

# Small and Medium Enterprises (SME) Strategies in ASEAN Developing Countries to Survive in the Pandemic Era

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**Abstract-** The impact of the current pandemic has caused Small and Medium Enterprises (SME) to experience a downturn. SMEs experienced a decline in sales and had difficulty obtaining raw materials. This study aims to examine SME strategies to survive in the pandemic era. This research uses a literature study approach with data from SMEs in five developing ASEAN countries; Philippines, Indonesia, Malaysia, Thailand and Vietnam. The results showed that to overcome SME, the role of the government and large companies is needed. The assistance is in the form of funds, digital technology and training for SME employees.

**Keywords:** *strategy, SME, ASEAN, pandemic.*

## 1. INTRODUCTION

The COVID-19 pandemic has affected all countries in the world. Not a single country is free from the epidemic. Each of them gives a different response depending on the resources and infrastructure. Less developed and developing ASEAN countries (Indonesia, Malaysia, Philippines, Thailand and Vietnam) are less profitable countries, so the existence of this pandemic needs to increase their challenges. Research conducted by Mc Kinsey in developing ASEAN countries shows an accelerating trend due to this pandemic. Economic growth rates in several ASEAN developing countries experienced a slowdown, Thailand by -13 percent, Malaysia by -13.5 percent, Philippines by -13.6 percent, Indonesia by -10.3 percent. Economic growth shows a bigger decline when compared to the time of the global financial crisis in 2008. Trade between countries in Asia is estimated to have decreased by 13 percent and trade between Eastern and Western countries has decreased by 20 percent (Daly et al., n.d.).

The current Covid-19 pandemic has caused disruption in the global supply chain area. The world economy which is headquartered in New York City, London, Tokyo, Hong Kong and Singapore is experiencing shocks in supply and demand. The shock occurred due to actions taken by the government to reduce the spread of the virus. Governments in various countries have imposed travel and mobility restrictions resulting in disruption in normal business operations and contraction in demand (ASEAN Policy Brief, 2020).

Economic shocks at the center of the economy also affect the economies of ASEAN countries. The pandemic that started in the city of Wuhan resulted in the temporary closure of factories in Hubei province. Hubei is the center of the machinery and electronics industry. This temporary closure has an impact on the supply chain. The closure of the industrial center has created a shortage of spare parts. Operations that are integrated in the supply chain experience disruption and reduce their activities, including the ASEAN Member States (AMS) (ASEAN

Policy Brief, 2020). In March 2020, ASEAN producers experienced a supply chain disruption impacting production times and factory deliveries. In that month, the Purchasing Managers Index (PMI) value decreased compared to the previous month. The PMI value reached 44.3 which is the lowest point. The PMI value in ASEA is shown in Figure 1.



Figure 1. ASEAN Manufacturing PMI  
Source: IHS Markit (2020)

The SME business is the sector that has been hardest hit by the pandemic. SMEs must struggle to overcome obstacles in their business. SME should continue to aim to improve competitiveness in the long term. This study aims to study the ASEAN SME strategy to survive in this pandemic.

## 2. LITERATURE REVIEW

### 2.1 Small and Medium Enterprises Definition

Unlike European Union countries which already have a clear definition of SMEs, ASEAN countries do not have a common definition related to SME. Each ASEAN member country has its own definition of SMEs. The definition of each country reflects the country's economic conditions, policies and company dynamics. Most define SME based on single and multi-criteria criteria, namely the number of employees, total assets and turnover (OECD/FAO, 2018). The differences in the existing legal and regulatory frameworks, political, social and economic diversity, make it difficult to define a definition of SMEs regionally.

For example, the state of Brunei Darussalam defines an SME as a company that has a maximum of 100 employees, while the Vietnamese government states that a company is an SME if the number of employees is a maximum of 300 employees. Meanwhile, the definitions of SMEs in Indonesia and the Philippines define SMEs with qualitative criteria. Table 1 describes the SME criteria in several ASEAN countries based on the number of employers. The definition of local SMEs can be maintained to facilitate policy makers (Pratama, 2020).

