Chapter 4
SMEs Industry

INTRODUCTION

There is a growing impetus internationally for the development of strong SME sectors as engines of economic growth and development. This impetus is driven by the recognition of SMEs as the backbone of most economies. For instance, there are about 30 million enterprises in Europe providing employment to around 122 million people, with the vast majority (99.8%) of these enterprises being SMEs (Riegebauer, 2004). These SMEs therefore generate a large share of the GDP (Gross Domestic Product) in most of the region’s countries. Asian countries are also investing significantly in SMEs. For example, during the 1980s and 1990s, China’s economy was largely driven by SMEs, while the Philippines invested heavily in the same (Gun- gen, 2003). Moreover, the thriving economies of Asian countries such as Taiwan,
Singapore, Thailand, and Malaysia have, for a long time, largely been driven by SMEs (Southern African Entrepreneurship and Small Business Association, 2002). In Malaysia, for example, SMEs are recognised as central to the country’s economy and form a significant portion of the manufacturing and services sector. In December 2003, 89.8% of the more than 20,000 companies recorded in the manufacturing sector were SMEs, and the overall number of SMEs comprised 98.8% of the close to 193,000 enterprises in the services sector (Ramayah et al., 2003).

The economic potential of SMEs was reaffirmed at the World Summit on the Information Society in Geneva in 2003. The Summit’s Declaration of Principles and the Plan of Action recognised SMEs as a special target group for broad-based economic growth (WSIS, 2003). SMEs are also vital for employment and a breeding ground for entrepreneurship. The diversity and impact of SMEs in any nation’s economy is appreciated when its proportion in relation to a country’s economy, employment capacity, exports, etc; are examined. Table 1 below presents the status of the SME industry in leading economies in Asia. Other regions of the world, such as Europe, North America and Africa, are discussed in subsequent sections.

### Table 1. Contribution of SMEs to national economies (Source: UNCTAD, 1998)

<table>
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<th>Country</th>
<th>Share in the economy</th>
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<td>Japan</td>
<td>99% of all establishments 52% of output 72% of employment 13% of exports</td>
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<tr>
<td>Taiwan</td>
<td>97% of all establishments 81% of output 79% of employment 48% of exports</td>
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<tr>
<td>Singapore</td>
<td>97% of all establishments 32% of output 58% of employment 16% of exports</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>90% of all establishments 33% of output 51% of employment 40% of exports</td>
</tr>
<tr>
<td>Malaysia</td>
<td>92% of all establishments 13% of output 17% of employment 15% of exports</td>
</tr>
<tr>
<td>India</td>
<td>95% of all industrial establishments 40% of industrial output 45% of industrial employment 35% of exports</td>
</tr>
</tbody>
</table>

Internationally, small-sized enterprises are increasingly becoming the most vital part of nations’ economies and are perceived to play a key role in fostering economic growth and creating jobs, thus alleviating poverty. SMEs account for 60 to 70% of the job market in most developed and developing countries (OECD, 2000). SMEs are also globally responsible for being the overwhelming generators of employment in all economies. In OECD member states, SMEs are fundamental for the economic growth in member countries and constitute for over 95% of all enterprises (OECD, 2000). For example, in the United States, United Kingdom, France, Japan and Ger-

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