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Abstract
Discusses the necessity of encouraging cooperation among small businesses in the Association of SouthEast Asian Nations (ASEAN) region. Instances when suggestions for further business cooperation were not successful; Extent of small enterprises in the ASEAN; Strategies for providing regional development, manpower training and financial assistance programs.

Small Enterprises in ASEAN

Need for regional co-operation

Chee Peng Lim

Most conspicuously missing from the list of ASEAN co-operation programmes and institutions to date is a programme for co-operation in the development of small enterprises and an institutional mechanism to encourage such co-operation. No doubt suggestions for such co-operation might have been made at the numerous meetings of the Committee on Industry, Minerals and Energy (COIME), but for various reasons these suggestions have neither been seriously considered nor adopted. Thus one finds that, although ASEAN co-operation has been instituted in various schemes and organizations, there is still no form of co-operation in the development of small enterprises. Consequently, the outside observer may be pardoned for thinking that small enterprises are an insignificant element in the ASEAN economies or that such enterprises do not have any vital role to play in ASEAN economic co-operation. The truth is just the reverse. In fact, the major objective of this paper is to highlight the extent and importance of small enterprises in the ASEAN region and to explain how closer ASEAN co-operation can help to promote these enterprises for the benefit of the ASEAN economies. This paper will also examine some of the constraints facing ASEAN small enterprises and conclude with a plea for the establishment of an ASEAN Small Enterprise Centre to provide them with assistance.

The scope of discussion in this paper will cover the ASEAN countries, with the exception of Brunei because there is no known study of small enterprises in that country. Furthermore, the discussion will be confined to small enterprises in the manufacturing sector, because non-manufacturing small enterprises are quite different in their characteristics and problems. Moreover, the manufacturing sector is one of the fastest growing sectors in the ASEAN region, and all the ASEAN countries aspire to become industrialized by the year 2000.

Extent of Small Enterprises in ASEAN

Given the different levels of economic development among the ASEAN countries, it is not surprising that the definition of a small enterprise differs from one country to another. In Indonesia and the Philippines, small enterprises are those which employ between 5 and 19 workers, while Malaysia and Thailand generally regard small enterprises as those employing fewer than 50 workers. However, in Singapore, only firms employing between 10 and 99 workers are regarded as small enterprises. On the basis of these definitions there is

TABLE 1
Small Industries by Industry Types,
Singapore, 1970–79

No	Industry	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*
1	Food and Beverages	220	217	218	217	212	227	224	218	240	252
2	Textiles and Wearing Apparel	172	179	185	204	223	265	266	296	338	370
3	Leather and Footwear	56	58	63	63	57	60	64	67	87	93
4	Wood Industry	189	191	192	196	183	186	182	177	204	206
5	Paper and Printing	211	211	231	232	242	261	288	293	322	334
6	Chemical Industry	115	114	121	126	123	131	136	132	132	138
7	Plastic Products	54	63	78	92	101	121	128	148	161	168
8	Metal Industry	15	15	13	17	15	15	18	17	18	20
9	Metal Products	138	135	150	176	186	211	216	229	271	273
10	Radios, TVs, Semiconductors, etc.	40	41	43	48	72	88	109	128	136	157
11	Calculators, Refrigerators, Aircons, etc.	98	99	101	131	148	187	216	208	240	252
12	Transport Equipment	65	64	70	79	100	119	144	154	173	169
13	Stone Industry	46	53	57	55	56	60	65	68	67	67
14	Others	115	113	110	111	117	120	106	121	130	143
	TOTAL	1534	1553	1632	1747	1835	2051	2162	2256	2519	2641

SOURCE: Lee and Tan 1981.

no doubt that small enterprises constitute a very significant presence in all the ASEAN countries. Even in Singapore, small enterprises accounted for 85 per cent of all manufacturing establishments in 1979 (Lee and Tan 1981, p. 7). The percentage is much higher in the other ASEAN countries. In these countries, small enterprises as a proportion of total manufacturing enterprises is nearly 90 per cent in Malaysia (Chee 1984*c*); 90 per cent in Thailand, (Nelson 1981); 95 per cent in the Philippines (Nelson 1981); and 99 per cent in Indonesia (World Bank 1979). In short, small enterprises constitute a large majority of manufacturing establishments in the ASEAN region.

Within the manufacturing sector, ASEAN small enterprises tend to predominate in the following sub-sectors: food processing, furniture, simple metal products, and handicrafts. Naturally, there are variations in each ASEAN country. For example, in Singapore, small manufacturing enterprises are found largely in textile and wearing apparel, paper and printing, and metal products (Table 1). In the Philippines small enterprises dominate the food, clothing, and printing industries (UP-ISSI 1979, p. 143), while in Thailand the small enterprise-dominated industries are metal products, foundry and rubber products (Saeng et al. 1978). In Malaysia, small enterprises are most important in food processing, wood and cane products, and furniture (Chee 1984*c*) while in Indonesia they are most numerous in food, wood products, and handicrafts (IDCJ 1977/78*a*, p. 5).

In the dominant sub-sectors, small enterprises may account for up to 90 per cent of the total output or value added. For example, in Malaysia, small enterprises manufacturing brooms, brushes, and mops or those engaged in tin-smithing or blacksmithing, account for almost the entire value added in those industries (Table 2). In the Philippines, a study shows that small enterprises in footwear, wearing apparel, wooden furniture, handicrafts, and metal products not only have a substantial share in output but have also managed to increase their share (Laquindanum 1977). It would appear that in all the ASEAN countries, the sub-sectors dominated by small enterprises are generally those with low entry barriers (in terms of both capital and technology), high labour content in value added, and low to moderate product transport costs.

Importance of Small Enterprises

However, much more important than their numerical predominance in the ASEAN economies is the significant role which small enterprises play in the overall economic development of these countries. Briefly, small firms employ more workers per unit of capital; they help to increase total savings in the economy; they have a favourable impact on regional development; they serve as a "training ground" for developing the skills of industrial workers and entrepreneurs, and finally, they play an important complementary role to large firms in the economy. In short, small enterprises constitute a *vital* majority in the manufacturing sector in the ASEAN region.

The important role which small enterprises play in ASEAN has been substantiated by findings from various studies of small enterprises. (See for example, Chee 1975; Saeng et al. 1979; UP-ISSI 1979; World Bank 1982; World Bank 1979; and Lee and Tan 1981).

Employment

The first argument in favour of small industry is greater employment opportunities. Small industry presents better opportunities for the use of relatively labour-intensive production techniques; thus under suitable conditions it may employ more labour than would otherwise be the case. For example, data collected from the author's survey in Malaysia show that fixed capital per man-hour and per worker generally increases with employment size although the trend is not so obvious with total capital (Table 3). Still, the total capital per worker for all small establishments on the average is about 14 per cent lower than that for large establishments. Fixed capital per worker for all small establishments on the average is about 20 per cent lower than that for large establishments. Data calculated from the 1973 Census of Manufacturing Industries also suggest that fixed capital per worker for all small establishments is, on the average, about 50 per cent lower than that for large establishments.[1] (The higher proportion in the census data may be explained by the exclusion of rented capital, which is a common feature in small establishments.) Finally, the same census also shows that capital expenditure on fixed assets is, on the average, 80 per cent lower in small establishments than in large. On all measures, therefore, capital intensity rises with size of establishment.[2]

The efficiency of small enterprises in generating employment with a minimum level of capital investment may also be seen in the case of the Philippines. According to a study, capital resources outlay in a large firm is US$15,000 per job created. However, in the small enterprise programme of the Development Bank of the Philippines, the average capital resources outlay is only about US$4,000 per job created. An even lower outlay of US$1,000 per job is recorded by the special Industrial Guarantee and Loan Fund programme for small enterprises (Nelson 1981, p. 91).

