans & Sesame Seed Merchants Association,
- Myanmar Pharmaceutical & Medical Association etc...

SMEs Development Sub-committee was formed as one of 26 Sub - committee or Delivery Units to perform effectively the tasks of SMEs Development and to implement the policies on the ground through cooperation and coordination.

Overview of SMIs development in Myanmar show in table 2: pectoral distribution of SMIs and table 3: 19 industrial zones through Myanmar. And then table 4 shows number of registered enterprises in States and Regions

**Table 2: Sectoral Distribution of SMIs**  
**(Registered as of September, 2013 (Table Type))**

<b>No</b>	<b>Sub – Sector</b>	<b>Small</b>	<b>Medium</b>	<b>Total</b>	<b>%</b>
1.	Food and Beverages	19,988	4,296	24,284	64.04
2.	Clothing & Wearing Apparel	1,015	508	1,523	4.01
3.	Construction Materials	2,125	815	2,940	7.75
4.	Personal Goods	346	403	749	1.97
5.	Household Goods	75	78	153	0.40
6.	Printing & Publishing	153	146	299	0.78
7.	Industrial Raw Material	160	196	356	0.93
8.	Mineral & petroleum	1,324	438	1,762	4.64
9.	Agricultural Equipment	36	18	54	0.14
10.	Machinery & Equipment	46	53	99	0.26
11.	Transport vehicles	16	38	54	0.14
12.	Electrical Goods	27	18	45	0.11
13.	Miscellaneous	4,838	762	5,600	14.76
	<b>Total</b>	<b>30,149</b>	<b>7,769</b>	<b>37,918</b>	<b>100.00</b>

**Source; Ministry of Industry (January,2014)**

**Table 3: 19 Industrial Zones through Myanmar**

No	State / Division	No.s	Location (townships)
1.	Yangon Region	4	Eastern, Western, Northern and Southern townships of Yangon
2.	Mandalay Region	3	Mandalay, Meiktila , Myingyan
3.	Magway Region	2	Yananchaung , Pokhuku
4.	Bago Region	1	Pyay
5.	Ayeyarwady Region	3	Hintheda, Myaungmya, Pethein
6.	Sagaing Region	1	Monywa
7	Chin State	1	Kalay
8.	Mon State	1	Mawlemyine
9.	Thaninthayi Region	1	Myeik
10.	Shan State	1	Taunggyi (Ayetheya)
11	Kayin State	1	Hpa-an
	<b>Total</b>	<b>19</b>	

**Source: Ministry of Industry**



1. East Yangon Industrial Zone
2. West Yangon Industrial Zone
3. South Yangon Industrial Zone
4. North Yangon Industrial Zone
5. Taunggyi (Shan State)Aye ther Yar Industrial Zone
6. Mandalay (Mandalay Division)
7. KaLay Industrial Zone (Chin State)
8. Monywa Industrial Zone (Sagaing Division)
9. Pakhuku Industrial Zone (Magway Division)
10. Maitthila Industrial Zone(Mandalay Division)
11. Myin Chan Industrial Zone (Mandalay Division)
12. Ye Nan Chaung Industrial Zone
13. Pyay Industrial Zone (Bago Division)
14. Mawla Myaing (Mon State)
15. Myaung Mya Industrial Zone
16. Hinthada (Ayeyarwady)
17. Pathein (Ayeyarwady )
18. Meike (Taninthayi Coastal)
19. Hpa-an Industrial Zone

