

A Study on the Informal Economy Size of Emerging Southeast Asian Nations

Quang Trung Ngo

Dean, Faculty of Commerce, Van Lang University, 66/68 Dang Thuy Tram St. Ward 13.
Binh Thanh District. HCMC, Vietnam

Abstract

In many countries, the size of the informal business sector including small-scaled stores, street vendors, private tailor shops, self-employed craftsmen, or scrap collectors, etc. even dominates the economy compared to the formal one. However, informal businesses are usually not easy to be managed and fairly assessed by the government. This could lead to an issue for the government in terms of developing, exploiting, and regulating the informal sector. Recognizing the significance of the informal economy, this paper aims to examine the size of the informal economies of some emerging countries in the Southeast Asian region, namely Indonesia, Malaysia, Philippines, Thailand, and Vietnam. By the quantitative method using the FEM analysis, this paper finds that the existence of informal economies in these countries is not small and there are large disparities between countries. In which, Thailand exists the largest informal economy size, while Vietnam is the smallest one. Additionally, the study identifies that the tax burden is the main factor leading to the informal economy among other variables, namely money supply, tax, saving interest rate, personal consumption, and GDP per capita. In general, the study aid policy-makers in Southeast Asian countries to have a better understanding of the factors leading to the informal economy, thereby they can effectively manage the economy.

Keywords: *Informal Economy, FEM Analysis, Tax Burden, The Southeast Asian region.*

1. INTRODUCTION

Small-scale stores, sidewalk trading, private tailoring shops, scrap collection, and so on are jobs in the informal economic sector (also called shadow economy) that appear quite popularly all over the world. The informal sector has long been a part of the economy, parallel existing with the formal sector and also influenced by economic laws and socio-economic policies at different levels across countries. In some nations, the size of the informal economy even dominates that of the formal one (World Economic Forum, 2017). According to Keith (1985), newcomers to the urban labor market often lack technical skills, qualifications, and opportunities. Therefore, they will prefer to choose jobs in unorganized areas. It is said that the informal sector is playing a significant role in some countries' economic growth, contributing to minimize the negative effects of the global economic crisis in 2008.

Meanwhile, some scholars argue that the existence of the hidden economy is the signal of underdevelopment in the long term, which distorts the distribution of resources and income, and reduces the government's tax revenues. Hence, there is a need to remove this sector from one country's economy. When its size is from 17.6% of GDP to 35.7% of GDP, the amount of tax losses will go around 3.5% of GDP to 6.1% of GDP (Gangadha et al., 2011). Therefore, governments have enacted some policies and educated people in order to change their consciousness and thoughts to reduce the size of the informal economy.

Recognizing the significance of the informal economy, the author's aim is to identify the size of informal economies and factors affecting the scale of this. In doing so, the study contributes certain ideas for policy-makers to have a better view on the nature of the informal economy in some Southeast Asian nations, thereby they can bring more suitable policies for sustainable economic development such as using human resources effectively and better controlling the size of the informal economy.

2. LITURATURE REVIEW

2.1. The concept of non-official economy

The informal economy is a term used to refer to activities and jobs that create value-added based on the market without tax (or registered by the government). According to Edgar (1989), these activities