There may be several reasons why small industry tends to be labour-intensive and large-scale units tend to be capital-intensive. Firstly, small firms tend to be confronted with factor prices which are much closer to scarcity prices than those facing large firms. Wages are lower while capital costs are higher. Possibly for this reason therefore, small firms are labour-intensive, not because they operate on a small scale, but because they face more realistic factor prices. Secondly, the scope of using capital-intensive methods of production is rather limited in small units. Thirdly, a small firm

TABLE 2
Manufacturing Industries in Peninsular Malaysia with more than 10 per cent Value Added from Establishments Employing Less Than 30 Workers, 1973

MIC No.	Industry	Est. with less than 5 Workers		Est. with 5–29 Workers		Est. with less than 30 Workers		Est. with 30–49 Workers		Est. with 50–99 Workers		Est. with 100 More	
		Value Added	*% of Total*	*Value Added*	*% of Total*	*Value Added*	*% of Total*	*Value Added*	*% of Total*	*Value Added*	*% of Total*	*Value Added*	*% of Total*
31161	Small Rice Mills	3,197	73.7	1,140	26.3	4,337	100.0	—	—	—	—	—	—
31215	Manufacture of Spices and Curry Powder	344	29.2	833	70.8	1,177	100.0	—	—	—	—	—	—
39091	Manufacture of Brooms, Brushes and Mops	137	17.7	633	82.0	770	99.7	—	—	—	—	—	—
31211	Ice Factories	25	0.4	5,297	88.3	5,322	88.7	677	11.3	—	—	—	—
38112	Tinsmithing and Blacksmithing	1,512	38.3	1,826	46.3	3,338	84.6			1,608	15.4		
33120	Manufacture of Wooden and Cane Containers and Small Caneware	315	13.1	1,345	56.0	1,660	69.1	305	12.3	438	18.3	—	—
31172	Bakeries	1,293	16.0	4,120	50.9	5,413	66.9	1,840	20.3	847	9.3		
38431	Manufacture of Motor Vehicle Bodies	371	8.4	2,237	50.4	2,608	58.8			1,831	40.9		
33190	Manufacture of Wood and Cork Products, n.e.c.	1,189	25.8	1,390	30.2	2,579	56.0			2,031	44.0	—	—
36922 36999	Manufacture of line and Plaster and other non-Metallic Mineral Products, n.e.c.	96	4.5	1,085	51.0	1,181	55.5			948	44.5		
31214	Manufacture of Meehoon, Noodles and Related Products	889	15.9	2,177	39.0	3,066	54.9	—	—	1,824	45.1		
31190	Manufacture of Cocoa, Chocolate and Confectionary	251	8.8	1,108	44.1	1,359	52.9					1,118	47.1
33200 38120	Manufacture of Furniture and Fixtures	3.993	18.2	7,458	34.0	11,451	52.2	2,586	12.1	1,381	6.9	6,535	28.1

31164	Sago and Tapioca Factories	347	7.6	1,846	40.2	2,193	47.8	1,656	35.9	739	16.0		
31162	Large Rice Mills	1,525	4.9	12,734	40.8	14,259	45.7	13,530	43.0	3,428	10.9		
35290	Manufacture of Chemical Products n.e.c.	458	2.5	6,874	37.4	7,332	39.9	—	—	6,620	35.6	4,405	23.8
32310 32330	Tannaries and Leather Furnishing and Manufacture of Products of Leather and Leather Substitutes	188	6.2	862	28.5	1,050	34.7	—	—	2,052	65.3		
31220	Manufacture of Prepared Animal feeds	96	0.6	5,419	32.8	5,515	33.4	1,889	11.4			9,135	55.0
32400	Manufacture of Footwear except Vulcanised or Moulded Rubber or Plastic Footwear	494	8.9	1,352	24.2	1,846	33.1	267	4.6	772	13.3	2,696	48.5
38299	Manufacture of Office Computing and Accounting Machinery and Machinery and Equipment n.e.c.	3,678	5.4	18,128	26.5	21,806	31.9	6,067	8.9	17,370	25.4	23,052	53.7
35592	Rubber Smokehouses Off-Estates	1,342	8.9	3,418	22.6	4,760	31.5	359	2.4	10,036	66.2		
38111	Manufacture of Cutlery, Handtools and General Hardware except Tinsmithing and blacksmithing	666	10.3	1,364	21.1	2,030	31.4	614	9.5	3,833	59.2		
31151	Coconut Oil Manufacture	576	2.6	5,649	25.6	6,225	29.2	4,979	22.5	10,881	49.3		
38130 38199	Manufacture of Structural Metal Products and Manufacture Of Other Fabricated Metal Products, n.e.c.	2,052	5.1	8,537	21.3	10,589	26.4	3,952	9.8	3,623	9.0	21,963	54.7
35220	Manufacture of Drugs and Medicine	121	1.4	2,108	24.6	2,229	26.0	696	8.1	5,638	65.8		
38193	Manufacture of Brass, Copper, Pewter, Aluminium Products	874	6.8	1,796	13.9	2,670	20.7	753	5.8	1,926	14.9	7,547	58.5
33113	Planning Mills, Window and Door Mills and Joinery Works	230	1.5	2,855	18.9	3,085	20.4	3,507	23.3	3,959	26.3	4,518	30.0

Source: Chee 1984(*c*)

TABLE 3

Capital Intensity by Paid Full-time Employment Size Group, Malaysia, 1974

Paid Full-Time Employment Size Group	*Fixed Capital (KF) (M$1,000)*	*Total Capital (K) (M$1,000)*	*Man-Hours (M) (M$1,000)*	*Number of Workers (L)*	*Fixed Capital Per Man-Hour (KF/M) (M$)*	*Fixed Capital Per Worker (KF/L) (M$)*	*Total Capital Per Man-Hour (K/M) (M$)*	*Total Capital Per Worker (K/L) (M$)*
0–4	3,164	5,026	1,407	589	2.25	5,371.82	3.57	8,532.53
5–9	4,256	6,199	1,869	733	2.35	5,806.28	3.32	8,467.94
10–19	7,029	12,727	3,131	1,199	2.24	5,857.38	4.06	10,609.67
20–29	6,564	14,481	2,851	1,092	2.30	6,010.07	5.07	13,260.07
30–49	8,956	13,604	3,008	1,455	2.98	6,155.33	4.52	9,349.83
50 and over	55,277	87,327	22,026	7,547	2.51	7,324.37	3.96	11,571.09
TOTAL/AVERAGE	85,240	139,357	34,292	12,615	2.49	6,757.03	4.06	10,915.34

NOTE: M$1.00 is approximately equal to US$0.45 or US$1.00 = M$2.20.
SOURCE: Chee 1978.

is also a small buyer. It is likely to get a less advantageous bargain than the large firm from suppliers of machinery. As such, there is an incentive for the small firm to invest in a less capital-intensive technology, for here the relative cost difference may be lower than in capital-intensive technology as compared to the large firm. Finally, the size of the small firm is limited mostly by the limited access to capital.