**Table 4: Number of Registered Enterprises in Regions and States  
up to February, 2015**

<b>No.</b>	<b>States/Regions</b>	<b>Large</b>	<b>Medium</b>	<b>Small</b>	<b>Total</b>	<b>Percentage</b>
1	Kachin State	46	138	1132	1316	2.94
2	Kayar State	16	280	102	398	0.89
3	Kayin State	100	77	760	937	2.09
4	Chin State	4	7	663	674	1.51
5	Saging Region	300	825	3046	4171	9.32
6	Tanintheryi Region	150	107	1130	1387	3.10
7	Pegu Region	310	894	3433	4637	10.63
8	Magway Region	166	327	2458	2951	6.59
9	Mandalay Region	1181	2376	3978	7535	16.84
10	Mon State	133	260	1903	2296	5.13
11	Rakhine Sate	61	114	1879	2054	4.59
12	Yangon Region	2437	1831	1994	6262	13.99
13	Shan State	216	465	2939	3620	8.09
14	Ayeyarwaddy Region	522	616	4774	5912	13.21
15	Nay Pyi Taw	98	154	347	599	1.34
	<b>Total</b>	<b>5740</b>	<b>8471</b>	<b>30538</b>	<b>44749</b>	<b>100</b>
	<b>% of Total</b>	<b>12.83</b>	<b>18.93</b>	<b>68.24</b>	<b>100</b>	<b>100</b>

**Source: Ministry of Industry**

#### **4.5 Prospect of SMEs in Myanmar**

SMEs in Myanmar are playing in different roles for industrial development. According to their role, it can be categorized as follows;

- (a) Import substitution in industrialization,
- (b) Export-oriented SMEs,
- (c) Rural-located SMEs,
- (d) Local and traditional SMEs, and
- (e) International subcontracting SMEs.

**(a) Import substitution in industrialization**

Myanmar is currently heavily dependent on products that can be manufactured with small-scale investments, such as daily necessities, general merchandise, processed foods, drink and simple electric and machinery parts. When manufactured domestically, these high-industry products can be easily competitive with imports, and small and medium-scale enterprise is quit advantageous in this industry. Promoting the import-substituting light business is very effective in reducing imports, and must be encouraged.

**(b) Export-oriented SMEs**

In order to improve the export structure, this is dependent on primary industry products. Myanmar must push the diversification of export products. To do so, it is necessary to promote processed export-product industries that use domestic raw materials. Promising industries in this sector are various agriculture processing, food processing, woodwork, metal work, marine product processing, and so forth. Since this type of industry require cultivating overseas private enterprise and go into oversea markets. It is necessary to encourage bounded processed products, such as sewn processing charges only, should play a certain role in domestic raw material supplies, and related industries get promoted.

Most export-oriented industrial can also pushed forward by small and medium-scale enterprises. In order to meet various demands from market, small and medium-scale enterprises can be quite advantageous.

**(c) Rural-located SMEs**

In the circumstances that farmers comprise 60% of all workers, and the farming population accounts for 70% of the entire population, there is no doubt that the key of Myanmar's economic development lies in agriculture development and farming villages. In order to expand the Myanmar, an important goal is to increase income, employment opportunities, and the purchasing power of farming villages by

developing agriculture. Therefore, it is necessary not only to expand agricultural products, but also to promote various industries in farming villages. In addition to agricultural processing, it is effective to promote agriculture-supporting industries, such as agricultural machinery manufacturing and agriculture-related equipment manufacturing. It is believed that most farmers are landed farmers in Myanmar, but in fact, there are many landless farmers in farming villages. It is possible to prevent farmers from concentrating in cities by starting industries in farming villages to absorb these partly unemployed people. From this aspect, it is necessary to recognize the establishment of rural-located small and medium-scale enterprises as an important measure.

**(d) Local and traditional SMEs**

Traditional industries in Myanmar have created characteristic products in each region. Typical traditional industries are lacquer ware in Bago, silk textile in Mandalay and Inlay Lake regions, cotton textiles in the Rakhine and Gangaw regions, pottery in Twante, Buddhist altar fittings and furniture in the suburbs of Yangon, Myanmar cigarettes, silverwork, and jewelry processing that are produced widely in central Myanmar, and so forth. Among these traditional folk craft, these are not a few products that can become international products through technological improvement and facility modernization. Although most products have been limited to local markets so far, they need to improve quality, design and other aspects in order to target large market, like national and overseas markets in the future. Of course, some of these local industries will lose their competitiveness when modern factories and foreign products flow in. However, lacquer ware, silk textiles, and so on are promising industrial with the possibility of becoming international products through the improvement technology, design and material.

