

Chee Peng Lim

Development of Small-Scale Business in Developing Asian Countries

- Policy Environment and Institutional
Infrastructure -

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About the Author

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1. Introduction

Developing countries in the Asian region generally appreciate the multiple roles which small scale business (SSB)¹⁾ can play in their overall development and have implemented various policy measures to stimulate the growth of SSB. The recent global recession has further highlighted the crucial function of SSB in the process of structural adjustment and has prompted many developing countries to undertake further measures to promote this vital sector. The aim of this paper is to examine the policy environment and institutional infrastructure for SSB promotion in the developing Asian region. On the basis of this analysis, the paper suggests certain measures which may be undertaken, both at the national and regional level to improve the policy environment and strengthen the institutional infrastructure for SSB development.

2. Policy Environment

Government policies regarding the development of SSB are as varied as the number of developing countries in the Asian region. Some policies are very supportive of SSB while others are less so. For example, in India and Indonesia, SSB is recognized as a priority sector while in Hong Kong and Thailand, SSB has yet to receive the attention it deserves. (For details, see S.V.S. Sharma, 1979).

In most countries, government support for SSB is universal while in some countries, it may be restricted to certain groups. For example, in Malaysia and Indonesia, in line with these countries' restructuring policies, support for SSB is generally limited to **bumiputra** and **pribumi** SSB respectively. At the same time, a few countries in the region such as India and the Philippines have formulated clear and comprehensive policies towards SSB, while in many of the other countries, the policies are rather ambiguous and fragmented.

On the whole, the policy environment for SSB has become more favourable although some Asian developing countries continue to show a bias towards large enterprises in their development budget. The improvement, especially in the last ten years, may be attributed partly to recent changes in the global environment. For example, during the period of political instability preceding

1) There is no common definition of SSB among the developing countries in Asia. However, SSB generally refers to manufacturing enterprises employing up to 50 workers each. For details, see ILO, 1987 : 2

the collapse of the Marcos administration, several large corporations, especially those which were foreign owned, withdrew their investments from the Philippines. At that time, the economy was virtually sustained by SSB. Similarly, consider the performance of SSB during the 1973 - 1975 economic crisis in Singapore. According to Lau (1983/85 : 28), while 9 large firms closed down due to the recession, 215 new SSB came into operation; while large firms retrenched some 20,000 workers, SSB took in more than 5,000 new employees; while the value of output for large firms fell by S\$810 million, that for SSB increased by S\$74 million; and while the value-added of large firms decreased by S\$216 million, that of SSB increased by S\$99 million. It can thus be argued that SSB cushioned the recessionary pressures and provided a stabilizing effect for the Singapore economy.

The above developments convinced both the Philippines and Singapore that SSB play a compensatory role in the economy within the context of a changing world environment. This factor has induced these countries to adopt a more favourable policy towards SSB.

Government policies towards SSB are generally expressed in the countries' development plans. India was one of the earliest countries in the region to express its support for SSB. The Indian government's policies protecting and subsidizing SSB have their genesis in Gandhian thought which emphasized the desirable social and employment consequences of promoting village and smallscale enterprises. The Mahalanobis model formalized the thinking of Nehru, in which the SSB sector was viewed primarily as the source of an elastic supply of consumer goods to support the development of heavy industry. For this reason, the Indian government had supported SSB since the country attained its independence in 1947. (For details, see Little, Mazumdar and Page, 1987 : Ch. 3).

Another country which had a headstart in promoting SSB was the Philippines, one of the earliest countries in Southeast Asia to express its support for SSB. In 1960, the National Economic Council (now the National Economic and Development Authority or NEDA), in cooperation with UNESCO Research Centre in Calcutta, India, conducted a survey of SSB in the Philippines. The survey results brought to light the serious difficulties of SSB in the country, as well as the sector's potential contribution to the country's economic development. Consequently, the government of the Philippines initiated negotiations with the Netherlands government in 1963 for the creation of the Institute for Small Scale Industries within the University of the Philippines (UP-ISSI). In 1966, the UP-ISSI was established and, until 1974, was the only government agency exclusively

engaged in extending assistance to SSB. In 1969, the Philippine government's commitment to the development of SSB was explicitly articulated in the document entitled "Magna Carta of Social Justice and Economic Democracy". (For details, see M.Salazar, 1988).

Since the 1960s, policies on SSB have been incorporated in the national development plans of several Asian developing countries. For example, in Indonesia, the Third Five Year Development Plan (1979 - 1983) emphasized the need for greater popular involvement in SSB while in the Fourth Plan (1984 - 1989), SSB was included as one of the four categories of priority industries to be promoted. In Malaysia, the government's awareness and concern for SSB was first strongly expressed in the First Malaysia Plan (1966 - 1970) which recognized the need to give more serious attention to SSB. The concern was reiterated in subsequent development plans and more recently, it was also incorporated into the Industrial Master Plan. (For details, see P.L. Chee, 1987).

In contrast to the other countries in the region, Singapore's policies on SSB are probably among the most recent. In the early years of its industrialization period, the Singapore government did not pay much attention to SSB. (For details, see S.B. Chew 1988 : 201). However, following the effects of the 1985 - 1986 recession which affected the economy severely, the government changed its policy and decided to help SSB compete in both domestic and foreign markets. Consequently, SSB now enjoy official recognition and promotion on a scale which is almost equal to that accorded to large enterprises. In 1988, the government prepared a master plan for SSB with input from both local and multinational companies and expanded the Small Enterprise Bureau to become the Small and Medium Enterprise Division in the Economic Development Board.

The objectives of SSB promotion in the Asian developing countries are generally stated in terms of employment creation, equity, linkages, training and regional development. For example, in Indonesia, the Fourth Five Year Development Plan stated that SSB were to be promoted for the following reasons:

- a) a more equitable spread of business opportunities;
- b) the expansion of employment opportunities;
- c) the development plan of a modern industrial society. (Republik Indonesia 1984, vol. 2:21).

