



**43<sup>RD</sup> GENERAL ASSEMBLY  
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*Advancing Together for Sustainable, Inclusive and Resilient ASEAN*

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**EXPLANATORY NOTE ON  
PROMOTING CAPACITY DEVELOPMENT FOR MICRO, SMALL AND  
MEDIUM ENTERPRISES IN DIGITAL TRANSFORMATION**

*Sponsored by Cambodia*

**Background:**

Small and Medium Enterprises (SMEs) residing within ASEAN Member States amount to over 70 million, and contribute a significant share of total establishments in each AMS, ranging from 97.20% (Brunei Darussalam) to 99.99% (Indonesia) according to the national statistical reports provided by AMS. There are around 180 million workers employed in the MSMEs, accounting for approximately 85% of total employment. MSMEs predominate Cambodia, as well as other ASEAN member countries. MSMEs are critical to socioeconomic development as well as sustainable and inclusive growth. They are important sources of income, jobs, and economic stability for at least 60–80% of the people who live within this region.

There are several known constraints and challenges faced by MSMEs in ASEAN. Most micro and small businesses in Southeast Asia do not have access to capital or technology to improve their goods and services to stimulate innovation or integrate themselves into higher value chains. Furthermore, the majority of MSMEs are sensitive to shocks and do not have enough protection. ASEAN governments, industries, and societies at large are confronting both difficulties and opportunities as a result of the rapid digital revolution which has been occurring on both a regional and global scale. The COVID-19 pandemic has shown that societies and economies must adjust to more virtual and digital connectedness in order to remain resilient and relevant. However, not all firms are equipped to adapt to the continuing changes brought about or disrupted by the digital transformation process. There is abundant evidence to show that for companies to survive and thrive in the future, many of them, including their respective work force, will need to expand their skills and capabilities as well as to embrace new technology. The prospects presented by the digital transformation process vary, however. It may be essential to emphasize how opportunities may be a key influencing and motivating factor for MSMEs to make the required digital adaptations.

These issues were also raised during the 41st ASEAN Inter-parliamentary assembly in Vietnam, urging AMS to update rules to maximize their digital economy and MSMEs' livelihood sectors. AMS pledged to promote ASEAN cohesion and economic recovery for the development of digital infrastructure, digital connectivity, digital security, and privacy, as well as digital skills and knowledge. In particular, strengthen cooperation among AIPA Member Parliaments in order to investigate the possibility of harmonizing relevant policies. The 42nd General Assembly of the ASEAN Inter-Parliamentary Assembly, in Brunei Darussalam, has continued this AMS commitment by strengthening the capacity of MSMEs in Digital Transformation through investing in education, training to upskilling and reskilling the employment force to improve their skill and digital literacy in ASEAN. At the same time, rules and

regulations have also been developed to adhere to the mission of enhancing digital connectivity as well as to protect users from various cyber threats going forward.

**Objective:**

This topic invites more inclusive discussions and debates on what and how ASEAN parliaments can do more to support MSMEs in the region to strengthen their capacities in responding to the emerging needs to catch up with digital trends. In the era of rapid digital transformation being embraced by AMS, many MSMEs are changing their way of doing business, particularly through the use of digital technologies (e.g., cloud computing, Internet-of-Things (IoT), Artificial Intelligence (AI), Robotic Process Automation, etc.). However, many are also lagging behind, rendering the ASEAN inclusive integration and harmonisation process obsolete. Increased use of digital technologies enhances productivity and efficiency. These changes require the skills of human capital and increased demand for financing. In this respect, parliaments in ASEAN can discuss ways to promote parliamentary cooperation to support the MSMEs in ASEAN, addressing some of the challenges they face. ASEAN parliaments can also help improve their MSMEs' products and services as they transition into embracing digital technology to retain agility and survival as well as to facilitate their growth during times of rapid change amid crises.

**Rationale:**

It is imperative for the governments of the AMS and all relevant stakeholders, including parliaments, to support the promotion of regional trade and investment relations, promote capacity development and financial literacy, initiate MSME development and incentive programs, and provide digital support to MSMEs through technology and knowledge transfer mechanisms so that they will be able to survive and remain resilient and economically active. It is of considerable importance to help strengthen the capacities of the MSMEs in ASEAN in such a manner that they may continue to improve their productivity, quality, and standards and become capable of gaining greater access to regional and global value chains. In fact, the parliaments of ASEAN Member States can work together to support each other in this regard to help MSMEs get better at what they do and particularly help them get connected in the era of digital transformation.