Although some local industries, such as rice polishing oil extraction, and lumbering, are competitive among state-owned and Large-scale enterprises, as well as

import products, small and medium-scale enterprise can have a competitive edge if they markets advantageous to them and meet extensive demand market.

**(e) International subcontracting SMEs**

Myanmar has joined ASEAN and the ASEAN free Trade Area (AFTA), where tariffs have been decided to be abolished. When planning its economic development Myanmar must consider the economic dependence, particularly on ASEAN, that will develop further in the coming years. In other words, these are no doubt that industry sharing within ASEAN will progress, and Myanmar's economy must be considered as a part of the ASEAN economic region. Given this aspect of industrialization, Myanmar does not need to promote industries or manufacture in every field within the country. Rather, it should aim for industrializations and development of industries in which Myanmar has comparative advantage other nations within the ASEAN economic region. Comparative advantages are immovable advantages such as workforce, price level, and technology stages. In these contexts, Myanmar currently has these advantages, in areas such as workforce, price level, social conditions, legal system, industrial expansion, and market size. As for the economic relationship with the advanced ASEAN members, has an advantages utilize and consider specializing in supporting industries for ASEAN industries.

As Myanmar is a member of ASEAN, it has been co-operating with other ASEAN members for the development of SMEs. Some ASEAN member countries are still managing SMEs sector without using modern technology. To transform these countries traditional ways of managing SMEs to current management form, ASEAN has organized ASEAN SME Agencies Working Group (ASAWG). The group has been implementing following tasks;

- (a) Analyzing policies and practices relating to SMEs,
- (b) Finding and organizing financial resources for SMEs,
- (c) Nurturing the youths for the development of human resources of SMEs,
- (d) Advancing technologies that could be applied for SMEs' development,
- (e) Seeking new markets for SMEs' products.

To accomplish the above mentioned tasks, ASAWG has been holding meetings and conferences in each member countries in turn to discuss about the development of SMEs and cooperating and coordinating accordingly.

Hence, Myanmar should try to achieve the goal of its 30 years long plan, specifically the goal of 3<sup>rd</sup> Five Year Plan that is its level of SMEs growth is as same as that of other ASEAN members, in 2015-2016 by participating in ASAWG's SMEs developing as it has agreed to do so. Joint venture with ASAWG brings out fruitful result and creates golden opportunity so as to achieve the goals of national plans of Myanmar. Likewise, Myanmar should make an effort on improvement of the country's economic development by securing food supply for its own consumption as well as promoting export products' manufacturing. As the same time, Myanmar need to reduce the amount of imported products by encouraging the production of high quality goods that can substitute imported products.

In short, Myanmar current has only a few industries in the manufacturing sector to compete with the advanced ASEAN members. As for such processing industries as sewing, decorating, jeweler, food, drink, and timber, Myanmar is gradually losing its advantage to ASEAN, which are taking own these industries. Instead of focusing only on these industries on ASEAN companies, industrial development in the country run into challenges like internal pitfalls as unsound infrastructure and poor communication, scarcity and unreliability of power supply and lack of industrial and technical services: combining the original precarious situation of progress is the driving force for FDI flows so as to concentrate better on the most flourished developing countries.

#### **4.6 Challenges of SMEs in Myanmar**

To develop the industrialization, SMEs in Myanmar face challenges in industrial sector according to the survey of UMFCCI. There are:

- Limitation of existing tax policy,
- Difficulties in attaining investment,
- Weakness in infrastructure,

- Insufficient use of machines and office equipment,
- Lack of law, rules, and regulation concerning SME,
- The low level of manufacturing technology,
- Frequent change of rules and regulations, standards and instructions rate to the finance of trade and production.

In existing tax policy, the same tax rate on raw materials and finished good is hurting local manufactures and discourages local production and encourages importing products from foreign countries. In ASEAN member countries, taxation rate on raw materials import is minimal. It might increase by degrees from finer to finest products.