In Malaysia, the Second Malaysia Plan (1971 - 1975) stressed that the Government's objectives in the promotion of SSB were:

- a) to develop bumiputra entrepreneurship;
- b) to increase productive employment and ensure higher income for the largest and poorest segment of the population;
- c) to achieve regional dispersion of business and industrial activities to secure better use of natural resources.

The Third Malaysia Plan (1976 - 1980) recognized the contribution of SSB as a training ground for future entrepreneurship and as a means for restructuring racial economic balance as well as a means for mobilising private savings of the middle-income class for investment in industrial ventures.

In the Philippines, the 1978 - 1982 development plan set up a balanced growth strategy which included, as a key component, the promotion of SSB, particularly in the less developed parts of the country. The objectives of the plan were to meet sufficiently the basic needs of the people, to provide the goods that would enlarge the base for further economic expansion and earn foreign exchange, to generate greater employment, to promote new skills and technology transfers, and to expand the trade sector. More recently, in view of the economic problems facing the Philippines, the government formulated a cohesive package of strategies to develop the country's resources. One of the elements of the package included the promotion of SSB. This was in line with the present thrust of achieving greater employment, dispersal of industries to the rural areas and earning foreign exchange. SSB, aside from encouraging self-reliance, would serve as a backbone in attaining national economic stability. Resources which would otherwise remain idle such as entrepreneurial skills, capital, labour skills and indigenous raw material would be tapped and mobilized for productive use. Apart from this, SSB would serve as supporting industries to large enterprises on complementary relationships like subcontracting and in the creation of forward and backward linkages with existing industries. Thus, the new Medium-term Philippine Development Plan for 1987 - 1992 stresses that the strategic policy for industrial development would focus the efforts on "the development of world markets to complement the growth in agricultural output and rural income".

In order to achieve their objectives, in Asian developing countries, support for SSB has been translated into various policy measures. For example, in China, support takes the form of low-interest loans and tax incentives. Policies have now begun to stress environmental and technological improvements, with part of the funds provided by central and local authorities. Future plans will pay more attention to the integration of SSB in the overall economy. Recently, subcontracting to large industries in urban areas has begun to receive attention.

In Pakistan, under the present Five-Year Plan, SSB has been designated as one of the leaders of the export industry. Support consists of improved designs, credit, marketing and export facilities. Special attention to SSB is given in the provision of physical infrastructure e.g. in the form of SSB estates. Training, information and technical services are also provided and subcontracting is encouraged. (For details, see UNIDO, 1986 : 19).

The focus of government policy measures in Malaysia in support of SSB has been on the training of small entrepreneurs and the provision of credit, technical expertise and extension services. The Mid-term Review of the Third Malaysia Plan noted that besides providing physical facilities, training and financial assistance to SSB, the Government had identified the National Productivity Centre (NPC), MARA, the Ministry of Culture, Youth and Sports in association with other agencies such as the Malaysian Entrepreneur Development Centre (MEDEC) and the National Entrepreneur Research Development Association (NERDA), to conduct a number of entrepreneurial development programmes and to carry out research to help the government formulate effective programmes for the development of SSB. (For details, see P.L. Chee, 1979).

Policy measures for promoting SSB and provincial industries in Thailand are specified in the Sixth Plan and include the following:

- a) Identifying investment opportunities for investors in the provinces and Bangkok;
- b) Upgrading the quality and standard of provincial products in line with the requirements of export markets;
- c) Strengthening the capabilities of provincial agencies of the Ministry of Industry;

- d) Setting up more industrial promotion centres and increasing the efficiency of the Ministry of Industry in promoting and formulating development plans at regional and provincial levels;
- e) Considering the possibility of increasing financial credit at reasonable interest rates to SSB;
- f) Considering the feasibility of granting BOI privileges to support SSB.

From the above account, it would appear that policies on SSB in Asian developing countries are generally favourable and that they have been translated into various policy measures which are quite effective in some countries. However, a closer analysis reveals that there are a few shortcomings.

Firstly, many of the policies on SSB are not comprehensive but fragmented. They are neither carefully integrated at the overall level with general development policies nor at the sectoral level, with industrial development policies. Another fact which is evident is that in many Asian developing countries, policy formulations do not indicate a clear and long-term view of the role of SSB. In addition, the frequent revision of SSB policies in some countries reveals a good degree of ad hocism and perhaps even a lack of conviction about the role of SSB.

Secondly, some of the SSB policies, such as those in India, Indonesia and Malaysia appear to provide too much protection or assistance to SSB, so much so that SSB in those countries appear to be overprotected. One example is the "product reservation" policy for SSB in India and Indonesia. Is it really necessary? Such a policy implies that SSB are noncompetitive and need to be protected from competition with their large-scale counterparts. According to I. Little (1987 : 314), India's policy of reserving a great many products for SSB tends to segment product markets and reduce the element of competition not only for the protected sector but also for large firms. It tends also to freeze the structure of the industry and inhibit the organic growth of firms beyond the protected size. It also inhibits exports in which most larger firms have economies of scale in foreign markets, as evidenced by the fact that SSB typically export a much lower portion of their production than larger firms. These effects are unquantifiable but may be serious in the long run.