The above suggests that since small firms use relatively less capital, a given amount of capital will create more employment if it is spread over a large number of small firms than if it is concentrated in a few large ones. Thus, from the short-term employment point of view at least, small firms should be given special encouragement at the expense of large enterprises. However, as David Morawetz (1974) has pointed out, several considerations suggest that, at least at the present state of knowledge, it is difficult to draw any definite conclusion. One, if small firms tend to produce lower-quality products, which are demanded mainly by poor local consumers, it may take a radical redistribution of income before there would be sufficient demand for the output of many extra small firms. Two, estimates of labour intensity in small and large industry generally confine themselves only to direct factor employment, ignoring indirect effects altogether. Morawetz gives the example of the small shoemaker who tends to be producer, transporter, and sales distributor all in one; whereas large shoe firms have separate departments for each function, each employing significant numbers of people. Three, and perhaps most important of all, the appropriate policy prescription from the point of view of reducing factor price distribution is not the encouragement of smallness as such, but rather promotion of the use of more labour-intensive techniques in firms of all sizes through readjustments of factor prices to reflect real scarcities. Nevertheless, in the Philippines as in Indonesia and Thailand, where there is a surplus labour force, the employment-generating power of small enterprises is the most important argument in favour of their promotion.

Savings

A second argument in favour of small enterprises is that they help to increase total savings in the economy. The principal sources of finance for the small enterprises are the owners' own family, friends, and relatives as well as traders who extend them credit. This may be seen in Table 4 which compares the sources of

TABLE 4
Source of Initial Capital by Paid Full-time Employment Size Group, Malaysia, 1974
(Percentage)

Paid Full-Time Employment Size Group	*Own*	*Family/ Relative*	*Friend*	*Commerical Bank*	*Other*	*Total*
0–4	81.7	11.2	4.9	0.3	1.9	100.0
5–9	74.0	17.2	6.1	0.1	2.6	100.0
10–19	77.9	11.7	10.4	—	—	100.0
20–29	86.5	3.3	1.4	—	—	100.0
30–49	71.5	16.6	7.6	0.6	3.7	100.0
50 and over	55.8	9.5	4.8	6.0	23.9	100.0
AVERAGE	74.5	11.6	5.9	1.2	6.8	100.0

SOURCE: Chee 1975.

initial capital by employment size group in Malaysia. For small establishments as a whole, 77.5 per cent of the initial capital comes from the promoters. For large establishments, the proportion is only 55.8 per cent. Similarly, in the case of medium- and long-term capital, small establishments provide a larger proportion of own capital than large ones (Chee 1975). One suspects that a large proportion of the capital mobilized for investments in small enterprises would not have been available to large establishments or to the government for investments. Most of it would have been probably devoted to consumption expenditure if the small establishments had not aggressively sought it. When spread throughout the economy this propensity to save and invest, induced by the development of small industry, can increase the overall savings ratio of the population.

There is also another aspect of the savings argument which should also be considered. This refers to the resources used in small enterprises which would otherwise have been wasted. Consider, for example, the building in which production is carried out. This often consists of simple structures which allow the maximum utilization of space. Or consider the use of machinery and equipment in the workshop. These machines and equipment are often purchased second-hand and are usually used to the fullest extent of their economic lives and in many cases even beyond. Productivity may be lower as a result. But the fact is, output is obtained from resources which would otherwise have been condemned by large enterprises. In this sense there is a net savings to society (Chee 1979*b*).

Regional Development

The third argument in favour of small enterprises is their useful role in regional development and industrial dispersal. One of the pivotal problems confronting the ASEAN countries today in the task of social modernization is how to properly disperse sources of economic activities so that development becomes widespread rather than concentrated in the larger cities. In a country that sanctions free enterprise, the movement of economic activities cannot be easily directed by the government. Instead, there is a tendency for capital to be centralized in the developed areas of a country. For example, in the Philippines, manufacturing enterprises are found largely in and around Manila while in Thailand, Bangkok has a similar monopoly of such enterprises. The concentration of large manufacturing enterprises in the urban areas has induced people in the rural areas to migrate to large cities. This deprives the rural areas of the manpower and other resources needed for their own development (Chee 1982). The above trend may be checked and corrected through the promotion of small enterprises. Such enterprises can develop more easily in the rural areas because they are less dependent on extensive infrastructural facilities, unlike their large counterparts. These enterprises are also less dependent on imported raw materials or components. Instead they make the maximum use of local materials, such as wood, clay, or natural rubber. Consequently, small enterprises can help to stimulate the growth of the rural economy and, in this way, help to reverse the current trend of urban industrialization.

Training

The fourth argument in favour of small enterprises is that they serve as a "training ground" for developing the skills of industrial workers and entrepreneurs. Although this argument is the least often mentioned, it is probably the most important. The low cost of setting up a small manufacturing unit enables an enterprising worker not only to provide himself with a livelihood but also to offer employment to others. In the author's survey (Chee 1977*a*) it was found that 74.8 per cent of the entrepreneurs in small enterprises did not have any upper secondary education. These people would have found it difficult to secure a well-paid job in the labour market. More important, the training and experience which they acquired in the operation of their enterprises enabled a number of them to expand and to branch out into other fields. A number of entrepreneurs in small enterprises acquired considerable expertise. This is particularly the case in the foundry industry where, according to a NISIR (SIRIM) study of 1975, the ability of the entrepreneur is amply borne out by a number of factors. Firstly, most of the large foundries have grown into their present size from small beginnings. Secondly, many of the foundries have concentrated on product lines which are consistent with their technical competence and the market situation. Thirdly, they have ploughed back into the business considerable amounts of profits. Finally, most of them are responsive to new ideas and innovations and some of them have taken active steps to modernize and diversify production. A few of them have also gone abroad to look for new ideas.

The setting up of a small establishment enables the newly initiated entrepreneur to put his skill and knowledge into practice. The small establishment enables him to acquire further experience and to improve his ability gradually with the growth of the firm. In addition, such training can be carried out on an extensive basis. A hundred small establishments offer at least 100 individual opportunities to develop many of the skills required to operate a successful enterprise. Not more than a handful of these 100 individuals can be selected if they are grouped into a large establishment. It is not necessary to add that the need to accelerate the development of entrepreneurs is an urgent one especially in Malaysia and Indonesia, where there is a serious shortage of indigenous entrepreneurs. In this connection, small enterprises can play a very important role by providing an ideal training ground for such entrepreneurs (Chee 1981).[3]

Finally, small enterprises play an important complementary role to large enterprises in the economy. They supply a substantial part of the demand for simple and inexpensive consumer goods at prices within the range of the lower income group. They also supply specialities that would be uneconomic for large firms to produce and bring out products for which the market is too small to justify mass production. Besides, small enterprises supply many large firms with parts and components. The absence of these complementary relationships will mean the restriction of choice for the consumers and higher cost of production for the large-scale producers.[4]

Constraints

From the above discussion, it would appear that small enterprises have a significant role to play in the development of the ASEAN economies. Unfortunately this potential has not been fully realized due to a number of constraints plaguing small enterprises in this region. The most common constraints appear to be a lack of access to commercial bank credit, discriminatory government policies and practices, subcontracting, low productivity, marketing problems, and a shortage of suitable sites and premises for small enterprise operations (Chee 1980).

Lack of Credit

All the ASEAN countries have a large number and variety of financial institutions, many of which were established after World War II. (For further details, see Skully 1979). These institutions perform a wide variety of functions ranging from banking to insurance. However, despite the existence of these institutions and the large volume of credit extended by them, small enterprises in the ASEAN countries are still generally short of credit.

As a result, the lack of credit has been identified as one of the major factors inhibiting the expansion of small enterprises in the ASEAN countries. Access to credit is essential to finance the upgrading of technology, to expand production capacity, to purchase larger inputs and better quality material, and to provide credit to customers. Denied of institutional credit, many small enterprises are forced to finance their operations using their own capital, with shortfalls being met from relatives, friends, or other non-institutional sources. This fact has been documented in a number of studies on the financing of small enterprises in ASEAN countries (see for example, Chee 1977*b*; U Tun Wai 1957; The Philippines 1967; and Lee 1970). For example, in the author's 1975 survey of small enterprises in Malaysia, 92 per cent of the firms reported that their initial capital was obtained from their own savings or that of family, relatives, or friends (Chee 1975). While one does not expect commercial banks to provide initial capital, particularly to small enterprises, one would expect banks to be an important source of working and medium-term capital. However, the same survey shows that such capital is also not generally available to small firms. As a result, most small firms have to rely on their own capital or on other sources such as families, relatives, friends, middlemen, moneylenders, or mutual credit associations.