Regarding export products, ASEAN countries do not tax on finished product of industrial sector. But in Myanmar, there is 10% tax on export products and that policy weakens the competition among export products manufacturing business. In Thailand, Viet Nam, Indonesia, and Malaysia, tax is collected only on exported basic products and raw materials, not on other export products. In this way, exporting basic raw materials is controlled. Processing finer to finest products step by step across the country can add-value to the materials as well as create job opportunities for local people.

Empirical experience of Asia countries, some research reports showed that financial investment is the most important factor to expand the industrial manufacturing or to use machines and equipment that operate with advanced technology with current practice a bank can allow industry owner to borrow 30% of the value of his or her factory, if the owner prawns factory in the bank. Generally, that amount of money is too small or factory owners to run their factories. In other ASEAN member countries, the factory owners can borrow 40% of the value of machines factories following the ASEAN standard would solve the problem of limited investment to some extent.

However, shortage of electricity of manufacturing is one of the main problems that manufactures and business owners are facing. Running factories, machines, and business with fuels brought from black market increase production cost and raises the prices of fuels.

In the age of IT, Information and Communication Technology (ICT) plays the vital role in the modernized production process. The access to internet and use of office equipment such as fax, telephone can facilitate the effort to acquire knowledge about technology advances, up to other countries, Myanmar's use of modern machined, equipment, and facility is insufficient. Besides, high costs of these items impose other constraints.

Under the market-oriented economy, current SME are mostly implemented by private sector, it is necessary to have SME law that ensures the development of SME. The opportunities of SME are much fewer than that of SOE and FDI.

Although there are currently more than 40,000 private owned industries and factories in Myanmar, most of them are still using outdated machines and equipment that are locally made or made in China. Only those industries and factories located in two big cities – Yangon and Mandalay – can afford to use modern machines. They are merely a tiny portion of the total number of industries and factories.

Frequent change of rules and regulations seriously affect the production of industries. The set rules should last at least six months to a year so that private owners have opportunity to work.

#### **4.7 Export Promotion of Industrial Production**

Increasing productivity, competitiveness, quality and standards of SMEs manufacturing products alone cannot create sound, favorable and sustainable environment for the existing and emerging SMEs. The manufactured goods and services needed to be traded and sell in the public freely. But, due to the rapid development of SMEs sector, the local selling alone cannot create sustainable situation for the SMEs anymore. So, there is a need for the SMEs to go into the regional and global markets. Therefore, SMEs export promotion should be encouraged.

## **CHAPTER FIVE**

### **ISSUES AND CHALLENGES**

#### **5.1 Issues and challenges for Export Promotion**

In Asian countries, SMEs take up 90% of the nations' total economic enterprises and provide 75% of overall job opportunities. Hence, SMEs are important for Asian countries, as well as, in Myanmar which cover 96% of the country's total enterprises and represent 80% of total labor force. Therefore, SMEs play the vital role in the development of Myanmar's economy.

In fact, SMEs have been contributing to the all economic sectors on Myanmar and more than half export production are being managed by private SMEs. Current export products are mainly food and products, essential product based on natural resources, and value-added products. At presents, various types of beans and pulses, wooden products and value-added forest products, fish, shrimp, and processed food items are being exported.

As Myanmar is practicing market-oriented economy, the number of private export enterprises has grown more the three folds within the 17 years' period and the export value have increased more than 20 items. However, compared to other ASEAN countries, per capital value of export in Myanmar was the lowest. To narrow, the gap of per capita export value between Myanmar and ASEAN countries. Myanmar has to apply new policy such as export promotion policy.

According to the survey of UMFCCI, financial constraint is the most serious problem among other problems that has been hindering export promotion. To promote export production, manufacturers need not only fixed capital, but also working capital for the current production. If the financial restraints of SMEs are removed, export production will progress significantly. Besides, the bank should offer low interest rate or loan money for foreign trading. The existing annual interest rates of government

banks' loan is 15% in general. Hence, the interest rate for SMEs export manufacturers should be lower than the existing rate so as to be effective.