In Malaysia, some SSB have been provided with so much assistance that they may never develop any self-reliance. This is a tragedy since the vital entrepreneurial role of the individual will be smothered by assistance programmes which are too comprehensive or generous. Consequently, the SSB will become over-dependent and will be incapable of responding to any challenge. External assistance should try to reinforce and supplement private sector initiatives rather than supplant them. Similarly, SSB assistance programmes which are too generous may become counter-productive. An example of a policy which tries to assist SSB but ends up being counter-productive relates to financial assistance. In both India and Malaysia, as well as several other countries, financial institutions, especially commercial banks, are directed to set aside a minimum percentage of their loans at a subsidized interest rate to SSB. As a result, deserving SSBs may not have adequate access to commercial bank credit which may be monopolized by certain highly favoured SSB. (For details, see P.L. Chee, 1977 and 1986). Analysis of the capital markets in developing countries and of the economies of SSB does not support the view that such subsidization is called for, especially as there is no *prima facie* case that there are normally benefits from the point of view of overall income distribution. Thus, in general, banks should be permitted to charge higher rates for loans to the SSB, since they are both more risky and more costly to process.

Thirdly, very few of the SSB policies in Asian developing countries encourage private sector participation in SSB development. The governments seem to think that they know what is best for SSB and the private sector has little to contribute. As a result, the private sector is not usually represented in any SSB advisory or policy formulation body and SSB agencies are predominantly, if not wholly controlled by government representatives. Such a policy is myopic since the private sector can play a very useful role in SSB promotion.

Fourthly, there is often a wide gap between SSB policy formulation and implementation. In Thailand for example, almost two years have passed since the adoption of policies on SSB as expressed in the Sixth Economic and Social Development Plan (1987 - 1991). However, various promotional measures for SSB specified in the Plan have still not been formulated. Consequently, several economists believe that the various guidelines laid out for the promotion of SSB in the Sixth Plan will again merely be policy statements which will not actually be implemented (S. Tambunlertchai, 1984). In other countries, measures may even be implemented which are in contradiction to policies supporting SSB.

Fifthly, although there is a variety of policy measures in support of SSB in many of the Asian developing countries, there is a lack of balance among the various measures. Briefly, SSB policy measures may be grouped under three categories, namely, those which are stimulatory, supportive and sustaining. Stimulatory measures are those which stimulate entrepreneurship such as entrepreneurial development measures. Supportive measures help SSB establish and run their enterprises and include financial, marketing and technological assistance. Sustaining measures ensure the continued, efficient and profitable functioning of SSB and include measures relating to modernization and expansion. An analysis of SSB policy measures in various Asian developing countries reveals that many of them are focussed on support activities, especially on financial support (Sharma, 1979 : 81). For example, up to 1970, policy measures in support of SSB in the Philippines mainly paid attention to the financial needs of SSB. Another example may be seen in Malaysia where little attention appears to have been bestowed on stimulating and sustaining efforts. Clearly, policy formulations on SSB appear to have ignored the problem of nurturing and promoting qualities of entrepreneurship. Similarly, the technological and managerial problems of SSB do not appear to have received adequate emphasis.

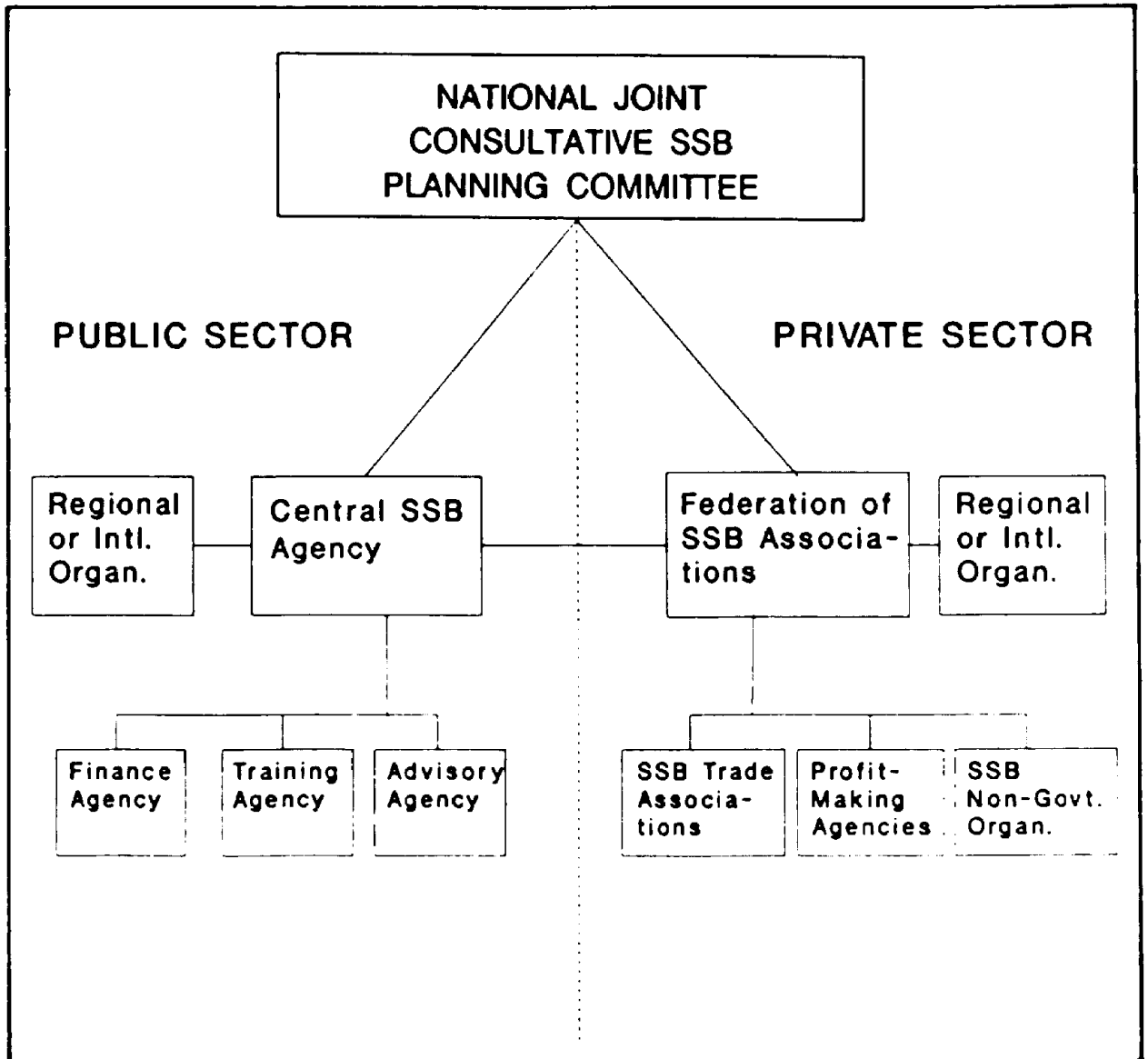
Finally, at the regional level, many of the Asian developing countries have formulated and implemented their policies on SSB without any careful assessment and analysis of the experiences of the other countries even though their environment and basic problems are similar. Obviously, countries in the region can gain from an exchange of information and experiences in SSB development and there could be significant benefits from regional cooperation. Thus, exchanges of information and experience should be systematically organized through bilateral and multilateral institutions. (For details, see P.L. Chee, 1984).