In Indonesia, mutual financing associations seem to be a fairly prevalent means of financing for some small enterprises in certain areas (IDCJ 1977/78*a*, p. 62). An example is a mutual financing association of garment manufacturers in Klaten, Central Java Province. The members are ten of twenty-five small establishment owners enrolled in a BIPIK training course that decided to pool their funds. The way their pool works is that each member puts 5,000 rupiahs a day into it, and at the end of each month lots are drawn to determine who will be the ones to use the total of 1.5 million rupiahs which have been accumulated. The same process is repeated for ten months until all the members recover the sum that is subscribed, after which the members decide whether or not to continue their relationship for another ten months. This particular arrangement is called an *arisan*, or lottery, while there are others that involve bidding (IDCJ 1977/78*a*, p. 62).

Obviously, non-institutional sources of finance involve a great risk. Many of these sources are operated illegally and there have been several cases where the organizers of mutual credit associations have absconded with the funds. Equally important, non-institutional sources of finance are generally more costly than any type of institutional credit. For example, in Indonesia, the traditional and still most common source of credit for working capital in small industry is the middleman, who markets the products of the small entrepreneur. Studies have shown that this source of credit can command interest rates of 3 to 5 per cent per month. In addition to the explicit rate of interest, small producers may also have to pay an implicit charge. For example, it has often been observed that materials are sold by middlemen at a higher price while products are purchased at a price lower than the market price (IDCJ 1977/78*a*, p. 63).

Not only do small establishments receive a smaller proportion of bank loans, the value of such loans is also much smaller. Again Chee's (1975) survey shows that, on the average, the value of a loan received by a large firm is roughly three times more than that received by a small one. This observation has been substantiated in a number of other studies. For example, the Lee (1970) study of bank loans in Malaya and Singapore shows that most commercial banks concentrate on large customers and do not provide adequate credit facilities to the medium and small-sized firms. Large customers (that is, about 3,000 accounts from $100,000 to $5,000,000 each) obtained more than 70 per cent of total bank loans in 1965, while medium and small customers, which were numerous (about 46,000 accounts) obtained the balance of 30 per cent (Lee 1970, p. 146).[5]

It would appear that the discriminatory system of credit allocation also prevails in other ASEAN countries. In the Philippines, data on the distribution of loans granted by commercial, savings and rural banks showed that between 1958 and 1967 the smallest 20 per cent of loans never absorbed even 1 per cent of total loan value, whereas the largest 20 per cent of loans always took more than 90 per cent of loan value (The Philippines 1967).

The reason small firms in the ASEAN countries have restricted access to institutional credit may be explained in terms of demand and supply. On the demand side, many small establishments have never approached a bank when they are short of funds because they do not think they can get a bank loan. Their limited experience with bank officials has done little to change their preconception of the difficulty in seeking assistance from financial institutions. In fact, a number of establishments which try to obtain the assistance of commercial banks have often been turned away. This must have reinforced the feelings of others who have never tried that they too would meet with the same rejection. The attitude of the bank manager is also a critical factor. In all the ASEAN countries, the bank manager often considers himself a member of a different social class and tends to treat the small and often poorly educated borrower with disdain. As a result, the small borrower tends to react negatively as soon as he sees the typical, somewhat luxurious office of a bank.

On the supply side, there are several reasons why commercial banks in the ASEAN countries are reluctant to lend to small industry. Firstly, it is less profitable to lend to small industry than to large establishments because of higher lending costs and greater risks. Lending costs tend to be high because of the diseconomies of scale. As to the risk element, this tends to be greater because small enterprises are typically deficient in equity and acceptable collateral. The risk of business failure is also higher for small enterprises. Secondly, the banks find it difficult to obtain credit information about the applicants and their businesses. The loan applications are often not accompanied by balance sheets and income statements or, if they are, they are not properly prepared. In a number of cases it is also necessary to visit the small establishment, but few banks have the personnel or the time to do so.

For example, in Indonesia many small enterprises do not even keep primitive financial records such as the value of sales, production, cost, product defects, cash receipts, and disbursements (IDCJ 1977/78*a*, p. 11). For this reason, many such enterprises do not have a clear idea of their profits, their financial situation, or how much product defects are costing them. Bookkeeping is very rare, and even if books are kept, they are very simple. Commercial banks claim that the actual assets and the profit and loss situations of most small enterprises are difficult to ascertain and that even land-ownership rights are based only on word of mouth traditions instead of registries or other legal documents. All these constitute a major obstacle in applying for bank loans. Furthermore, when borrowers succeed in obtaining loans, they are not very concerned about repayment. There are also cases where loans for machinery are used to finance a wedding or other social occasions (IDCJ 1977/78*a*, p. 11).

To sum up, for a number of reasons, ASEAN small enterprises have little or no access to institutional credit and have to finance expansion or working capital requirements from internally generated funds or non-institutional sources. These factors may help to explain why small enterprises cite shortage of capital as a major problem.

When access is available, small enterprises find that they have to pay a higher rate of interest for their bank loans compared to their large counterparts (Chee 1975, p. 251). This may be explained as follows. Commercial banks generally charge the minimum lending rates to large establishments since these are their best creditworthy customers and the latter borrow in large amounts. Small enterprises on the other hand are generally less creditworthy. Their earnings are relatively unstable and the rate of failure is higher. Besides, small establishments borrow in small amounts. Thus not only are the loans more risky, the cost of servicing them is also higher. For this reason, as Lee (1970) has pointed out, small establishments normally have to pay one or two per cent above the minimum rate.[6] In addition, some banks in Indonesia also charge "unofficial commissions" on small enterprise loans. All these make the cost of borrowing much higher for small enterprises than it appears (IDCJ 1977/78*a*, p. 63).

Discriminatory Government Policies and Practices

Government regulations and practices do not deliberately discriminate against small enterprises in the ASEAN countries. Nevertheless, the nature of these regulations and the way they are implemented imposes a penalty on enterprises which operate on a small scale. Consider, for example, the provision of fiscal incentives to encourage the development of industries. A striking feature of the fiscal incentive system in many ASEAN countries is the attempt to link the value of such incentives to the level of investment. This implies that larger enterprises (in terms of investment) would receive greater benefits. For example, in Malaysia, according to the Investment Incentives (Amendment) Act of 1971, pioneer companies or those producing wholly for export are given tax exemption up to a maximum period of 8 years. Although small enterprises are eligible for such an exemption, they are not entitled to claim the maximum benefit. This is because after an initial tax relief period of two years, the number of subsequent years of tax relief is granted according to the level of capital investment. Thus to qualify for a four-year exemption period would require a capital investment of more than US$200,000, which effectively precludes small enterprises that generally have a capital investment of less than US$115,000. In view of the above arrangement, it is not surprising that large enterprises receive the lion's share of fiscal incentives in Malaysia (Chee 1979*c*).

Similarly in the Philippines, the "import substitution" policies of the 1950s encouraged the establishment of large-scale industries. The bias towards large-scale manufacturing was further aggravated by incentive policies in the 1960s (UP-ISSI 1979, p. 12). For example, the Investments Incentives Act of 1967 provided income and other tax exemptions to industries covered by the legislation. However, the qualifying network of procedures were too difficult to penetrate for small enterprises. Consequently, the large enterprises managed to reap greater advantage from the tax exemption privileges.