### 2.2 Small and Medium Enterprises in ASEAN

Countries in ASEAN play an important role in the global economy at this time. ASEAN GDP combined constitute 3.5% of world GDP of US \$ 2.7 billion. The ASEAN economy is projected to become the fourth economy in the world by 2030 with a growth of 5% per year. The largest contributor to GDP comes from SMEs which contribute between 30- 53% of GDP with an export contribution of 10-30%. SME in ASEAN countries helps in creating jobs, empowering youth which has an impact on increasing income (Pratama, 2020).

SMEs in the ASEAN region dominate all companies in the region. Approximately 97-99% of the existing

companies are SMEs. Most of the SMEs are labor-intensive companies and have low economic added value, especially in the fields of trade, commerce and agriculture. SMEs also experience growth barriers because when compared to large companies SMEs have lower bargaining power, have few resources making it difficult to develop, have few networks and limited managerial skills. This obstacle causes SMEs to not operate efficiently.

Table 1. SME criteria based on number of employees

	Number of Employment		
	Micro	Small	Medium
Brunai	1-5	6-50	51-100
Cambodia	< 10	11-50	51-100
Laos	-	< 19	19-99
Malaysia	<5	Manufacturing 5-74 Service/Other 5-29	Manufacturing 75-200 Service/Other 30-75
Philippines	1-9	10-99	100-199
Thailand	-	Manufacturing, services <50 Wholesale trading <25 Retail trading < 15	Manufacturing, services 51-200 Wholesale trading 26-50 Retail trading 16-30
Singapore	-	< 200	
Vietnam	< 10	Agriculture, forestry, fishery, manufacturing, construction 11-200 Commerce, services 11-50	Agriculture, forestry, fishery, manufacturing, construction 201-300 Commerce, services 51-100

Source: ASEAN CSR Network Ltd, 2018

### 2.3 SME problems during a pandemic

The SME business is the sector that has been hardest hit due to the COVID 19 pandemic. The problems faced by SMEs are as follows (RESWARI, 2020):

a. Decrease in Sales

The decline in sales was due to reduced purchasing power. The pandemic has disrupted the supply chain due to the lockdown policy implemented by the government. Many company activities have stalled and unemployment has been created.

b. Difficult to Get Raw Materials

Raw material difficulties occur in SMEs with imported raw materials. During the pandemic the government imposed import restrictions

c. Impaired Distribution

Distribution disruption is due to lockdown activities. Delivery and receipt of goods is hampered.

d. Capital Difficulties

e. Inhibition of Production

The absence of raw materials and decreasing demand for products has resulted in hampered production.

## **2.4 SME strategy for survival**

The uncertainty caused by the pandemic has resulted in a number of SMEs facing challenges to survive. SMEs should pay more attention to each component in the value chain and how they affect the business. Some things that must be considered in running a business (Blackburn, 2020):

- SME's way of retaining customers
- The way businesses retain employees
- The way businesses implement new systems
- The most efficient way to find suppliers

The economic crisis caused by this pandemic has changed consumer trends. Consumers mostly do their activities online, pay without cash and use interactive web. An online presence is absolutely necessary for SMEs. As a result, companies must also anticipate the need for changes in the goods and services offered, the way they are produced and delivered. Likewise, for company employees. They will mostly work from home. Teleworking can increase efficiency and give trust to the workforce. Therefore, training is needed for employees so that they can adapt to digital services (Blackburn, 2020).

To support SMEs to do digital business, government and large companies must intervene, especially companies engaged in IT. To adopt digital technology, the government can provide tax incentives, grants and loans. The impact of digitalization on business causes company leaders to increase the capabilities of their workforce. The existence of this epidemic has pushed the community towards contactless trade. As a result, there is a growing demand for more skilled digital workers. Therefore the government and companies must be able to facilitate their employees to provide training (Daly et al., n.d.).