3. Institutional Infrastructure

A conducive climate for SSB development requires not only a set of favourable government policies, but also an appropriate institutional infrastructure which can translate the policies into effective measures and ensure their swift implementation. Although there have been many studies on SSB policies in Asian developing countries, much less attention has been paid to the kind of institutional infrastructure which will facilitate SSB promotion. Ideally, such a structure should provide the maximum potential for public-private sector interface, as shown in Chart 1. In Chart 1, there are a variety of SSB agencies not only in the public but also in the private sector.

The various government SSB agencies may be specialized agencies serving specific groups of SSB such as handicrafts, handlooms or sericulture. For example, in India, there is the All India Handloom Board and the Khadi and Village Industries Commission. Alternatively, there may be a multipurpose SSB agency, such as the Small Industry Development Organization (SIDO) in India, Directorate-General for Small Industries (BIPIK) in Indonesia and UP-Institute for Small Scale Industries (UP-ISSI) in the Philippines. These agencies provide an integrated package of assistance for SSB. In other countries, there are specialized SSB agencies providing specific forms of assistance, such as finance, training, marketing, etc. Some of the major specialized SSB agencies may provide more than one form of assistance. At the same time, there may be more than one specialized SSB agency providing similar assistance. For instance, in 1981, there was a Division of Small Enterprise in the Ministry of Trade and Industry in Malaysia as well as a Division of Small Scale Industry in the Ministry of National and Rural Development, both of which performed quite similar functions. (For details, see P.L. Chee 1986 : Ch. 5. The responsibility of the Division of Small Scale Industry was later taken over by the Ministry of Trade and Industry in March 1989). The problem of duplication and lack of coordination of SSB agencies is well known, especially in those countries where there is a multiplicity of such agencies. Attempts to solve this problem by establishing a SSB coordinating agency have not been successful, as the experiences in Malaysia and the Philippines have shown.

Chart 1: An ideal institutional Framework for SSB Development



It should also be pointed out that not all SSB agencies serve only SSB. In some cases, such as MARA, the mandate of these agencies extends beyond SSB. Finally, with a few exceptions, most of the specialized SSB agencies are quite small, both in terms of manpower and financial resources.

The functions of the specialized SSB agencies are generally coordinated by a central or national SSB agency. In many countries, the top SSB agency comes under a government ministry (usually the Ministry of Industry). Alternatively, the top SSB agency may be a quasi-government body such as the Small and Medium Industry Promotion Corporation in the Republic of Korea. In some countries, such as Indonesia and Singapore, the top government SSB agency is directly involved in the implementation of SSB programmes. For example, the Directorate-General of Small Scale Industries in Indonesia plans and implements all the ongoing promotion and development programmes for SSB in the country. Similarly, the Small and Medium Enterprise Division in Singapore administers various government assistance programmes for SSB. In other countries such as Malaysia, the top Government SSB agency merely supervises or coordinates the functions of specialized SSB agencies.

In the private sector, the various SSB organizations may be established as trade associations or private firms. The SSB trade associations may be associated along industry lines as in the Philippines, or incorporate all industries as in Singapore. They may even be organized along provincial lines. In any case, they join together to form a national association representing all SSB in the country concerned. The private firms are usually organized to provide certain services to SSB on a profit-making basis, or they may be organized by non-governmental organizations on a non-profit basis, such as the one organized by the Bali Protestant Church in Indonesia. Whatever the case, the private sector SMI agencies unite at the national level under a Federation of SSB Associations as shown in Chart 1. Both the Central SSB Agency and the Federation of SSB Associations are represented in the National Joint Consultative SSB Planning Committee chaired by the Director of the National Economic Planning. In this way, the institutional infrastructure in Chart 1 provides for maximum public and private sector interaction, not only in the formulation, but also in the implementation of SSB policies.

Finally, Chart 1 also shows that the top SSB agencies at the national level, both in the public and private sectors, are affiliated to their respective regional or international organizations. Such links help to promote regional and international cooperation in SSB.

The main principle underlying the structure of the ideal institutional framework for SSB development in Chart 1 is that SSB development should be a joint effort between the public and the private sector. It may be necessary for the government to take the initiative and play a more important role, but the private sector's role should not be minimized or even excluded. Unfortunately, all too often this is what is happening in practice. Thus, in many Asian developing countries the government plays the dominant, and in some cases, even the exclusive role in SSB development. In these countries, the government institutional infrastructure for SSB development is extensive and well developed but there is hardly any equivalent counterpart in the private sector. Consequently, there is little or no cooperation between the public and private sector in SSB development.

