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Obstacles to economic freedom such as trade obstacles, finance obstacles, taxes, and corruption affect the ability of micro, small, and medium enterprises (MSMEs) to maximize firm performance. Existing empirical studies investigating the effect of specific MSME-level obstacles to economic freedom are scarce in Southeast Asian countries. Therefore, this paper focuses on analyzing and comparing the effects of these obstacles to economic freedom on the performance of MSMEs in Indonesia, Vietnam, the Philippines, and Malaysia using firm-level data from the 2015 World Bank Enterprise Survey. The methodology utilizes an ordinary least squares regression, and endogenous treatment effects regression, in determining which obstacles of economic freedom significantly affect MSME performance. Overall, it was found that trade obstacle is positively correlated to firm performance in all the countries except in Vietnam, whereas finance obstacle is negatively correlated to firm performance in all the countries except in Malaysia, whereas results were negative for taxes in the Philippines and corruption in Vietnam.

I. INTRODUCTION

About 90% of all enterprises are MSMEs, where they contribute roughly 50% of total global employment and 40% of national income in developing countries (Kituyi, 2020). With this, it is imperative to understand how obstacles to economic freedom are a determinant to MSME performance as a free economy incentivizes enterprises to be productive (Le & Kim, 2020). Although extant literature suggests that countries benefit from having strong economic freedom, Tran (2019) found that less efficient domestic firms are obstructed by the entry of foreign firms that inhibits firm and economic growth. Hence, the study aimed to answer the question, "Are obstacles to economic freedom at the firm level detrimental to the performance of MSMEs?"

We seek to provide relevant information regarding the enhancement of MSME performance. Through a regression analysis, this paper aimed to (a) determine significant firm-level obstacles to economic freedom that affect MSME performance amongst selected Southeast Asian countries, (b) compare the effect of specified obstacles to economic freedom on MSME performance among selected Southeast Asian countries, and (c) provide policy recommendations. Given the varying definition of MSMEs, this study considers that an enterprise is micro if it has less than 10 employees, small if it has 10 to 49 employees, and medium if there are 50 to 249 employees (Organisation for Economic Cooperation and Development [OECD], 2005).

From this, it should be noted that the countries looked into are Indonesia, Malaysia, the Philippines, and Vietnam through the 2015 World Bank Enterprise Survey (WBES).

II. REVIEW OF RELATED LITERATURE

MSMEs are widely predominant in Indonesia, Malaysia, the Philippines, and Vietnam. As a result, their respective governments have employed programs for the improvement of these enterprises, such as the MSME Development Plan (Department of Trade and Industry, n.d.), the 11th Malaysia Plan (SME Corp Malaysia, 2016), and the SME Development Program (Asian Development Bank, 2016) among policies like tax reduction and ICT development (OECD, 2018).

The economic environment of these countries is varied. Accordingly, MSMEs in Malaysia, Vietnam, Indonesia, and the Philippines have difficulties obtaining access to finance (Mustafa et al., 2020; Vo et al., 2011; Adrian, 2019; Aldaba, 2013). Moreover, the low productivity and technical efficiency disabled MSMEs in Malaysia and Indonesia from participating in the international market (Setiawan et al., 2019; Amin et al., 2017). Consequently, MSMEs in the Philippines are unable to compete globally due to their inability to meet international standards (Canare et al., 2018). In terms of tax exposure, MSMEs in these countries generally have tax incentives (Mohamad et al., 2016; Swire, 2019; Kurniawati & Kristanto,

2021; OECD, n.d.). Lastly, corruption is found to be predominant in these countries (Transparency International, 2021; Kapeli & Mohamed, 2015; Canare et al., 2018).

Throughout existing literature on economic freedom and firm performance, the variables that appear most often are: (a) access to finance, (b) trade liberalization, (c) corruption, and (d) taxes. The results regarding these variables and firm performance vary from study to study and are discussed below.

