

## **CHAPTER 4**

# **THE OBSTACLES AND THE COUNTERMEASURES BY SME IN ASEAN**

### **4.1 Analysis of obstacles faced by ASEAN SME**

#### **4.1.1 Shortage of funds**

Capital is the first driving force and continuous driving force for the development of enterprises, and it is also a key factor that affects SME from birth to growth to growth. However, the shortage of funds is a common problem in the development of SME, and it is also the most important issue encountered by SME in ASEAN countries.

Access to finance is a key concern for ASEAN SME. According to ERIA, there is a big gap in the access to finance of the less developed ASEAN Member States when compared with Singapore, Malaysia, Thailand, Indonesia, and the Philippines. There are also cumbersome requirements. According to the World Bank, an average of 47 days is required for 13 procedures to start a business in Indonesia, while it requires 73 days for six procedures in Lao PDR. It would only take three days to complete three procedures in Singapore and online electronic applications are made to a single authority. The business registration process should be simplified. Promoting human resource development and entrepreneurship is essential for SME to succeed. Entrepreneurship learning programmes help equip SME with improved management and business methods. Presently, the ASEAN Common Curriculum in Entrepreneurship, which is one of the initiatives of ASEAN Strategic Action Plan for SME Development, aims to establish a common curriculum for entrepreneurship in the region with the use of an entrepreneurship educational programme that is currently implemented in ASEAN universities. In conclusion, it is essential to implement an effective SME development policy that will propel regional cooperation among ASEAN Member States. This will assist SME to expand internationally and integrate them into global supply chains.

(1) Financing status of ASEAN SME

a) the company's own accumulation

This is the primary source of funding for small and medium-sized enterprises when they are established. It mainly includes personal savings, financing to friends and family, and internal retention of the company. Funds that have been accumulated by themselves have the lowest cost of use. However, the self-owned capital of ASEAN countries is less. The self-accumulation awareness of SME is poor. Many SME lack the long-term management thinking due to the quality of their own businesses, and tend to have short-term tendencies in the distribution of profits. Almost all of the profits are used for distribution. Rarely considered from the perspective of the company's long-term perspective Funds to supplement the lack of operating funds. When the company has just opened, it will often digest technology, create brands, and strive to expand the scale to occupy the market. However, when we really have a market and when we see benefits, we find that funds have become a “bottleneck”. In Malaysia, only half of the sources of funds for starting small businesses are self-owned funds, while the rest are mainly borrowed from commercial banks. In Thailand, SME own only 32.3% of their capital. However, the enterprises in developed countries attach great importance to their own accumulation. For example, in the case of U.S. companies when they were founded, individuals accumulative accounted for more than 60% and only 9% borrowed from friends and family.

b) Borrowing of informal informal financial institutions

This part of the funds is characterized by short deadlines and high interest rates. From 1982 to 1987, 40% of SME in the clothing, food and metal processing industries in the Philippines were financed by non-formal financial channels. In the metal products industry, a large part of the fixed capital of SME is borrowed from this channel, making SME bear a heavy burden of interest and increasing the rate of closure of small businesses.

c) bank loans

At present, the financing of SME in ASEAN countries is still largely dependent on bank borrowings. Because in the ASEAN economic development process, the government often promulgate various regulations to restrict the establishment and development of non-bank financial institutions, resulting in the vast majority of funds concentrated in the hands of banks, companies have to rely on bank loans. In addition, the

government has established a credit policy for SME. Many of its credit funds are issued from banks, which also increases the dependence of SME on banks. According to statistics, Thailand's SME obtained loans from commercial banks in 1998 reached 44.6%, and loans from state-owned banks reached 8.9%, totaling more than 50%. 01 Although the initial capital required for the development of SME in Indonesia is mainly from private savings and the informal financial sector, However, development funds are mainly borrowed from banks. In 1995, this proportion was 62%.