A good example may be seen in Malaysia where a total of 13 government ministries and more than 30 public or quasi-public agencies are involved in one way or another with SSB development. On the other hand, there is hardly any SSB agency in Malaysia worthy of its name in the private sector. Consider, for example, SSB trade associations. There is only one small SSB association (Medium and Small Enterprises Association of Malaysia) representing SSB in Malaysia and even then, its membership is very limited and is highly concentrated in Kuala Lumpur. The same may be said of SSB trade associations in almost all the other Asian developing countries. For example, according to R. Clapham (1985 : 103), in Indonesia, six special organizations have been set up in collaboration with the national chamber of commerce and industry, KADIN, for the promotion of SSB:

- a) HIPPI: Himpunan Pengusaha Pribumi
(Indigenous Entrepreneurs' Organization)
- b) HIPMI: Himpunan Pengusaha Muda Indonesia
(Young Indonesian Entrepreneur's Association - age limit for membership: 40 years)
- c) KUKMI: Kerukunan Usahawan Kecil & Indonesia
(Small and Medium Business Society of Indonesia)
- d) HIPLI: Himpunan Pengusaha Lemah
(Weak Entrepreneurs' Organization [Pribumi])
- e) HIKSI: Himpunan Industry Kecil Seluruh Indonesia
(Small Industrial Organization of Indonesia)

**f) GENSI: Gabungan Pengecer Seluruh Indonesia
 (Retailers' Association of Indonesia)**

So far, KADIN and these organizations have had only limited success in appealing to SSB and recruiting them as active members. For example in Bali, of a total of 12,557 businessmen registered in February 1982, only about 1,000 were members of KADIN. According to R. Clapham (1985 : 103), the membership subscription fee was relatively low (e.g. Rp. 75,000 for three years for SSB with an operating capital of Rp. 25 - 76 million). Possibly, many SSB do not see any advantage in belonging to an association or chamber which provides few tangible benefits. There may be some truth in this, since an examination of the programme of one SSB association showed that apart from the organization of one poorly attended trade fair and a few seminars, the association did not seem to be very active. In other countries where SSB may be keen to form associations, the governments may not have been encouraging.

The situation in many Asian developing countries contrasts sharply with that in Korea and Japan. For example, according to one study, in 1978 there were nearly 40,000 SSB associations in Japan, with almost 50 % SSB participation. The main tasks of these associations related to joint activities in the areas of subcontracting, purchase of raw materials, financial management and production (Castillo and Cortellese 1988 : 146). In Korea, one of the most active associations is the Korean Federation of Small Businesses with well over 16,000 members. Its activities involve the coordination of sub-contracting, collective purchasing and selling, establishing contact with overseas buyers and investors, information services, technology transfer and making policy recommendations to the government.

The situation is best summed up in Chart 2, which shows that in contrast to the trade associations in Japan and Korea, those in the selected Asian countries are small and generally unrepresentative of the SSB population. For example, there are more than 20,000 SSB in Malaysia but there is only one small SSB association. The association has less than 200 members and most of them are Chinese SSB concentrated in Kuala Lumpur. Similarly, the SSB associations in Thailand and Singapore have less than 300 members each. By comparison, there are nearly 40,000 SSB associations in Japan and almost half of all Japanese SSB are members.

Chart 2: SMI Trade Associations in Selected Asian Countries

Country/Association	Year of Establishment	No. of staff	Annual Budget (US\$)
Indonesia			
Association of Indonesian Small and Medium-Sized Enterprises	1979	6	33,400
Association of Young Indonesian Entrepreneurs	1972	8	n.a.
Malaysia			
Medium and Small Enterprises Association of Malaysia	1981	2	6,100
Philippines*			
Singapore			
Association of Small and Medium Enterprises	1986	n.a.	n.a.
Thailand			
Small Industries Association	1976	19	11,500
Korea			
Korea Federation of Small Business	1962	235	3,300,00
Korean Association of Small Business Studies	1978	5	32,000
Japan			
General Federation of Small and Medium-sized Enterprise Associations	1961	4	116,000
Japan Federation of Smaller Enterprise Organization	1948	6	379,000 (Project costs only)
National Association for Promotion of Subcontracting Enterprises	1979	9	804,000
National Federation of Small Business Associations	1956	52	6,366,000
National Small Industry Mutual Benefit Foundation	1966	30	145,186,000
Small and Medium Enterprises Management Consultants Association of Japan	1954	13	3,300,000

- * There is no SSB association in the Philippines. SSB are represented by various industry associations, such as the Metalworking Industries Association of the Philippines, Inc.

Fortunately, SSB organisations established by NGOs (Non-Government Organizations) have a stronger presence in several Asian developing countries. For example, Indonesia has 22 NGOs working on SSB development. Similarly, Philippines also has several NGOs involved in SSB promotion such as SERDEF (Small Enterprises Research and Development Foundation), Philippine Volunteers Foundation (PVF) and the Philippine Business for Social Progress (PBSB). (For details, see Technonet Asia 1989: 20 and 277. For a discussion of the role of NGO, see R. Hunt 1987: 167-186.) There are also several NGOs at the regional level which devote some of their attention to SSB. These include Technonet Asia, Asian Productivity Centre and the Asian Institute of Management. Nevertheless, the NGO cannot compensate for the stymied development of SSB associations.

As a result, the weak organization of SSB has prevented them from setting up any organization at the subregional level such as the equivalent of an ASEAN Chamber of Commerce and Industry (ACCI). Two exceptions may be mentioned. One is the Asean Handicraft Promotion Association (AHPA) based in Bangkok and the other is the World Assembly of Small and Medium Enterprises (WASME) based in New Delhi. AHPA, however, is restricted to handicrafts and not all SSB, while WASME is not a federation of SSB associations. (Established in 1981, WASME is an international non-governmental confederation of governmental and non-governmental bodies concerned with the promotion and development of SSB in the member countries. Within the Asian region, the member countries of WASME are Bangladesh, India, Indonesia, Iran, Republic of Korea, Malaysia, Nepal, Pakistan, Philippines, Sri Lanka, Thailand and Singapore.)