The development of financial activities by relaxing financial restrictions is important in inducing both economic and firm performance (Fowowe, 2017). Le and Kim (2020) found that higher levels of capital and domestic freedom increased the firms' access to finance and increased firms' investments. Similarly, Fowowe (2017) stated that constraints in access to finance inhibit firm growth, and those who overcome these constraints are more likely to perform better.

Trade liberalization is a vital policy that has adverse implications for enterprises in the economies involved. It is defined as the abolition of barriers to trading internationally (Acharya, 2015). Although Khandelwal and Topalova (2011) found that trade reform can positively influence firm performance, and Tambunan (2009) was able to deduce that trade liberalization has the potential to allow for improved performance for small and medium enterprises, Tran (2019) found that there is a negative relationship between firm performance and trade liberalization.

Numerous studies have seen corruption as a significant determinant of firm performance. Al-Quadah and Badawi (2014) found that corruption and overall political instability negatively affect firm performance as these impact the inflow of investments. Moreover, Alnassar and Al-Shakrchy (2020) reported similar results, suggesting that overall corruption and political instability disrupt the performance of firms overall. However, Ezebilo et al. (2019) provided contrary results as their study proved that MSMEs that consider corruption as a major obstacle have higher performance in terms of employment growth.

Taxes pose a high risk to MSMEs as these establishments exhibit high financial constraints (OECD, 2009). Istrate and Lazar (2018) found that tax rates and tax administration were found to affect returns on the assets of firms negatively. Jordan and Sanz (2019) then emphasized that the effect of taxes on firm performance is more significant for smaller firms due to bigger financial constraints. In contrast, Chauvet and Ferry (2021) found that the relationship between taxation and firm performance in developing countries is positively significant.

Although there is wealthy literature on this topic, the analysis of economic freedom on firm performance in previous literature is not comprehensive. Most research conducted either focused on a country's macroeconomic indicator of economic freedom or individual proponents of this. Moreover, the effects of economic freedom on MSMEs and the related constraints of these enterprises are lacking. Hence, this paper will attempt to address this gap by examining the impact of specific factors of economic freedom on the performance of MSMEs in Southeast Asian Countries.

III. THEORETICAL FRAMEWORK

The profit maximization theory states that the primary objective of any firm is to maximize short-run profits. Because MSMEs fulfill some characteristics of a perfectly competitive market, this will be our assumption. Suppose that the ordinary MSME chooses the optimal output q^*. This firm then bears a cost such that:

$$C = C(q, v_i) \qquad (1)$$

Where C = total cost, q^* = output, and v_i represents the variables of economic freedom that affect the total cost, $i = 1, 2, 3, 4$ (where v_1 refers to trade obstacles, v_2 refers to taxes, v_3 refers to finance obstacles, and v_4 refers to corruption).

The assumptions are $\frac{\partial c}{\partial q} \geq 0, \frac{\partial c}{\partial v_i} > 0$. These imply that when a firm operates in a relatively economically free environment, its total output cost diminishes. Moreover, v_i cannot be controlled by the firm, making them exogenous by nature. From this, the firm's objective function can be expressed as:

$$\max_q \pi = pq - C(q, v_i) \qquad (2)$$

Where π is the maximum profit and p is price. Moreover, the first-order condition for profit maximization is given by equating marginal revenue to marginal cost as firms will continue producing more so long as the price is greater than cost. Because it is assumed that the firms are price takers, marginal cost will be equal to market price, which is constant p, hence:

$$\frac{\partial \pi}{\partial q} = p - \frac{\partial C(q, v_i)}{\partial q} = 0 \qquad (3)$$

From which the optimal quantity $q^*(p, v_i)$ can be obtained. Plugging that into the profit-maximizing function:

$$\pi^*(p, v_i) = p \cdot q^*(p, v_i,) - C[q(p, v_i), v_i] \qquad (4)$$

This function indicates that the outcome of the firm is dependent on exogenous market price p and the factors of economic freedom v_i. Therefore, if the effects of quantity produced with respect to profit are isolated through partial derivation:

$$\frac{\partial \pi^*(p, v_i)}{\partial v_i} = p \cdot \frac{\partial q^*}{\partial v_i} - \left[\frac{\partial c}{\partial q^*}\frac{\partial q^*}{\partial v_i} + \frac{\partial c}{\partial v_i}\right] \qquad (5)$$