When the organization for Economic Cooperation and Development (OECD) lend money for export expansion of a country it uses the policy that set the interest rate in accord with the country's level of development. The lending countries are categorized into three groups developed countries, moderately developed countries and developing countries. The interest rate is set highest for the developed countries and then gradually reduced the rate and become lowest for the developing countries are eligible only for short term and medium term loans (i.e. required to pay back the loans within on to eight years). The long term loans that can extend the loan period more than eight years are meant only for developing countries. Myanmar government could use the same policy in lending money to SMEs manufacturing export products. SMEs can be classified into different levels and then the amount of lending money is determined in accord with the level of SMEs. That practice would be fairer and more effective. Some countries such as Germany, England, and Japan are still using OECD's policy in lending money to expand export production. For example, when Germany lend money to export manufacturers as well as to developing countries as financial aids it uses the lowest interest rate 0.75% for the countries that are recognized by the UN agency as economically least developed countries (LDCs). The loan period for these countries is 50 years and payment of the loan can wait further 10 years' maximum. The interest rate for the second least developing countries need to pay 4.5% and their loan period is 20 years which could extend up to 5 years only.

Hence, loan for export production should be lent from Export- Import bank. Besides, to compensate for the potential loss of export production, Export Credit Insurance Corporation and Export Credit Guarantee Department should be established Export Credit Guarantee Department is meant to reinsure export manufacturers for advanced money lent from trading bands and financial institutes.

Likewise having dual exchange rate as one of the financial constraints is affecting the country's economy, especially foreign trading and acquiring investment. Hence, changing the present fixed foreign currency exchange rate to internationally accepted foreign exchange rate would significantly improve foreign trade, investment, FDI, and allocation of resources and inputs. Changing exchange rate can temporarily increase the prices of imported goods and consequently boost the commodities prices and foreign debts. Never the less, internationally accepted exchange rate will have more advantages than drawbacks and speed up the country's development. Viet Nam and China have done the same provide that the change is beneficial. Fixed exchange rate is conflicting with the efforts to implement market oriented economic system and have negative impact on macro level economic activities. Hence, only if the fixed exchange rate is changed within the short period of time, will the country's sustainable development be attained. The recommended strategy to change foreign exchange rate has two steps: first change fixed exchange rate to the rate that is between the set rate and market rate and then change to the market rate. If the financial constraints that have been slowed down the SMEs' growth,

## **5.2 Challenges and Suggestions**

Myanmar economic sphere keeps ongoing and modifying. Myanmar SMEs might encounter challenges mentioned below in transition period of political and economic reform in near future. Challenges and Suggestions of Myanmar SMEs advancement are as follows;

- a) Higher necessity of services and qualified goods;
- b) Spotless and finest products and services inspired by customers;
- c) Enterprises are highly potential to encounter global competitiveness;
- d) Creation of new technical knowhow and its effect on undying supply chain in production norms of ASEAN countries;
- e) High expenses on export competition.

Myanmar SMEs and SMIs sectors were considered to be various. So will be their challenges and complexity in developmental process. Some similar challenges are as follows:

**Finance:**

- Finance and financial facilities insufficiency
- Government's rigid financial policy, capital intensity and soaring interest rate

**Human Resource:**

- Inadequate qualified human resources
- Lack of technical knowhow and administration expertise

**R & D – Technology:**

- Short of R& D
- Unsound plan to extract the essence of ICT and Ecommerce
- Deficient technological resources for production, quality accreditation laboratories for delivery of products and process of gold standard

**Management:**

- Lack of skilled entrepreneurs, team spirit and sluggish in implementation of innovated administrative rules
- Incompetency of SMEs for small to mega enterprises

**Marketing:**

- failure in internal and external commercial access and trends
- Hardships in search of global commercial distribution trends

**Miscellaneous**

- Short of competent human resources plans and capacity building on production and services
- Deficiency in organ gram and facilities (energy, electrical power and transport etc.)
- Unavailability of environmental consciousness and attention