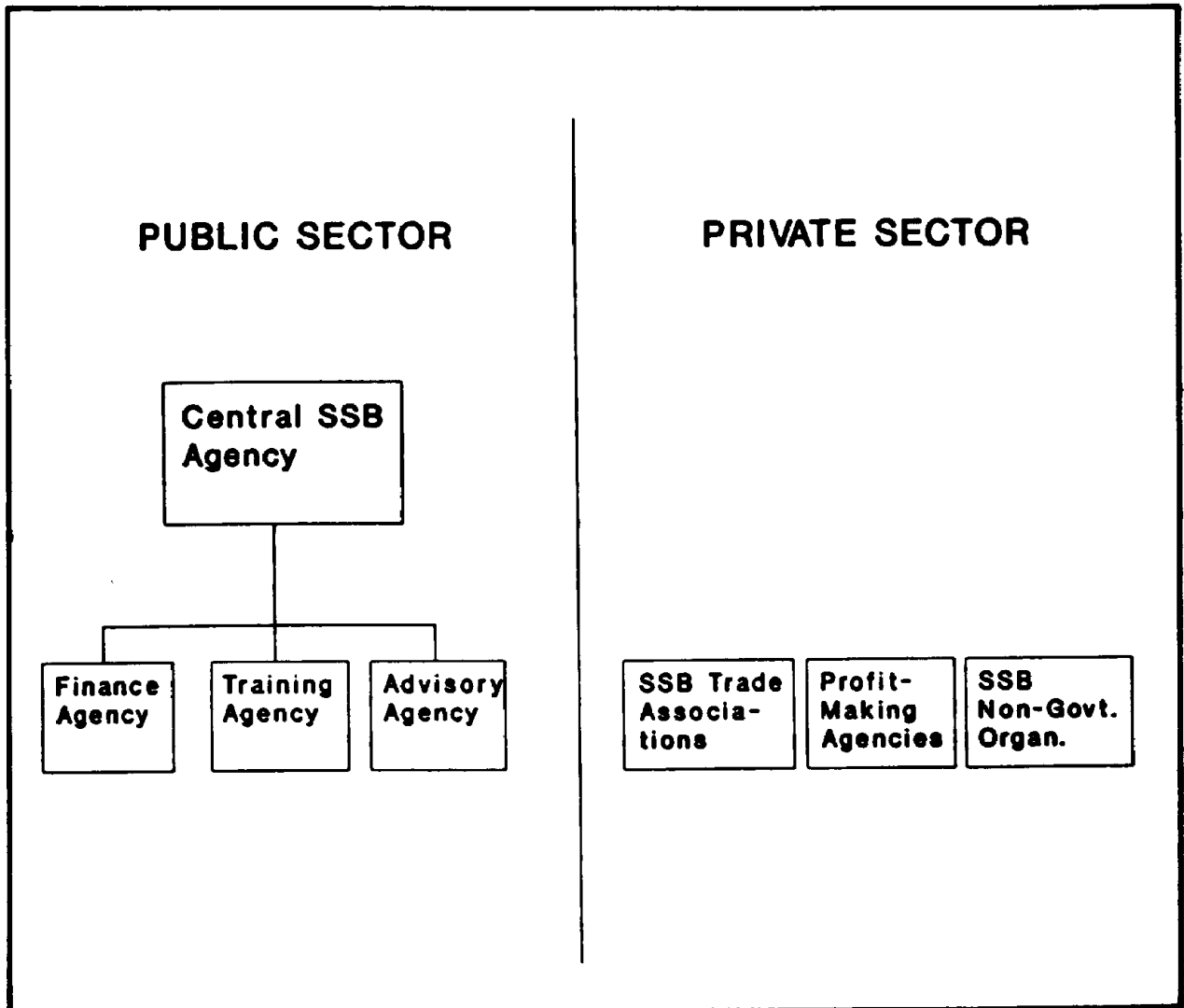
From the above account, it would appear that the actual institutional framework for SSB development in many Asian developing countries would resemble that in Chart 3 rather than the ideal in Chart 1. Chart 3 shows that the government SSB agencies greatly overshadow those in the private sector where there are, at most, only a few SSB associations or organizations. Moreover, many of the latter are small and their functions are severely restricted. More significantly, Chart 3 shows that there is no interaction between the public and private sector SSB bodies. There is no coordination or consultation at the national level between the public and private sector SSB bodies. Both parties function largely in isolation from each other. The reason for the above situation is obvious. The institutional infrastructure for SSB development in many Asian developing countries is extremely lop-sided and uni-dimensional. For example, a large majority of the agencies in the

Philippines are in the public sector. Since SSB institutions in the private sector are weak and not all representative of SSB in the country, the government does not see any need to cooperate with these institutions, either in planning or implementing SSB programmes. At the same time, in the absence of a strong and representative SSB association, the views of SSB, especially in relation to their needs and problems, are seldom represented directly to the government. Instead, they are often filtered indirectly through academics or chambers of commerce whose interpretation may be distorted, albeit unintentionally.

Large enterprises, on the other hand, have a number of strong and representative associations to communicate directly with the government. In several countries, the governments have also established joint public-private sector consultative bodies to establish a regular channel of communication. These consultative bodies are generally restricted to private sector representatives from large enterprises. For example, the private sector representatives in the Joint Private-Public Sectors Consultative Committee in Thailand comprise the Thai Chamber of Commerce, the Thai Industrial Council and the Thai Banker Association. The voices of large enterprises are also heard clearly at the subregional and international levels, such as through the Asean Chamber of Commerce and Industry and the International Chamber of Commerce and Industry. Obviously, this is an important advantage which large enterprises have over SSB.