Regrouping this function:

$$\frac{\partial \pi^*(p, v_i)}{\partial v_i} = \left[p - \frac{\partial c}{\partial q^*}\right]\frac{\partial q^*}{\partial v_i} - \frac{\partial c}{\partial v_i} \qquad (6)$$

Given this, the first-order condition can be expressed as $\left[p - \frac{\partial c}{\partial q^*}\right] = 0$ — similar to Equation (3) because price equals marginal cost in competitive equilibrium. This clearly exhibits the condition that firm profit increases with higher degrees of economic freedom.

In the analysis involving factors of economic freedom variables, it is seen that $\frac{\partial \pi^*}{\partial v_i} < 0$, where the prior assumption

provided is $\frac{\partial c}{\partial v_i} > 0$. This exhibits an inverse relationship where an incremental positive change in economic freedom variables trade obstacles, finance obstacles, taxes, and corruption cause a decrease in quantity produced and an increase in total cost, which decreases profit. Because taxes are determined by government expenditures and fiscal balance, the more expenditures and debt incurred by the government, the more taxes are collected as revenue. From this, both taxes and corruption then increase costs, which decreases revenue. Similarly, trade obstacles delimit the market, whereas finance obstacles deter operations, both of which decrease revenue. Overall, these represent freedom to exchange goods, regulatory restraint, taxation, and political instability, respectively, as adapted from Graafland and Gerlagh (2019).

IV. METHODOLOGY

To analyze the effect of obstacles to economic freedom on firm performance, this study used trade obstacles, taxes, finance obstacles, and corruption as the primary variables of interest. The notations in the following equations are the following: v_i representing the variables of economic freedom that affect the total cost, *min* representing minor obstacle, *mod* representing moderate obstacle, *maj* representing major obstacle, *vs* representing very severe obstacle, and $i = 1, 2, 3, 4$ (where v_1 refers to trade obstacle, v_2 refers to taxes, v_3 refers to finance obstacle, and v_4 refers to corruption).

Individual variables of economic freedom that affect total cost

$$profit = \beta_0 + \beta_1 minv_i + \beta_2 modv_i + \qquad (7)$$
$$\beta_3 majv_i + \beta_4 vsv_i + \beta_5 age + \beta_6 micro +$$
$$\beta_7 medium + u_i$$

Finance obstacle with endogeneity

$$profit = \beta_0 + \beta_1 v_4 + \beta_2 age + \beta_3 micro + \qquad (8)$$
$$\beta_4 medium + u_i$$

All variables of economic freedom that affect total cost

$$profit = \beta_0 + \beta_1 minv_1 + \beta_2 modv_1 + \qquad (9)$$
$$\beta_3 majv_1 + \beta_4 vsv_1 + \beta_5 minv_2 + \beta_6 modv_2 +$$
$$\beta_7 majv_2 + \beta_8 vsv_2 + \beta_9 minv_3 \quad + \beta_{10} modv_3 +$$
$$\beta_{11} majv_3 + \beta_{12} vsv_3 + \beta_{13} minv_4 +$$
$$\beta_{14} modv_4 + \beta_{15} majv_4 + \beta_{16} vsv_4 +$$
$$\beta_{17} age + \beta_{18} micro + \beta_{19} medium + u_i$$

All variables of economic freedom that affect total cost with endogeneity

$$profit = \beta_0 + \beta_1 minv_1 + \beta_2 modv_1 + \qquad (10)$$
$$\beta_3 majv_1 + \beta_4 vsv_1 + \beta_5 minv_2 + \beta_6 modv_2 +$$
$$\beta_7 majv_2 + \beta_8 vsv_2 + \beta_9 minv_3 + \beta_{10} modv_3 +$$
$$\beta_{11} majv_3 + \beta_{12} vsv_3 + \beta_{13} v_4 + \beta_{14} age +$$
$$\beta_{15} micro + \beta_{16} medium + u_i$$