To tackle such tough problems, it is necessary to boost the potential of the Government and business community so as to bring out a well-planned service policy, efficient business sphere and helpful rules and framework of SMEs. Tactics and plans

that can energize SMEs are the urgent need for sustainable economic development. Feasible suggestions by Myanmar Industries Association (MIA) and other projects in Myanmar are as follows:

### **Government Initiatives**

- To lay down short and long termed master plan on SMEs/SMIs and growth blueprint through energetic cooperation of private enterprises,
- To approve a fundamental law of SMEs that can give perfect and acceptable guidelines for evaluation on current definition of SMEs,
- To evaluate current tax format to prevent form discrimination and unfairness SME (incentives to pay tax),
- To approve relevant standardized law and procedure,
- To approve sound rule, regulation, directions in promotion of SMEs development. (eg- being costly and inefficient regulatory specifications like registration and licensing),
- To create fair playing sphere and environment,
- To energize SME and R& D,
- To upgrade infrastructure on the base of prosperity of economy ( logistic, storage, transportation and shipping),
- To establish Special Economic Zone (SEZs) and Export Processing Zone (EPZs),
- To establish technology and business boundaries as an essential mechanism so as to develop entrepreneurship, technology, market advancement and innovation ,
- To establish cooperative endeavor on SME or center to act as the heading agency of Government for improvement of SME with active participants,
- To set up SME development Bank and Export-Import Bank (EXIM Bank)
- To promote financial joint venture and manufactured investment of (Technology acquisition fund, funds on new capital, credit guarantee support, etc.),

- Correlation and coordination among the government, private sector, educational and technological organizations to advance R& D.

### **Private Sector Initiative**

To promote SMEs competition, the private sector may play the following roles:

- To create self-confidence and team spirit, practicing excellent tips and benchmarking,
- To initiate and improve collective concept and set up competition on the base of collective process,
- To bring out alarm and enhancement of supply chain on promotion service industry and ICT (e-business, e-commerce) for development of business,
- To set up productive institutions to help SMEs develop and endow with expertise, quality and cost saving on business growth,
- To energize One Village One Product concept (OVOP) program, sustain brand new for Myanmar products,
- To advance and renovate sound financial criteria that boost cross-border investment and promote financial access and make active participation in global markets,

Through approval and implementation of the excellent strategies on business creation, the government will be able to make the welfare of local economic prosperity, jobs opportunities, soaring tax revenue and overall development in technical knowhow. Moreover, community of business will be able to make the better choice on investment, innovative availability, entrepreneurship and the higher quest of new technical skill. On the base of cooperative and collaborative effort among private enterprise environment and governments, Myanmar can create a brighter and better future in not-too-distant future.

Moreover, Myanmar SMEs are in need of approval of productive concept. They must be foresighted, well-planned, capable and realistic.

All in all, it is of importance to have a collective effort of multidimensional sectors such as political, industrial and academic spheres for effective and efficient implementation of the system laid down as the saying goes, two is better than one.

## CHAPTER SIX

### CONCLUSION

Through Economic combination model, competition and cooperation nationwide are stronger than before, in and out of the ASEAN regions. To date, the majority of countries are explored out to chiefly depend on private sector so as to make benefit of rapid economic combination, to achieve economic momentum and to polish competitive power of the nation. Inasmuch as SMEs stand for the biggest share of the national sector, government should emphasize on enhancement of sphere of SMEs in multi-dimensions. Their efforts had been found more energetic and zealous in recent years as well.

ASEAN countries make collaborative, coordinative and cooperative effort as in different areas like FDI, technology, export, product and market sustainability. SMEs, the major gear of economic progress, are able to prove national competitive gold standard. Fragile SMEs convey fragile private enterprise and even lead to fragile competitive ability of the nation worldwide because the free flow of goods and services are uncontrollable in day of economic combination and globalization. As a matter of fact, Asia countries have been making consistent effort on enhancement of competitive flair of SME and momentum of export. They espouse and extract different norms of SME developmental plan as the essential bone marrow of the nation and country.