Resource-based theory and the relational view states that there is a relationship between resources and organizational capabilities and their performance. Larger firms with a greater volume of resources and capabilities may perform better than smaller firms. To create a competitive advantage, a collaborative strategy can be used (Crick & Crick, 2020). SMEs in ASEAN have limited resources. To obtain raw materials, it is necessary to collaborate with suppliers. Collaboration with suppliers aims to get raw material costs at low prices, guaranteed supply availability, collaboration in product development, design support and technology exchange (Chin, 2020).

## **3. METHODOLOGY**

This research uses a literary study approach. Literature study is research that is conducted based on written works, both published and unpublished writings. In literature study research, researchers do not have to go to the field and meet with respondents. The data needed in the research can be obtained from library or document sources. The data in this study are survival strategies in the pandemic era carried out by SMEs in ASEAN (Philippines, Indonesia, Malaysia, Thailand and Vietnam).

## **4. RESULTS**

The strategy for survival in ASEAN countries is as follows:

## **PHILIPPINES**

Pandemics create uncertainty. Digital transformation has become a necessity. SMEs need to accelerate their transformation. In today's world, online collaboration for video conferencing, email and cloud is absolutely necessary in order to stay in touch directly with clients. Based on a study conducted by Epson, 80% of SMEs in the Philippines are already using digital technology that focuses on marketing and sales activities, as well as customer interaction and service. In addition, SMEs in the Philippines have been able to make business decisions faster by using digital technology, including point of sale connected to the back end or cloud accounting systems (Inquirer, 2020).

Loans and lending under the supervision of Bangko Sentral ng Philipinas, Sekurtias and Exchange Commission and the Cooperative Development Authority, including the Government Service Insurance System, the Pag-Ibig Fund and the Social Security System suspend interest-free loans payable. Lazada, biggest e commerce in Asia, has partnered with local organizations such as the Philippine Red Cross, Caritas Manila. Through the collaboration with this local organization, Lazada directly raises funds for an event featuring popular artists in the Philippines. The funds collected are used to provide assistance for medical supplies, food and care packages for vulnerable groups (SO, 2020).

## **INDONESIA**

The government provides a tax discount of 22% effective until 2021 and 2022 to 20%. In addition, there is a restructuring of loans and financing and providing loans of up to 10 billion (Zico, 2020).

During this pandemic, the culinary business is a business that provides opportunities to increase income. For the flour-based culinary business, SME players can partner with PT Indofood Sukses Makmur, which is the largest flour factory in Indonesia. The company is committed to helping SMEs in Indonesia by providing fostered activities in the form of product education, promotional and marketing strategies as well as licensing (Gunawan, 2020).

To increase the number of customers, shop owners in Indonesia are also receiving assistance from BGR Logistic and DANA in the form of increasing the inclusiveness of digital technology. This digital technology will help shop owners to make non-cash transactions and get raw materials at affordable prices without doing physical mobilization (Wuri, 2020).

## **MALAYSIA**

The government allows SMEs to revise tax estimates. Tax deductions are also provided for landlords who provide rental fees for MSMEs. The government also provides deferment of installment payments and capital expenditure assistance. For employees, the government provides a wage subsidy for 3 months for employees who earn below RM 4,000. A subsidy is provided of RM600 per month. The Automation and Digitalization Facility (ADF) provides assistance to purchase equipment, machinery, computer hardware and software, IT and technology solutions and services (Zico, 2020).

Assistance for SMEs was also provided by HSBC Malaysia and Proton Holdings Bhd (Proton), through the HSBC Supply Chain Finance (SCF) program. This program allows Proton suppliers to get prepaid payments for their sales. This program helps SMEs accelerate cash flow and can provide access to low cost working capital by leveraging Proton's strong credit profile. This will have an impact on increasing sustainability and reducing supply chain costs (Bernama, 2020). Another large company, Hatio is also playing a role in helping SMEs

strengthen and build resilience during the Covid-19 pandemic, by offering a subsidy of RM 3.5 million for SMEs. This subsidy is provided to assist SMEs in cloud-based digital warehousing solutions. SME employees will also be given training on warehouse operation consulting (WaiQuan, 2020).