#### d) venture capital

Venture investment generally refers to high-risk and long-term investments made by professional investment companies to private companies or institutions through financing agreements and other forms of agreements. The goal is not to obtain dividends, but also not to obtain interest income. Instead, it seeks to increase the capital appreciation under high risk through the professional development and management assistance of the invested company, and finally through the introduction of a listing or equity transfer method.

#### e) the stock market financing

The financing of the stock market of SME is mainly through the second board market. The Singapore Securities Trading Automatic Quotation System was established in 1989 and its listing criteria are very flexible. As long as SME have the development potential, they can be listed on the second board market as long as they can prove that they have the ability to obtain funds, carry out project financing, and develop products. The Kuala Lumpur Second Market (KLSE) was established in November 1988. It has specific requirements for the paid-in capital of listed companies. The paid-in capital that is issued at the time of listing must be composed of all ordinary shares, with a minimum of no less than 40 million forests. Gite. If you have preferred shares or negotiable bonds, you should realize them before listing. At present, there are more than 280 listed companies in the second board market in Kuala Lumpur, with a market value of 39 billion ringgit (about 1 billion US dollars). Although Thailand established an alternative investment market for SME in June 1999, its operation was not very successful. Neither the Philippines nor Indonesia has specifically created a second-tier market for SME.

## (2) East Asian Financial Crisis Accelerates Financing Difficulties for SME

The Asian financial crisis that erupted in 1997 was not only a banking crisis but also an economic crisis that affected all aspects of the economy. For SME, the crisis has made the financing more difficult, which can be explained from the following two aspects: (1) From the perspective of funding demand, the crisis has caused people's purchasing power to decline, causing a serious backlog of SME's products. The shortage of liquidity required for the continued development of the enterprise has increased the funding needs of SME. According to statistics, during the crisis, the domestic market demand for Thai SME has dropped by 30% to 40%, and the market demand for SME in some auto parts and electronics industries has contracted by 60-100%. (2) From the perspective of fund supply For one thing, on the one hand, because of the existence of non-performing loans, banks began to shirk their loans, which not only increased the interest rate on loans, but also limited the maximum number of loans.

On the other hand, suppliers of raw materials, intermediate products, and services have greatly shortened the deadline for payment, and have greatly reduced the amount of funds that SME have obtained from commercial credit.(3) The impact of shortage of funds on SME.

A fund known as the "blood" of a company's life and the "source" of life, if there is a shortage in the development of the enterprise, the impact of this shortage on small and medium-sized enterprises is a matter of life and death, ranging from a temporary suspension of production to a failure. Bankruptcy.

### **4.1.2 Market share issues**

In many foreign literature, market share is considered a serious constraint to the development of SME. In the ASEAN region, James and Akrasanee (a famous study conducted in 1988 showed that market share is one of the major obstacles faced by SME in the region (Singapore is less). This study concludes that: If SME are not in market share With progress, market share will become a serious problem that restricts SME in the 21st century.

Market share mainly refers to the market share of products. Like large companies, the market for SME has two parts, domestic and international. In the domestic market, SME are subject to competition from products produced by large domestic companies, foreign-funded enterprises, and imported goods. In the international market, SME's products are subject to fierce competition from large and small SME around the world.

4.1.3 Skilled personnel lack of medical care.

#### **4.1.3 The third section of skilled personnel medical lack**

The lack of skilled personnel is considered to be another important factor constraining ASEAN's SME. Skilled talent not only includes employees who have advanced technical knowledge, but also entrepreneurs with modern management skills. Both of these resources are scarce in ASEAN countries.

(1) The quality of employees and the lack of technical staff.

In small and medium-sized enterprises in remote rural areas, many employees have never received any professional training. They only rely on long-term accumulated experience to operate extremely simple machinery and equipment and earn a little wage for their families.

(2) Most SME managers lack the theory and practice of modern enterprise management.

The enterprise's management is in a disorderly state. There is no market research before the birth, no strict cost accounting is strictly carried out, and there is no strict quality control in production. There is no Specific marketing strategies; no post-natal service. This backward management and management philosophy has led to the blind production of SME and the low quality of their products.