In Thailand, the situation is not much different. According to Saeng Sanguanruang, the promotional privileges granted by the Board of Investment have largely benefited large industrial enterprises (Saeng 1978, p. 118). The statistics for the promotional period 1960–75, show that promoted enterprises invested, on the average, about US$2.9 million in total project cost. The average value of registered capital was about US$0.9 million, requiring average loan financing of US$2.1 million with US$1.7 million worth of machinery and equipment and employing an average of 286 workers per project. All these quantitative dimensions far exceed those characteristic of small enterprises.

Apart from fiscal incentives, the tax structure in the ASEAN countries also imposes a penalty on the operations of small enterprises. Consider the sales tax collected in some of the ASEAN countries. Such a tax favours vertical integration in the production process and hence, larger enterprises. To illustrate, let us look at the business tax structure in Thailand. Business taxes in Thailand are levied on the value of sale on importers, domestic producers, and distributors depending on the type of goods they sell (Saeng, 1978, p. 118). Resellers of finished goods are exempted from business taxes, but taxes on raw materials or semi-finished goods are not rebated except when first imported and then embodied in finished goods for exports. One anomaly of the present tax structure is the presence of a "cascade effect" caused by the levy falling both on raw materials and semi-finished goods produced from them. The cascade effect favours integrated production. In the textile industry for example, should a large factory integrate the spinning, dyeing, weaving, and sewing stages, business taxes ranging from 3 to 6 per cent can be avoided. An apparent implication of the above discussion is the introduction of a tax on value added in place of the sales tax in the ASEAN countries. One may, however, doubt the efficacy of such a system, given the poor accounting system and the weak tax administration commonly found in the ASEAN countries.

Another form of discrimination against small enterprises in the ASEAN countries, relates to the other activities of the state. In each of the ASEAN countries, extensive purchasing activities make the government the major or dominant buyer of a wide range of goods and services. The government's purchasing activities inevitably discriminate, albeit unwittingly, against small enterprises. Generally, governments do not buy or give out tenders to any particular group of firms. Such a policy tends to favour the larger enterprise. The reason is that in the interests of administrative efficiency, and in the search for economies in purchasing, government purchasing agencies tend to place their orders in relatively large amounts at a time and often by selective tender. Bulk purchasing and selective tender favours large firms, so small firms are generally left out of the lucrative government purchasing business.

Other forms of discrimination are less subtle but no less effective. Consider, for example, government regulations which prescribe zoning regulations. These regulations have the most severe impact on small enterprises because of their inadequate capital and the limited geographic nature of their markets. Due to inadequate capital a number of small firms often first set up shop in a residential area. Initially local authorities tolerated their existence but subsequently, regulations were tightened up and more strictly enforced. At the same time, the local authorities failed to appreciate the locational problems of small enterprises and did not provide alternative sites before evicting these enterprises. As a result a number of small firms particularly in the larger towns in some ASEAN countries have seen their business disrupted and in some cases have been forced to close shop. This was one of the findings from the author's survey of small enterprises in Malaysia (Chee 1981). The survey discovered that a number of small firms which had set up shop in residential areas had either been closed down or relocated due to pressure from the municipality or town board. One respondent was given only a temporary licence because his firm was located in a residential area. Most of the other firms operating in other residential areas were not given any licence and were thus regarded as operating illegally. This was one of the ways by which the government forced the small firms to move out of residential areas. However, as pointed out earlier, the fault does not always lie with the small firms. Some of them had been operating in the same area before the area was designated a residential area. In any case, the government was unable to offer the affected firms a suitable site for relocation. This is a major dilemma for small firms. On the one hand, they do not wish to contravene zoning regulations, but on the other hand they have nowhere else to go. The alternative of forcing these firms to close shop is not a satisfactory solution.

A case in point is the plight of the mini-sawmills in Johore, Malaysia, which were forced to close. There may be no reason to allow mini-sawmills to operate illegally, but in such cases the government should be more sympathetic to the problems of small enterprises. In this case the State Government should have intervened, perhaps to the extent of amending certain requirements for the issue of licences or the waiving of certain conditions like the use of industrial land. In any case the government should not condone the closure of the mini-sawmills which make use of timber wastes to produce useful packaging and transport materials for diverse industries and in the process provide a livelihood and employment to hundreds of workers.

Another regulation which has an adverse effect on small enterprises is that relating to product quality standards. Such standards may be relevant to an export-oriented economy, but when applied indiscriminately to goods meant for local consumption, they impose a heavy burden on small industry development. For example, those introduced in the Malaysian pineapple canning industry have discouraged the entry of small, less capital-intensive enterprises.

A similar study in the Philippines found that about a third of the total number of small entrepreneurs thought that certain policies of the government were adversely affecting their business. The policies most mentioned were labour policies, especially the minimum wage law, the requirement for 13-month pay, and social security benefits. The paper requirements in securing business licences, registration, and permits were also deplored by a relatively large number as hampering business transactions. Among the other policies disfavoured were: high sales' and manufacturers' taxes; high tariff duties for the importation of raw materials; environmental protection policies such as restriction on the cutting down of narra and other trees, and zoning requirements; credit policies such as high collateral requirements for loans, the granting of credit to farmers for the purchase of imported machinery, high interest rates, restriction of the overdraft credit policy; and various other policies such as the price regulations on raw materials and finished goods, handling costs at the piers, patent protection, the new standard measurement system (metric), and the minimum capital requirements for registration with the National Cottage Industry Development Authority, or NACIDA (UP-ISSI 1979).

In view of the above, it would appear that policy-makers should always consider the impact on small enterprises when formulating or implementing any administrative regulation. Unlike large enterprises, small enterprises generally do not have any effective association to represent their interests, so these often tend to be overlooked by government officials who have the tendency to regard small enterprises as a nuisance. As a matter of fact, according to some of the small firms interviewed in a survey, some government officials are contemptuous of small enterprises and are neither friendly nor helpful to small entrepreneurs, especially those who are illiterate (Chee 1981). Some small firms also complain that government administrative requirements and policies keep changing all the time, making it difficult for small entrepreneurs to keep up with them. Another common complaint has to do with obtaining various kinds of business permits or licences, for example, a lorry licence for carrying goods. These permits or licences are not easily obtainable and involve a lot of red tape. Sometimes the applicants also have to pay "coffee money" (bribes).

Subcontracting

Subcontracting provides a useful mechanism for developing linkages between small and large enterprises. Unfortunately, the level of subcontracting within the manufacturing industry in the ASEAN region is relatively low. For example, a study of subcontracting in the transport equipment and machinery industries in Malaysia concludes that most of the assembly firms prefer to import their components rather than purchase them from local suppliers (Chee and Fong 1983). The reasons commonly given are the relatively high price and low quality of locally produced components. Although the complaints may be valid in some cases, the reluctance of assembly firms to purchase locally produced components makes it difficult for ancillary firms to achieve economies of scale and a possible reduction in price and improved quality. Thus small firms engaged in subcontracting are caught in a vicious circle. Similar findings have emerged in other ASEAN countries.

For example, UP-ISSI (1968) shows that subcontracting is marginal in most industries in the Philippines (Table 5). The study suggests two reasons for the relative absence of such practices. Firstly, the incentive and tariff system discourages the buying and selling of inputs among and between large and small enterprises. For example, the relatively lower tariff on intermediate and capital goods and the high tariffs on final consumer goods encourage the final producers to rely more on imported inputs. Secondly, the predominant types of large-scale industries in the Philippines (food, beverage, textiles) are not the ones which have strong links with small enterprises.