The problem is neatly summed up by R. Clapham (1985 : 101) who stated that "negative effects on the development contribution of small and medium enterprises derive from the fact that they and their interests are not, or at least not sufficiently represented by institutions in society". As a result of the lack of SSB representation, several SSB agencies have not given adequate attention to the needs and problems of SSB in their work programmes. For example, industrial promotion programmes are introduced without taking adequate account of the interests of SSB, while the national education system and occupational guidance provisions often jeopardize the supply of qualified manpower for SSB by placing emphasis on training a labour force for large enterprises and the public administration.

Chart 3: Most likely institutional Framework for SSB Development



In view of the above, it is imperative to develop SSB institutions in the private sector. The governments should try to support the formation of SSB associations and, at the same time, privatize some of its SSB agencies or encourage private firms to provide some of the services needed by SSB. In this way, SSB institutions in the private sector may be able to develop on par with their government counterparts. When they do, the government will be able to involve them in a joint effort to develop SSB. Such a development may be more effective than a "go-it-alone" effort by the government SSB agencies.

There are several advantages of involving the private sector in SSB development. Firstly, private sector SSB institutions may be able to provide more practical and "hand on" assistance to SSB than government SSB agencies which are mostly run by bureaucrats with little business experience. Secondly, private sector SSB institutions may be more "user friendly" and may be more familiar with the problems of SSB than government agencies which tend to follow too many procedures. Finally, private sector SSB institutions may be more cost effective since they operate along commercial lines and may be more in tune with changes taking place in the market. Extension on marketing services may be more effective if they were provided by, or, in cooperation with the private sector.

A.J. Young (1988 : 59) explains that it is very difficult to organize training for SSB consultants for many reasons. Firstly, SSB, even in the formal sector, is a little frightened of government. They view government not as a helping hand, but as a controlling force and visits from officials, even if they are well known and liked, receive a cautious reception. In almost every business somewhere, some entrepreneurs are not conforming with regulations-labour codes, sanitary regulations, fire precautions - you name it, they are breaking the rules. Most important of all, they fear the tax authorities - even when they are making losses. It is the old story of private enterprise versus officialdom, and the two will never live together in complete harmony. This makes surveying difficult and auditing impossible, and these are vital training activities for developing consultants.

Secondly, although the perquisites may be quite good, the level of government salaries limits the quality of the teaching faculty, for not only skill, but dedication is required. This is widely known. If you are teaching and really want to do this well, there is no time for anything else; certainly no time for a spare time job. Thirdly, facilities are required for transport and

teaching, and normally, government budgets on a larger scale are very difficult to secure.

Therefore training of consultants by private institutions such as Lembaga Pendidikan dan Pembinaan Manajemen (LPPM) Management Institute in Indonesia (for details, see A. Winoto 1988 : 104 - 117) is favoured, and for the same reasons, the use of SSB consultants by banks or other private sector agencies rather than by government as extension officers. This does not mean that government extension programmes that are already operating should be closed down, but it is doubted whether improved cost-benefit results will accrue by expanding them. This has been confirmed by recent experience in Jakarta and the statistics quoted by Winoto; only 35 of the 400 entrepreneurs interviewed had approached the government agencies for assistance, even when all the names and addresses of the people interviewed came from government agencies.

Apart from the above, information channelled to SSB through their associations may be more cost effective. At the same time, SSB associations can foster mutual help among their members through the development of cooperatives, which is a prominent feature in the institutional framework of Japanese SSB. Cooperatives can be a powerful and important tool in the promotion of SSB. This is because SSB, by their nature, may not be able to undertake certain useful activity such as marketing or research. In order to overcome this limitation, SSB should form cooperatives to provide the service they need in common, in the same way that farmers form agricultural cooperatives to purchase inputs and market their crops. Governments can help SSB by providing assistance as well as training in cooperative management. (For details, see OECD : 1982).

It is possible that in several developing countries, technical services to be operated only through the private sector to assist SSB are not a feasible reality in the near future. However, it is not too early to try to broaden the scope and coverage of such services by introducing more privately operated elements, even within a system that is primarily public financed and administered.

The importance of developing SSB trade associations cannot be over-emphasized. In the absence of a strong SSB association, the sector is unable to make its voice heard in government policy formulation. As a result, SSB are not able to advise and influence the government on social and economic issues or legislations which affect their interests. The more the government shifts the emphasis of its economic policies from general to

special, selective measures, the more important it is for SSB to make their voices heard. Large enterprises can usually speak directly to the government whilst SSB have no channel for any communication with the government.

It is true that in addition to their own trade associations, SSB may also be represented in the national chambers of commerce, manufacturing or employers associations. However, these associations may not adequately represent the interests of SSB. For example, in Indonesia, KADIN was criticized for paying too little attention to the small industrial sector (R. Clapham 1985 : 103). At the same time, it should be pointed out that other associations, such as the Federation of Malaysian Manufacturers (FMM) or the Singapore Manufacturers Association (SMA) do play an active role in promoting SSB, although large enterprises comprise the majority of their membership. For example, FFM has set up a Committee on Small-Scale Industries and presented several memoranda to the government on SSB development. Similarly, the Singapore Chinese Chamber of Commerce has conducted several studies on SSB, including a recent survey on their training needs and problems.

Nevertheless, SSB cannot depend on other organizations to articulate their own interests. Thus, there are adverse implications arising from the fact that SSB and their interests are not adequately represented. As a result, some of the problems confronting SSB, particularly the unintended adverse impact stemming from certain government policies and regulations, are not brought to the attention of the government. Similarly, some government SSB agencies are not fully aware of the specific needs and problems of SSB.

No doubt the task of establishing SSB associations will not be an easy one. On one hand, some governments do not encourage the development of SSB associations for the same reason that they discourage trade unions. On the other hand, SSB entrepreneurs are by nature lone operators and very protective of their independence.