The study used the profit of MSMEs (prof) as a measurement of firm performance, which is calculated as the firm's total annual sales minus their total annual costs. The obstacles to economic freedom independent variables in the Enterprise Survey used a Likert scale to measure obstacles brought by economic freedom, specifically: 0 — No Obstacle, 1 — Minor

Obstacle, 2 — Moderate Obstacle, 3 — Major Obstacle, 4 — Very Severe Obstacle. Moreover, age is a measure of how long the enterprise has been in operation in years, whereas size classifies the firms into either micro, small, or medium, where small enterprises were considered as the base category. Lastly, u_i represents the stochastic error term, where i is the number of firms in the study dataset.

The cross-sectional data utilized in the study is acquired from the World Bank (2015) Enterprise Survey conducted in the Philippines, Indonesia, Vietnam, and Malaysia. From this, data cleaning through the removal of outliers and dropping variables to avoid the dummy variable trap were employed. Moreover, the definition of OECD (2005) was utilized in determining what firms are micro, small, and medium. With this, the estimation techniques employed are ordinary least squares (OLS) and endogenous treatment regression (ETREGRESS). OLS is used for variables without endogeneity, whereas ETREGRESS is used for variables with endogeneity.

V. RESULTS AND DISCUSSION

The regression in Table 1 determines the specific factor/s of economic freedom that affects MSMEs performance in Indonesia, Malaysia, the Philippines, and Vietnam. Through this, the OLS regression is utilized in the individual and all-variable regressions for all the countries except Indonesia, where the ETREGRESS is employed to address the proven endogeneity of finance obstacles in the country. It should be further noted that the *not an obstacle* category for the obstacles to economic freedom and *small* category for firm size were dropped to avoid the dummy variable trap.

Table 1
Individual Variable Regression

	5.1.1 (trade)	5.1.2 (tax)	5.1.3 (corrup)	5.1.5 (fin)
Dependent Variable: Profit				
Indonesia				
Minor	20.173***	20.818***	9.336**	-46.799***
	(4.982)	(4.323)	(4.293)	(5.639)
Major		-8.130***	-10.483***	
		(1.951)	(2.316)	
Constant		-3.941*		25.625***
		(2.305)		(4.651)
Observations	847	926	846	922
R-squared	0.14	0.161	0.125	
Prob > F	0.000	0.000	0.000	
Malaysia				
Minor	0.601***	0.582***		0.509***
	(0.178)	(0.180)		(0.154)
Moderate	0.774***	0.926***	0.581***	0.818***
	(0.191)	(0.175)	(0.201)	(0.17)
Major	0.829***	0.634***		0.609**
	(0.233)	(0.241)		(0.25)
Observations	428	433	400	434

R-squared	0.066	0.077	0.07	0.07
Prob > F	0.000	0.000	0.0021	
Philippines				
Moderate	0.582*	-0.550***		
	(0.347)	(0.202)		
Major	1.134***			-0.647**
	(0.419)			(0.27)
Very Severe				-1.136***
				(0.31)
Constant		0.548*	0.651**	0.629**
		(0.294)	(0.309)	(0.297)
Observations	557	617	503	607
R-squared	0.093	0.096	0.07	0.08
Prob > F	0.000	0.000	0.000	
Vietnam				
Moderate				-0.408**
				(0.16)
Major	-0.786***			-0.407*
	(0.270)			(0.21)
Very Severe	-0.246**		-0.641***	-0.546***
	(0.120)		(0.189)	(0.19)
Firm Age	0.026**	0.025***	0.028***	0.023**
	(0.010)	(0.010)	(0.010)	(0.010)
Constant		0.326**		0.457**
		(0.156)		(0.180)
Observations	395	473	388	461
R-squared	0.104	0.087	0.091	0.101
Prob > F	0.000	0.000	0.000	

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The findings generally suggest that in the individual variable regression, (a) Malaysia exhibited purely positive results in all regressions; (b) aside from Finance Obstacles, all variables showed mixed results in Indonesia; (c) aside from trade obstacles, which was positive, and corruption, which was insignificant, the Philippines had negative results; (d) Vietnam showed primarily negative results in all regressions except for taxation as it was insignificant; and (e) most positive results are consistent throughout all levels, although negative results tend to be more evident as the intensity of the economic freedom variable worsens.