The IDCJ study (1977/78*a*, p. 54) shows that in Indonesia large enterprises usually import most of the parts required or produce such parts themselves without farming out such parts to ancillary firms. According to the study, the main reason is that the volume of parts which can be locally produced is not high enough to make local production commercially feasible. A contributing factor is the fact that there is hardly any small enterprise in Indonesia which has an adequate level of technology that can meet the demands of large enterprises.

TABLE 5
Contract Work as a Percentage of Total Sales

Industry	*1960*	*1965*	*1970*
Footwear, other wearing apparel and made up textile goods	2.0	5.1	5.1
Wood and cork products except furniture	1.0	1.1	1.0
Furniture and fixtures	0.8	0.6	1.1
Paper and paper products	1.2	2.0	0.6
Non-metallic mineral products except petroleum and coal	1.0	1.2	1.4
Machinery except electrical machinery	0.2	4.1	2.8
All industries	0.3	0.4	1.0

NOTE: Contract work is defined as work done by other establishments for a manufacturing establishment which provided materials. The value of materials is not included in computing the value of the contract work. Subcontract work where the subcontracting firm provided or purchased its own materials are treated as ordinary sales in the Annual Survey of Manufacturers (ASM).
SOURCE: Medalla 1977.

Fortunately, most ASEAN governments are aware of the above problem and have instituted a local content policy, whereby primary firms in selected industries are required to achieve a certain proportion of local content by a given target date. For example, in the agricultural machinery industry in Malaysia, manufacturers are generally required to delete the electrical motors from imported machinery assembled locally. In the case of power tillers, manufacturers/assemblers are required to adopt a progressive timetable for deletion of simple components from their imported CKD parts (Chee 1983).

The problem with the local content policy in ASEAN is that it has not been effectively implemented. In Malaysia, for example, MIDA, which is responsible for its formulation and implementation, does not have the manpower to monitor implementation. Consequently, very little progress has been achieved in those industries covered by the local content programme. In addition, various other factors discourage the promotion of closer linkages between small and large enterprises. These include:

1. the imposition of sales tax on sale of components by other firms;
2. lack of any incentive for primary firms to purchase components or provide training to ancillary firms;
3. lack of mechanism to identify potential ancillary firms or bring potential primary and ancillary firms together;[7]
4. lack of resources within the primary firms to ensure that locally produced components are of a specific standard or quality.

As a result of the above factors, linkages between small and large enterprises in ASEAN are minimal. Thus, not surprisingly, the kinds of technical and financial support that large firms often give to small firms such as in Japan has yet to develop in the ASEAN countries.

Low Productivity

Although small enterprises account for a large majority of the total number of manufacturing enterprises in the ASEAN region, they contribute only a small proportion of the total output. For example, Table 6 shows that although small enterprises in Malaysia account for 90 per cent of the total number of establishments in 1973, they account for less than 19 per cent of total value added and less than 23 per cent of total gross value of output. Similarly, Table 7 shows that small enterprises in Singapore account for almost 85 per cent of the total number of establishments in 1979 but less than 19 per cent of total output. In Thailand, Saeng (1978) shows that firms employing 10–49 workers contributed only about 20 per cent of the total value added in the manufacturing sector. Data for Indonesia and the Philippines show that enterprises employing less than 20 workers in Indonesia and the Philippines contributed only 22.1 and 37.8 per cent of total value added respectively in 1974/75 (Amjad 1981, p. 24). The disproportionate share of small enterprises in total output is a clear reflection of their low productivity.

Productivity is relatively low in many ASEAN small enterprises because these enterprises still employ traditional methods of production. Production methods have failed to keep up with new techniques or modern technology. Factory layout is poor, and only simple or outdated machinery is used. In addition, many small enterprises employ untrained workers and operate in congested or unsuitable buildings. They have no testing facilities, and

TABLE 6
Number and Output of Manufacturing Establishments in Peninsular Malaysia by Paid Full-time Employment Size Group, 1973

Paid Full-time Employment	*No. of Establishments*	*% of Total*	*Value Added ($'000)*	*% of Total*	*Gross Value of Output*	*% of Total*
0	3,148	28.5	14,434	0.6	55,669	0.7
1–4	3,270	29.6	41,033	1.8	158,636	2.1
5–9	1,352	12.2	53,307	2.3	200,532	2.6
10–19	1,079	9.7	84,729	3.6	343,324	4.5
20–29	564	5.1	87,604	3.8	357,639	4.6
30–49	590	5.3	154,403	6.6	583,054	7.6
Sub-total 0–49	10,003	90.4	435,510	18.7	1,698,854	22.1
50–99	503	4.6	326,044	14.0	1,083,065	14.1
100–199	288	2.6	381,951	16.4	1,385,777	18.1
200–499	190	1.7	575,356	24.7	1,838,272	23.9
500 and over	76	0.7	608,066	26.2	1,670,719	21.8
Sub-total 50 and over	1,057	9.6	1,891,417	81.3	5,977,833	77.9
Total or Average for all Groups	11,060	100.0	2,326,927	100.0	7,676,687	100.0

SOURCE: Chee 1984 (*a*).

TABLE 7

Statistics of Small Industries in Singapore

Particulars	*1964*	*1965*	*1968*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*
No. of Establishments	858	917	1454	1534	1553	632	1747	1835	2051	2162	2256	2519	2641
% of Total Establishments	92.26	91.70	91.17	87.78	85.57	84.45	84.03	84.21	86.00	86.31	85.52	85.51	84.59
% of Workers	59.21	56.80	54.01	30.75	32.90	28.25	25.78	25.79	30.44	29.47	29.46	29.22	27.78
% of Output	59.84	56.59	54.19	28.72	24.95	22.40	22.74	28.63	20.31	20.70	19.37	18.18	18.60
Output per Worker ($1,000)	22.60	22.87	29.17	30.16	25.36	26.63	35.26	46.79	43.93	51.92	52.57	50.20	62.89

SOURCES: Lee and Tan 1981 and Reports of Census of Industrial Production.

quality control is minimal. Consequently, many small enterprises can only produce simple or low-quality products which can only be sold at a proportionately low price. Thus modernization of the small enterprises is an urgent task in the development of this sector in the ASEAN countries.

Marketing and Premises

Other major problems facing small enterprises in the ASEAN countries are marketing and difficulty in obtaining suitable land and buildings for their production facilities (Chee 1980).

Marketing problems include seasonality of demand, customer problems, delivery, and keen competition. A number of small establishments have problems marketing their products because of a number of factors such as poor designs which are both inefficient and inartistic, poor quality of finished product due to the use of poor quality raw materials and lack of quality control, lack of after-sales service, and lack of precision due to inadequate equipment and lack of skilled personnel.

In Indonesia, small enterprises tend to leave marketing to the middlemen, so they know almost nothing about changes in demand for their products, price fluctuations, changes in consumer tastes, or other market trends. Some enterprises even borrow their materials from the same middlemen to whom they entrust their marketing (IDCJ 1977/78*a*, p. 53).

Small enterprises affected by the lack of land or buildings complain that they do not have enough scope for expansion or, in some cases, even for their present scale of operation. Those with adequate land or buildings are worried over the tenure. In Malaysia, a number of small establishments are occupying land on a temporary occupation licence. In some cases the lease is about to expire. Another form of insecurity of tenure prevails when the factory is rented. If the tenant is unable to renew his contract with the landlord, there would be stoppage of work until the proprietor finds another location. A number of small enterprises also complain that lack of adequate and proper premises inhibits production. Where the factory space is small, lay-out is not functional and the workplace is cluttered with raw materials, machinery, and tools. There is a constraint to expansion since large machinery cannot be installed. Besides, much labour is wasted shifting raw materials to make room for work. Thus it is not surprising at times, to find work being carried out near the roadside, on the pavement or in make-shift work sheds. Entrepreneurs with inadequate factory premises are generally eager to move out to industrial estates but are worried over the cost and location of these estates.