## **4.2 ASEAN Countries' Strategies for Developing SME**

SME are an important part of the national economy, not only because of their large number and variety of forms, but also because they involve various aspects of economic life and they have played a role in creating jobs, promoting exports, economic growth, and income distribution. huge contribution. It is precisely the recognition of the important role of SME in the national economy. Since the epoch, governments in ASEAN countries have actively involved SME with a view to protecting and supporting the development of SME. They focused on the major issues faced by SME in the market competition, and made a lot of meticulous and in-depth work on financial policies, technical assistance, human resources development, promotion of exports, and encourage cooperation between large and small enterprises, etc., as a necessary and primary step. It is to establish a corresponding special management organization as an organizational guarantee and to formulate laws concerning SME.

#### **4.2.1 Establishing an organizational leadership system for SME**

The establishment of a special administrative management organization has become the primary content of the development support policies for small and medium-sized enterprises in various countries. In order to fully implement all policies and produce policy results in a timely manner, governments of various countries have spared no effort and spent a lot of resources and manpower to build a comprehensive package that includes the central government, local governments, civil society organizations, and even individual investors. Multistage management system. Western developed countries established administrative agencies for small and medium-sized enterprises in the early post-war period, while in ASEAN countries, after the mid-70s, the management functions of small and medium-sized enterprises were generally established and adjusted, and were specifically responsible for the formulation of SME development plans and policies. And coordinating the development of SME and initially forming an institutional network to guide SME.

#### **4.2.2 SME financing benefits**

##### **(1) Malaysia's Financing Preferential Measures**

The Malaysian government and financial institutions have broadened their financing channels and provided various financing facilities. Malaysia also established a credit

guarantee system for SME.

## (2) Indonesia Financing Preferential Measures

Indonesia has two major loan programs for SME: Small Business Investment Credit (or Liquidity Plan) and Rural Enterprise Credit Plan.

## (3) Philippines Financing Preferential Measures

Established in the SME Guarantee Fund to encourage the development of the private sector, it has imposed mandatory regulations on various lending businesses for banks to SME. The specific standard is 5-10% within five years.

## (4) Singapore Financing Preferential Measures

Small Business Funding Scheme. The Singapore government has also given SME great help in financial policy. The most famous of these is the Small Business Funding Program. The plan was an integral part of the Economic Development Council's Capital Assistance Program in November 1976. In 1991, the plan was renamed the Local Enterprise Funding Program.

## (5) Thailand Financing Preferential Measures

Before the East Asian financial crisis, Thailand was mainly conducted through the two official financial institutions of Thailand Industrial Finance Corporation and the Ministry of Industry Small Business Loan Bureau. The Ministry of Industry also cooperated with the state-owned commercial bank, Bank of Thailand, to launch a loan of 10 billion Thai strains to be loaned to SME that have joined the Ministry of Industry's rural industrial development projects. In order to solve the problem of liquidity shortage, the Thai government is also committed to improving the ability of financial institutions to identify loan projects, evaluate the performance of lending companies, and provide guidance to clients. The purpose is to rebuild people's confidence in banks and other financial institutions. In addition, the Thai government also intends to establish a special service bank for SME.

The Thai government attaches great importance to the development of high technology in SME. To this end, the Thai government has issued long-term and low-interest loans to private investors dedicated to the research, development and application of science and technology.

At present, Thailand is setting up a technology innovation fund to encourage companies to increase their technological content.

#### **4.2.3 SME Technology Development Policy**

##### **(1) Provide technology to SME**

There are numerous small and medium-sized enterprises, but many SME lack the corresponding human and financial resources to build their own R&D institutions. Some SME do not even have technical research capabilities. Therefore, they urgently need to improve their technological level and change their backward technology. To this end, many countries have established different types of scientific research institutions that serve the technological development of SME and provide SME with appropriate technologies. Indonesia has established thousands of SME development centers and technical assistance centers in the country, which are responsible for technology popularization and technical guidance for SME.