To provide support for SMEs in Malaysia, Lazada, which is Alibaba Group's e-commerce company, provides a stimulus for free access to various services; delivery of packages, optimization of cash flow, provision of micro-loans. Lazada also opens a service for digital sales of agricultural products. Sales through Lazada reached as much as 1.5 metric tons of vegetables in one day (SO, 2020).

## **THAILAND**

At the time of this pandemic, agricultural products produced by SMEs were unable to be marketed to main markets, such as Simummuang Market and Talad Thai, to support urban residents, due to low community demand. The low demand is due to the main buyers, hotels or restaurants, their operating activities. This low demand resulted in intermediaries having stopped purchasing products originating from these SMEs. Many workers have been laid off, are on unpaid leave, and are experiencing financial problems (Siamhan & Trirath, n.d.).

The government provides deductions for service provision, work rental and commission taxes. For corporate income tax filings extended to 31 August (for FY 19) and 30 September (for H12020), the excise application is extended by one month. For VAT it is extended for 3 months. Qualifying SMEs can apply for a tax deduction of 150% for interest costs on loans originating from Government funding. The government provides a soft loan worth THB 150% with an interest rate of 2% for the first two years. The government also allows SMEs that meet the requirements to deduct 300% of their salary costs (Zico, 2020).

The government also provides a discount on social security rates for employers. Contributions fell from 5 percent to 4 percent for employers to contribute to social security funds and employers must be able to keep workers at least 80 percent (Zico, 2020).

## **VIETNAM**

Vietnam is an importer of raw materials originating from China. As a result, the majority of SMEs have difficulty obtaining raw materials. Many orders were canceled which resulted in a decrease in export orders and a reduction in employees, as SMEs were only operating at 70 percent capacity. On the other hand, the demand for online groceries has increased, because the public has reduced the frequency of visits to supermarkets by 50 percent (Samuel, 2020).

The government provides deferred Value added tax for MSMEs, deferred income tax for 5 months for the first and second quarters in 2020. MSMEs who lease land directly from the Government are given an extension of the payment term for 5 months starting from 31 May 2020 (Zico, 2020).

To address the global supply, chain the USAID Linkages for Small Medium Enterprises (USAID LinkSME) and Vietnam Association for Supporting Industries (VASI) held an event aimed at strengthening the relationship between major companies in need of resources and SME which took place in July 2020. With the event, SME can build business relationships with large companies such as VinFast, Thaco, Panasonic Vietnam, Samsung Vietnam, Ford Vietnam, and Mitsubishi Motor. It is hoped that the collaboration between SME and large companies will sustain SME activities (USAID, 2020).

## **5. CONCLUSION**

The COVID-19 pandemic has caused problems for SME businesses in several ASEAN countries; Philippines, Indonesia, Malaysia, Thailand and Vietnam. These problems are as follows:

- SME's way of retaining customers
- The way businesses implement new systems
- The way businesses retain employees
- The most efficient way to find suppliers

Strategies undertaken to overcome these problems:

At the time of this pandemic customers preferred online purchases. Therefore, the SME business should be oriented towards online business. The strategy undertaken by several ASEAN countries is with assistance from the government and large companies in each country. The government has provided assistance in the form of tax deductions, loan deferrals, so that SMEs can divert their business in digital form. Assistance from large companies such as: Epson, Lazada, DANA, Panasonic, Samsung is to provide financial assistance and technical training. The purpose of providing assistance in the form of funding and technical training is so that SMEs can retain their customers and implement new systems.

To retain employees, the government provided stimulus in the form of salary subsidies, employee tax cuts, cutting social security rates, deferred loan payments, providing loans with soft interest. Large companies such as Epson and Lazada provide training to employees so that employees are able to adapt to the new system, namely businesses based on digital technology.

To address the procurement of raw materials, SMEs in ASEAN have partnered with their suppliers. For example, in Indonesia, SME which is engaged in the culinary sector has collaborated with PT Bogasari, which is the largest flour supplier in Indonesia. For non-cash payment activities, it has been collaborating with DANA. In Malaysia, partnership assistance is provided by protons. In the Philippines a partnership is made with Lazada. With this partnership, SMEs can meet their raw material needs and assist in marketing the products they produce.

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