Nonetheless, SSB may be persuaded to join together for a common objective. This may be possible if SSB associations are more than social organizations. They must strive to provide services which are useful and practical to their members. Such services could include information, seminars on modern management techniques, counselling on various problems facing SSB, educational programmes and cooperative purchasing and marketing.

In summing up the role of SSB trade associations, it may be useful to refer to the conclusions concerning the promotion of SSB by the International

Labour Conference on 23 June 1986. The Conference urged SSB trade associations to intensify their actions in respect of SSB, both in promoting the interests of SSB members and in enhancing the effectiveness of government programmes of assistance to SSB. The associations should also provide training and advice on managerial and financial aspects and on labour relations, working conditions and international labour standards. The Conference also suggested that very small enterprises, cottage industries, artisans, craftworkers, etc., should be encouraged to organize themselves voluntarily on a scale or cooperative basis which could be affiliated with other associations of their choice (Neck and Nelson, 1987 : 268-269).

For its part, the government should encourage the formation of SSB associations and their activities. At the same time, the government should be careful to ensure that its encouragement is not so overwhelming that the association is seen as an extension of the government (R. Brockhaus, 1983 : 240).

Finally, it should be noted that the ideal institutional infrastructure for SSB development, as shown in Chart 1, is not really that visionary or unattainable as it may seem. In fact, there is already such an infrastructure in place in several Asian developing countries such as Thailand and Malaysia. Unfortunately, such an infrastructure is restricted only to large enterprises. SSB have yet to be accommodated within the public-private sector condominium.

4. Policy Implications and Suggestions

In the last decade or so, the policy environment for SSB has become more favourable and more governments in the developing Asian region have encouraged the development of SSB. Nevertheless, some inadequacies remain and certain remedial measures may be necessary. At the national level, the macroeconomic policy package should be reviewed to ensure that macroeconomic policies do not inhibit or obstruct the development of SSB, but create a favourable industrial environment for SSB to grow and advance. At the sectoral level, SSB policies in several Asian developing countries need further refinement. It may be desirable for SSB agencies to focus on selected SSB which have the potential for modernization and growth instead of all SSB, some of which will gradually be eliminated in the course of economic development. The policy objective in terms of SSB development should be efficiency, rather than equity. Developing countries should promote SSB with a view to enhancing the overall efficiency of their industrial sector. The

promotion of equity should be pursued through policies other than those related to SSB. At the same time, developing countries should consider the need to formulate long-term perspective policies on SSB and to ensure a better balance of SSB policy measures. At the regional level, governments should strive for greater regional cooperation on SSB development. While there have been several efforts to develop large or heavy industries through regional cooperation, few attempts have been made for SSB. (For details, see P.L. Chee 1985 and 1988.)

Turning to the institutional infrastructure for SSB promotion, it is obvious that the development has been lop-sided with government SSB agencies strongly eclipsing their counterparts in the private sector. Admittedly, the government has to play a major role in SSB development, especially in developing countries where the various services needed by SSB are inadequately provided by private organizations. But rather than the government stepping in to help SSB all by itself, it may be desirable to develop SSB organizations in the private sector to complement the government's efforts. This would be in line with recent trends in many countries where governments are allowing the private sector to play a more active and greater role. (For details, see Pfeffermann and Weigel, 1988 : 25 - 27.) Such a trend has emerged, as studies generally show that countries which have grown rapidly are those which have adopted a policy framework that permits the private sector to flourish. (For details, see OECD, 1988.)

Apart from privatizing some SSB agencies in the public sector and encouraging private firms to provide certain services needed by SSB, governments should encourage large enterprises to assist SSB and also encourage SSB to help themselves.

In addition to subcontracting, large enterprises can assist SSB by paying SSB's bills on time, providing expert help in solving managerial and technical problems on either an ad hoc basis or even by seconding staff for various periods. They can even provide land and buildings where SSB can develop. Furthermore, large enterprises can sell off unwanted product lines or subsidiaries to SSB.

SSB should be encouraged to form trade associations and cooperatives to share information and develop mutual assistance programmes to help themselves. Presently, hardly any SSB agency in the developing Asian country has any work programme designed to encourage the formation of SSB associations. Perhaps the major SSB agencies, such as UP-ISSI, should

initiate this development. Once SSB trade associations are developed and adequately representative of the sector in their respective countries, the governments should invite them to join a public-private consultative body in order to ensure SSB direct participation in the formulation and implementation of SSB policies. Developed countries should also assist by inviting members of SSB associations from developing countries to participate in technical assistance programmes or learn about the organization and functioning of SSB associations in developed countries. Organizations such as the German Federation of Small Business and Crafts (Zentralverband des Deutschen Handwerks - ZDH in short) can play a very important role in this respect.

Finally, two major developments in the last ten years have underscored the significance of SSB. One is the uncertainty and rapid changes in the global economy. Developing countries which will prevail over the uncertainty and changes will be those countries which can rely on SSB to provide a stabilizing influence. The other major development is the emergence of a new international division of labour, with Japan and the newly industrializing countries forming the core of an Asian Pacific community. This development will also give a boost to SSB, as the evaluation of the Yen, the Won und the Taiwanese Dollar force manufacturers to source parts and components from developing countries. Developing countries which will benefit from this development will be those which have a well-developed SSB sector. Such a sector will become a reality if there is a suitable set of SSB policies and an efficient institutional framework for SSB development.

In conclusion, while governments should continue to play a leading role, SSB development should be a cooperative effort, not only involving the public and private sectors, but also a regional and international initiative involving cross-border exchanges of information and experiences through regional cooperation. The evolution of SSB development along this line would be in conformity with recent trends toward greater private sector participation and closer regional cooperation. At the same time, such a development will expand the nature and quantum of resources available for SSB development and tap the synergy which will be generated through cooperation at all levels of the economy.

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