Table 2
All Variable Regression

	Indonesia	Malaysia	Philippines	Vietnam
	Equation 5.1.7	*Equation 5.1.6*		
Dependent Variable: Profit				
Trade Obstacle				
Minor	17.264***			
	(4.402)			
Moderate	9.851*		0.823**	0.585
	(5.414)		(0.400)	(0.479)
Major	11.397*		1.057**	-0.890**
	(6.385)		(0.463)	(0.368)
Taxes				
Minor	19.455***	0.417*		
	(4.465)	(0.248)		
Moderate		0.545*	-0.723**	-0.306
		(0.289)	(0.303)	(0.237)
Corruption				
Moderate				-0.565**
				(0.25)
Major				-0.615***
				(0.22)
Very Severe				-0.876***
				(0.28)
Finance Obstacles				
Minor	-57.427***			
	(7.152)			
Very Severe	-	-0.697*	-1.030**	-1.030**
		-0.409	(0.52)	(0.52)
Firm Age		0.033***	0.024**	0.026**
		(0.01)	(0.01)	(0.01)
Firm Size				
Micro			-0.460*	
			(0.25)	
Medium	20.986***		0.955**	0.759***
	(3.39)		(0.43)	(0.26)
Constant	26.487***	-0.624**	0.586	0.409*
	(5.54)	(0.25)	(0.38)	(0.23)
Observations	762	373	428	323
R-squared	-	0.106	0.12	0.135

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

On the other hand, the all-variable regression showed that compared to when each variable was regressed, the number of significant results had decreased when all four economic freedom variables were regressed together in each country and that finance obstacle and corruption had entirely gotten negative results. In contrast, Taxation and Trade Obstacle had gotten mixed results.

VI. CONCLUSIONS AND RECOMMENDATIONS

This study's objective was to determine specific factor/s of economic freedom that affect MSMEs performance amongst selected Southeast Asian countries, compare the impact of specific factors of economic freedom on MSMEs performance among the selected Southeast Asian countries, and provide policy recommendations.

Through this, both trade obstacles and finance obstacles are significant for all of the observed countries. However, it should be noted that trade obstacles generally have a positive relationship, whereas finance obstacles mostly have a negative relationship with MSME performance. On the other hand, both taxes and corruption exhibited a mixed relationship with

MSME performance, where taxes were significant in all countries except Vietnam, and corruption was significant in all countries except the Philippines.

Moreover, Vietnam was the most consistent with the A-priori expectations, whereas the economic freedom variables were evidently negatively related to MSME performance. The Philippines comes second despite having insignificant results for corruption and positive results for trade obstacles. Next is Indonesia who had mixed results for most variables. Lastly, Malaysia only exhibited one negative relationship seen in finance obstacles in the all-variable regression.

Therefore, it is then suggested that: (a) technical efficiency-centered policies should be employed towards MSMEs to improve export competitiveness in Indonesia, Vietnam, and the Philippines, (b) tax effectiveness should be improved and smaller taxes should be levied on smaller firms in the Philippines and Indonesia, (c) anti-corruption policies should be better enforced in Vietnam, and (d) MSME access to finance policies should be continued and further improved by Indonesia, Vietnam, and the Philippines.

With this, we suggest for future studies to: (a) find a non-dummy treatment variable, (b) add more variables related to economic freedom to be included in the study, which can lead to an attempt in creating an economic freedom index, and (c) include other ASEAN countries over different time periods through an imbalanced panel data.

VII.   REFERENCES

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