#### 6.1 Findings

Myanmar is pursuing a rapid industrial transform from an agricultural economy to and agro-based industrial economy. In term of sector priorities, the government's objectives is to foster a resources-based industrialization strategy aimed at increasing the domestic value-added derived from the processing of national resources in agriculture, fisheries, and mining which are comparative advantages of the country.

To date, SMEs are dominant in all sectors of the economy such as trade and eservices but SMES are crucial for economic development as they provide

employment to a wide range of skilled workers, contribute towards import substitution and export promotion, utilization of natural resources, increase the level of technology and assist in the growth of more SMEs in all economic sectors.

For the industrial promotion the government issued the law and notifications which had resulted in the systematic growth of industries. The Foreign Investment Law Nov 1988 was expected to induce investment in large enterprises but foreign investment can come in for the SMEs too. And then, the Private Industrial Enterprises Law could assist in channeling new investment into value-added production and to find ways and means to assist them in better production and management techniques, research and development and standard and quality control.

A key feather of the development of industries in the country is its industrial estates zones. To meet strong infrastructural requirement industrial zone have been established since 1995 and adding new zones. The nation has been altogether 18 industrial zones and 28 industrial branches. The development of these industrial estates was a great step forward in the industrialization of SMEs process. By the encouragement of private sector participation, they accounted for 43505 of total SMEs. Among the privately owned industrial enterprise of SMEs, the highest percentage of SMEs (63.8%) for the year 2007 is depicted, which are producing food and beverages sector takes the largest share and the lowest percentage of the nation's production of machinery, equipment and electronic products. Food industries are also classified into three groups according to their nature and development stage. These are, industries meant to product groups that can substitute the imported ones. Myanmar Food Industries are mostly of small scale. They need capital investment to grow in size and obtain new technology, modern machinery and equipment etc.

## **6.2 Suggestions**

Economic progress is the hopeful mission of every single government worldwide. To achieve this goal, industrialization is specified as a compulsory backbone for the lifelong national economic survival and sustainability.

Almost every government strive hard to promote industrial sector in Myanmar since post-independence period, unfortunately they were unable to satisfactorily accomplish it. Their strategy was found out to be state-headed industrialization system with import replacement outlook. Thus, the effectiveness of this strategy was returned to normality. On the base of well-established progressive histories of Korea, Hong Kong Japan and Taiwan, Thailand, Malaysia, and Vietnam, they revealed those private sectors are the stepping stone of industrial pace. ASEAN countries such as Thailand, Indonesia and Malaysia, although they accept and apply import replacement strategy in last decades, they dispose that strategy to transform as export-centered strategy in 1960s. For those reasons, they were able to reap as they sowed in economic growth of private sectors then and on.

Through precious lessons of the past and priceless experience gained from other countries, an industrialization endeavor based on private sector enhancement is the only practical strategy for uplifting Myanmar economic sector. This transformation on the view of policy makers makes changes in resources management between public and private sector development.

Currently Myanmar government calls for private-sector to take part in economy and showcase their competency and proficiency not only in industrialization but also in economic development. Instead, current circumstances and institutional endeavor made by government are still found to be inadequate in support of private enterprises for speedier development.

SMEs are explored to be labor intensive, time demanding, easy to initiate business, mini-sized market and low investment for running a business, and customers friendly.

**Current encountering strengths are -**

- Adaptability for approval of modifying a business type
- Competency in craftsmanship & hospitality
- Ability to respond to needs in niche market.

**Weaknesses** are found as follow;

- Unsound marketing & administrative competency
- Short of research and ongoing development
- Under qualification
- Severe competitiveness against contemporaries
- Unqualified technology
- Inaccessibility of information
- Deficiency of market access & connection
- Short of resources capacity building & production
- Inadequacy and inaccessibility of financial aid

The study on SMEs in Myanmar, the strategic importance of SMEs is conducted as the following issues. First, SMEs serve as an important source of innovation. SMEs contribute to promote international competitiveness and generate new jobs.