##### **(2) Provide financial protection for SME technology development**

Because large enterprises generally have sufficient manpower and capital, they can engage in more project development, and even fail to survive through tough financial resources, while SME are obviously constrained by lack of funds. Therefore, ASEAN countries pay more attention to assisting SME in accelerating technological progress from the aspect of funding.

##### **(3) Strengthen intellectual development and provide talent support**

Regarding large enterprises and SME, having advanced technology and high-quality talents is the key to the sustainable development of the company. There is a serious shortage of SME in ASEAN countries in terms of entrepreneurs, general technicians and skilled workers. To this end, governments around the world are developing intellectual development and providing talents in these areas.

#### (4) Provide information services for SME technology development

In today's world, information and technology are changing rapidly. Whether they can grasp these information in a timely manner and make correct decisions is very important for companies to effectively conduct technological development. The government itself is a larger center of information transfer and has advantages in collecting and disseminating information. Therefore, helping SME to understand scientific and technological information so that they can better plan technological innovation activities has become an important part of ASEAN's SME's technology policy.

#### **4.2.4 SME Export Development Policy**

With the globalization of the world economy, companies in all countries are facing fierce international competition, especially among SME. For this reason, many countries have formulated policies that support the export of SME and increase their competitiveness.

#### **4.2.5 Small and Medium Enterprises and Large Enterprises Cooperation Policy**

The scale of modern enterprises has a tendency to develop in two directions: on the one hand, production is centralized, production factors are increasingly concentrated on a small number of large enterprises, and on the other, production is decentralized, and the number of SME is increasing. Practice has proved that large, medium and small-sized enterprises have developed at the same time and have closely integrated and coordinated development. This is an objective trend in the development of the scale structure of enterprises.

##### (1) Singapore's "Local Industrial Improvement Plan"

In order to change the situation in which foreign multinational corporations have weak links with local industries and establish a strong supporting industrial system, in May 1986, the Singapore Economic Development Bureau formulated and implemented a local industrial improvement plan (later renamed the Local Enterprise Promotion Program). The company's strength is to improve the production technology and management level of local SME, to promote the establishment of a division of labor and cooperation between multinational companies and local SME, so that more manufacturers become parts suppliers of multinational companies.

The plan is divided into three phases: the first phase focuses on improving the basic operating efficiency of local SME; the second phase is to increase the level of SME identification of new products and improve processing technology, and at the same time promote multinational companies to subcontract part manufacturing to In the third phase, multinational corporations assist local companies in product research and development. At present, there are 32 foreign multinational companies participating in the program, and there are as many as 200 local SME. Among these multinationals are American Telegraph and Telegraph, Hewlett-Packard, General Electric, Apple Computer, Philips, Panasonic, Sony and other famous companies. Most of them are electronics and electronics companies. The local SME that participated in the program are mainly engaged in die casting and metal die casting. , plastic molding, electronic and electrical accessories and other auxiliary industrial enterprises. With the assistance of these multinational companies, the quality of local SME has been improved to varying degrees. Among them, more than 30 local companies have entered the second phase of the implementation of the plan.

## (2) Indonesia's "Father Adoption System"

The scale of modern enterprises has a tendency to develop in two directions: on the one hand, production is centralized, production factors are increasingly concentrated on a small number of large enterprises, and on the other, production is decentralized, and the number of SME is increasing. Practice has proved that large, medium and small-sized enterprises have developed at the same time and have closely integrated and coordinated development. This is an objective trend in the development of the scale structure of enterprises.

According to the Economic Research Institute for ASEAN and East Asia (ERIA), the lack of strategic approach to innovation policy for SME is one of the impediments of SME development in ASEAN. It is therefore necessary to find ways to promote technology and technology transfer for developing SME's innovation capabilities. Protection and promotion of intellectual property rights, development of broadband infrastructure and industrial parks, and sufficient financial incentives in research and technology development are some policy measures which have to be instituted to boost the SME.