Some Suggestions

Although small enterprises play a significant role in the ASEAN economies, their potential has not been fully developed because of the handicaps and other problems which they face. In view of this, special policies and programmes for small enterprises are required within the framework of overall ASEAN development plans. As a first step, ASEAN countries should formulate a well-defined policy for small enterprises. The existing industrial policy tends to favour large firms. A more suitable industrial policy would ensure a more even-handed treatment of both small and large enterprises.

Furthermore, any policy for developing small enterprises should aim at promoting modern, self-supporting and economically viable manufacturing enterprises rather than a group of weak and inefficient industries which would need to be artificially sustained in their production, management, and financing. Even though some of the newly-established industrial units would need to be supported over a certain period of time, the purpose of promotion and assistance measures should be to guide and help small industrialists until they are able to stand on their own feet. After that they should not be accorded any special treatment. In fact, a national policy for small enterprise development should not be based on the assumption that small enterprises require preferential treatment to be viable. This is not the case as many studies have shown. Small enterprises are generally competitive with large enterprises and do not require preferential treatment. But the competitive base of small enterprises may be eroded if the government, deliberately or otherwise, discriminates against such enterprises (Chee 1979*a*).

Having formulated a suitable policy for small enterprises, the next step is to design a comprehensive plan for the promotion of the sector. Here priorities should be indicated in respect of industries to be encouraged and means of action to be followed. Various means exist to foster small enterprises, such as technical and financial assistance, improved supply and marketing arrangements, promotion of industrial co-operation and complementarity of industrial activities, and training of personnel. In view of their importance, we will focus on the main areas of assistance in relation to the more pressing problems facing small enterprises in the ASEAN countries. As we have seen, the most serious problem is the shortage of working and fixed capital. Many small enterprises can obtain no significant leverage through institutional borrowing and are limited to their own and family resources. As a result they find it difficult to compete with their large-scale counterparts.

It should be pointed out that small enterprises do not have sufficient capital, not because they cannot afford the cost of credit, but because in many cases it is simply not available (except outside the organized money market). In fact, many small enterprises would not mind paying a rate of interest slightly above the market rate if credit were available. The higher rate would be much less than the rate charged by non-institutional sources. More significantly, the rate would also be much less than the marginal rate of return under self-financing investment using existing techniques. Greater access to credit is especially important in view of the limited sources and type of credit available to a small enterprise in the ASEAN region, where the money market is still not fully developed.

Improving access to credit for small enterprises should begin by strengthening existing loan programmes through improvements in staffing and in project follow-up. Once this is done, there should be a substantial increase in the volume of small enterprise loans. The central banks in the ASEAN countries could do this either by authorizing commercial banks to increase their loans to small enterprises or encourage commercial banks to lend to such enterprises by providing the banks with loans at a special discount rate for re-lending to small enterprises. At the same time the commercial banks should also make a greater effort to assist small enterprises. They should adopt a development rather than a commercial orientation in processing loan applications from small entrepreneurs. A change in attitude will be beneficial to the commercial banks since small enterprise financing is going to form the basic type of commercial bank portfolio in the long run. This has been the experience in India[8] and will no doubt also be the experience in other developing countries.

In order to encourage commercial banks to lend to small enterprises, central banks should not force the banks to provide such loans at a rate of interest below the market rate. The problem facing small enterprises is access rather than the cost of bank loans. It will be difficult to improve the access and lower the cost at the same time. If it is really desirable to lower the cost of credit to small enterprise, governments should subsidize the difference and not expect the commercial banks to do so.[9] In any case, providing the loan at the market rate of interest will not deter the small borrower if he has a viable project.

We are not suggesting that removing the financial constraint would be sufficient to solve the problems of small enterprises. As a matter of fact, these enterprises also suffer from a variety of other problems such as outmoded techniques of production; ineffective marketing organization; poor quality of product; and inefficient management. Besides, the typical small ASEAN entrepreneur has no formal management training and little practical managerial experience. In view of this, a purely financial solution to small industry problems will obviously have a very limited efficacy. An effective solution will require a comprehensive programme comprising the provision of credit facilities, industrial advisory services, and other developmental aids. Any single factor approach to small enterprise development is likely to be ineffective and wasteful. An integrated programme that works on a carefully selected combination of factors simultaneously is much more likely to prove worthwhile.

Apart from providing direct assistance to small enterprises, ASEAN governments should also encourage large enterprises to help the small ones and the small enterprises to help themselves. One way of encouraging co-operation between large and small enterprises is the development of subcontracting. At the moment, subcontracting has not been fully developed in the ASEAN countries due to a number of factors. For example, the sales tax on final products involving cumulative tax payments, acts as a disincentive to subcontracting. Taxation on value added would, on the other hand, favour subcontracting. In addition, information on the possibilities of complementary relationships between large and small enterprises is lacking. To fill this gap, a subcontractor's exchange should be set up whereby demand and supply are made known and information provided. Thus on the supply side there would be information on the availability of machinery, production capacity, and specialization of small enterprises. On the demand side, information would be provided regarding parts, components, and processing of finishing operations offered by large establishments.

Government policies can also directly and immediately promote the growth of subcontracting by requiring that large firms receiving public contracts must subcontract specified portions of the work to small firms. Specifically in cases where individual contracts for supplies or services are necessarily of large size — because, for example, they call for a big volume of a uniform product, with clear-cut responsibility for quality and deliveries — the procurement agency can nevertheless substantially influence the primary bidders to subcontract part of their orders to small firms; it may, indeed, be a condition of the tender that a specified percentage, or certain components, be procured from small firms. In the absence of a subcontracting exchange, government agencies may assist prime contractors to locate eligible small firms, to help upgrade the latter's capabilities, and to establish equitable contract conditions. The potentialities depend of course not only on the nature of the goods/services being ordered, but also on the orientation and ingenuity of the procurement agency.

Public intervention in the private sector to influence large manufacturing and trading firms to subcontract with small industry can be justified on the basis of potential benefits to the economy and to participating firms. Such potential benefits include: improvements in overall capacity utilization and productivity; creation of income and employment opportunities; potential for a more efficient division of labour and allocation of resources; and the development of entrepreneurial, managerial, and technical abilities.

In the private sector, on the basis of Japanese and European experiences, one would expect that the greatest scope for subcontracting in the long run would exist in the metal products, machinery, electrical appliances and transport equipment industries. These are relatively undeveloped in many ASEAN countries at the moment. Government encouragement of subcontracting in these industries may take the forms, *inter alia*, of (a) compiling information regarding subcontracting opportunities and candidates, perhaps establishing subcontracting exchanges to match needs and capabilities; (b) assisting small industry in upgrading to meet quality and production requirements of prime contractors; (c) setting objective quality standards and specifications; and (d) assuring that subcontracting arrangements are not abused, through regulation or arbitration. Experience suggests that moral suasion and government incentives for large firms to use small industry subcontractors may also be effective.

Other possible measures to this end include reduced import duties on machinery for subcontractors; rental of government-owned equipment to subcontractors (mostly in construction); accelerated depreciation allowance on equipment to facilitate subcontractors' acquisition of capital assets; provision of industrial extension services, materials testing equipment, and industrial estate facilities; and, where opportunities exist, helping to organize joint contracting arrangements among small firms.