Secondly, SMEs show a more efficient capacity for small-scale production and marketing when they are of optimal size. The competitive advantage of SME is able to respond quickly and flexibly to market change and technological development through close contact with their customers. SMEs can respond instantly to demand side change by producing a large variety of goods and services in small in small batches.

Third, SMEs are explored out to be vital in advancement of mega-sized companies' global competition now that they are able to manufacture accessories, collect constituents, regulate intermediate inputs and provide satisfactory service at fairer cost than any other large matching items.

Fourth, competition in the markets has improved by the participation of SMEs, from which customers benefit from a wider choice and the opportunity to purchase higher quality products at reasonable prices.

Fifth, SMEs have the vitality to challenge and take on large companies and serve as a catalyst stimulating the latter's upgrading and development.

Sixth, SMEs make up a large share of the nation's economy. Seventh, SMEs are well dispersed across the nation, which help generate balanced development between provinces.

Problems and constraints of SMEs are inadequate level of technologies and managerial skill, shortage of electrical power supply, the rising costs of inputs and imported materials, the shortage in skilled workers, not well developed inter-enterprise connection to either small SMEs or huge SMEs through supplier and customer partnership, finance shortage, and unavailability of bank financing access.

Through Economic combination model, competition and cooperation nationwide are stronger than before, in and out of the ASEAN regions. To date, the majority of countries are explored out to chiefly depend on private sector so as to make benefit of rapid economic combination, to achieve economic momentum and to polish competitive power of the nation. Inasmuch as SMEs stand for the biggest share of the national sector, government should emphasize on enhancement of sphere of SMEs in multi-dimensions. Their efforts had been found more energetic and zealous in recent years as well.

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Myanmar SMEs have been existed and survived in successive eras since the socialist period. They were opportune to be a larger part of Myanmar's economy after 198. The number of Myanmar SMEs rocketed after business access allowed for private sector. Instead, they came across different challenges which might delay development. Finance inadequacy, power shortage, lack of competent labor, and costly inputs are challenges that SMEs must confront. Simultaneously cheaper imported products from neighboring countries squeeze their market shares. This stress and strain became higher because of trade liberalization and better economic combination in the region.

Free flow of import into the country is a must to be granted. This circumstance can deter future prospect inasmuch as the majority of Myanmar SMEs are likely conventional. They emphasize on domestic markets. With unqualified producers, they face and fight against many hardships. They have outmoded machineries and technologies. They are lack of updated administrable concept and expertise. Thus, their product quality and competitiveness are more lagged behind than other countries. This highlights Myanmar is in urgent need of renovated and reconstructed plan on SME sector. An effective and efficient SME development strategy is in urgent demand so as to cope with above-mentioned pitfalls and challenges. If so, SME competitiveness and export quality through better economic integration can be upgraded.

Myanmar is in need of creating an able perspective for SMEs. Thus it is necessary to focus on human resources development for development for SMEs and financial infrastructure for SMEs. SME financing is explored out to be a vital hub in Myanmar SMEs development.

Heaps of surveys on Myanmar SMEs showed that finance is one of the big challenges. Poor and inadequate financing poses complications such as failure to promote machinery and quality of workers, and scarcity of business enhancement and market development. It can be resolved by competitiveness and efficiency.

SME financing challenges were long-existent since decades as the major problem because of unsound macroeconomic issues and major policy. Macroeconomic fundamentals, demand and supply are also distribution factors.

If Myanmar is able to pinpoint effective and efficient solution through conclusive research, heaps of Achilles heels that deter SME development and competitiveness could be weeded out. For the above-mentioned sound reasons, this paper targets on multi-dimension of Myanmar SMEs and brainstorms the feasible and productive ways towards final solution in short, medium, and long run. On the base of well-planned and strategic SMEs development programs integration, it is inevitable that Myanmar can upgrade effectiveness, efficiency and competitiveness of SME sector and make effective use of the golden opportunity through better economic integration nationwide for nation and country.

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