Given suitable encouragement there is no doubt that large enterprises will be willing to help small firms acquire new skills and technology. After all, the large enterprises realize that they will also benefit from the modernization of the small enterprise sector. In fact, the whole economy benefits because, if small and large enterprises grow together in a mutually reinforcing and complementary manner, industrialists will be able to take full advantage of all the possibilities for specialization and division of labour that exist in the industry.

ASEAN governments might also consider encouraging small enterprises to form co-operative societies. Collective action could be taken by small establishments without losing their independence. In this way they could get together to perform some functions which, because of their size, they are unable to perform individually. They could undertake joint programmes on such matters as marketing, export, and purchase of raw materials. The system could also enable the small industrialists to participate in fairs and exhibitions, something that would be difficult on an individual basis. Co-operatives are particularly useful in promoting exports of small industry.

Finally, the review and analysis of government policies towards small enterprises suggests that government policy-makers should bear in mind the interests and problems of small enterprises in the formulation of any government policy. Wherever possible, exemptions should be given to such enterprises. When that is not possible, the proposed policy should be flexible towards small enterprises. Similarly, every policy should be implemented with consideration and flexibility as far as small enterprises are concerned, and government officials should always be sympathetic to any appeal for special consideration by small firms affected by the implementation of the policy. We are not suggesting that small enterprises be exempted from all government regulations or requirements, but that such regulations and requirements do not impose a greater burden on small enterprises than on their large-scale counterparts.

Proposal for an ASEAN Small Enterprise Centre

At the regional level, ASEAN countries should try to co-ordinate their policies and assistance programmes for small enterprises. Considering the important role which small enterprises play in the ASEAN economies, the governments of this region should give the same attention to co-operation in small enterprise projects that they have given to the large industrial projects. The co-operation could take the form of establishing an ASEAN Standing Group consisting of planners, small enterprise promotional officers, small enterprise trainers, academic technologists, marketing specialists, and some small entrepreneurs drawn from various ASEAN countries. This Group could meet at regular intervals and should be entrusted with the responsibility of a continuous evaluation of the policies, programmes, and role of small enterprises in ASEAN. Affiliated units may be set up in individual countries. The continuous monitoring and evaluation of small enterprise programmes in ASEAN will be useful in policy formulation, establishing an organizational network, and also undertaking long-range programmes of entrepreneurial stimulation. Eventually, the ASEAN governments should consider the establishment of an ASEAN Small Enterprise Centre to co-ordinate the development of small enterprises in the region.

At present several small enterprise institutes or agencies exist in the ASEAN countries. For example, there is the University of Philippines — Institute of Small-scale Industries in the Philippines (UP-ISSI), the Directorate-General of Small-scale Industries in Indonesia, and the Division of Small Enterprises in Malaysia. Each ASEAN country should designate one institute or agency as a focal point for a regional network of exchange of information and co-ordination of small enterprise development activities (training, research, and so on). The proposed ASEAN Small Enterprise Centre should, among other functions:

1. focus on the dissemination of existing information and research on small enterprises, especially within the ASEAN region, including the preparation of small industry profiles, information on available technology to enhance the capabilities of small entrepreneurs, and market and subcontracting opportunities for small enterprise products;
2. provide training and research facilities for personnel involved in small enterprise development such as extension service agents, bank loan officers, or other officials;
3. act as a focal point for seeking out and channelling external assistance for small enterprise development for the ASEAN region.

There is an urgent need for the establishment of the ASEAN Small Enterprise Centre for several reasons. Firstly, such a centre would encourage the mutual exchange of information and ideas and the pooling together of training and research facilities which would provide a tremendous stimulus for the development of ASEAN small enterprises. Secondly, many of the ASEAN countries have had at least fifteen years of involvement in small enterprise development programmes, but all this time each country has been working more or less in isolation from the rest. Consequently, many innovative and successful programmes which could have been adopted by other ASEAN countries remain confined to the boundaries of the country of origin. On the other hand, mistakes committed by one country are often repeated in others (Sharma 1979). All these mistakes could have been avoided and useful experiences could have been exchanged if there had been an institutional framework for ASEAN co-operation in small enterprises.

Thirdly, there is a need to change the course of ASEAN industrial co-operation. The U.N. Study Team which in 1974 was organized to look into the scope of economic co-operation for ASEAN did not appear to give adequate weight to the significance of small enterprise development in the region and opted for the implementation of large-scale projects. Unfortunately the Report's recommendations (United Nations, 1974) were closely adopted by the ASEAN leaders in Bali who, like the U.N. Study Team, failed to realize that small and not large enterprises form the backbone of the ASEAN economies. Consequently, ASEAN has spent the last eight years in a fruitless pursuit of large-scale, grandiose projects which hardly made any impact on ASEAN industrial co-operation and which have certainly not benefited the masses in this region.

In view of this, it may be time to shift gears and reconsider a different industrial strategy. There is a great deal of scope for ASEAN co-operation in the promotion of small enterprises since, as many economists have rightly pointed out, there are bright prospects and opportunities for the development of small enterprises in the ASEAN region. (See for example, Chee 1984*b*; Falk 1983; and Laumig 1983). Possibly the first step which should be taken in this direction is the establishment of the ASEAN Small Enterprise Centre.

Conclusion

ASEAN industrial co-operation has not been very successful because it has been based on the development of large-scale enterprises such as the ASEAN Industrial Projects. Such projects not only require huge investments but also involve a long gestation period. More significantly, their impact on the majority of the peoples in the ASEAN countries may not be felt for a long time. On the other hand, co-operation in small enterprise development does not require a huge amount of resources and would bring immediate benefits to the vast majority of entrepreneurs in the ASEAN region. In view of this, the ASEAN Committee on Industry, Minerals, and Energy should place regional co-operation in small enterprise development at the top of the agenda at its next major meeting. Given the bright business prospects and opportunities for small enterprises in the ASEAN countries predicted by a number of economists, and given adequate regional co-operation in promoting small enterprises, we have no doubt that such enterprises in ASEAN will be able to realize their full potential and play a significant role in the economic development of the ASEAN countries. So let us hope that ASEAN leaders will have the vision to chart a new course in regional industrial co-operation.

NOTES

1. Similar data are not available from subsequent Censuses of Manufacturing Industries.
2. Studies in a number of other countries also show that the capital-labour ratio tends to be positively correlated with size. For Columbia, Kenya, India, Pakistan and other countries, see Berry (1972); Dhar and Lydall (1961); Shetty (1963); Marsden (1969, pp. 389–418); Ranis (1964); Di Tullio (1972).
3. The role of small industry in the training of entrepreneurs has been noted by many writers. See for example, Hagen (1962) and Dhar and Lydall (1961).
4. There are many other advantages in promoting small industry including the more esoteric values cited by Schumacher (1976).
5. This is in line with the MacMillan Committee Report of 1931 in the United Kingdom, which recommended more financial aid and greater provision of long-term capital to small industries. The lack of such provision was known as the "MacMillan Gap". See United Kingdom (1931).
6. It is possible that the narrow differential charged may not reflect the relatively higher transaction costs for small loans as against large ones (Lee 1970, p. 164). See also Benston (1981, pp. 631–43). For other evidence that capital is more expensive for small enterprises, see O.E.C.D. (1967) and Niino (1958).
7. Some years ago the Ministry of Trade and Industry in Malaysia received an order from overseas for furniture parts but the Ministry was unable to locate suitable suppliers so the order was not accepted. One wonders how many orders have been lost for want of a subcontracting exchange.
8. According to Mr S.V.S. Sharma, former Principal Director, Small Industry Extension Training Institute, Hyderabad, India.
9. A government subsidy to cover the differential cost of lending to small industry might be justified on the grounds of differential contribution of such industry to employment and/or entrepreneurial development.

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