

**THE ROLE OF SMES IN THE CURRENT SITUATION &
PROBLEMS OF ASEAN CORPORATE MANAGEMENT**

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INTRODUCTION

It is true that our region is facing great challenges because of the financial crisis that started in Thailand. The bubble economy of Thailand burst on July 2, 1997 and quickly spread to other Asean countries.

In effort to solve the present economic crisis and to enter the next century with a promising future, Asian countries need to tackle severe structural problems in the real sector as well as the financial one. Lack of competitiveness and sustainability are identified as the key problems of the real sector, the solution to both of which requires innovation as the key variable. Innovation, including both restructuring and upgrading of production and exchange, allows the real sector to emerge from stagnant, unproductive and incompetent activities, which no longer serve the interests of Asian countries in the global economy. Three key policy instruments are identified continuing education and retraining in order to increase the human and social capital, and allowing the innovation which is needed in two other key policy instruments, namely technology development and management development. Application of these instruments to production, exchange and environmental conservation will lead to both technological and economic efficiency, in turn leading to competitiveness and sustainability.

At present, there are four countries in the East Asia to face with economic crisis, namely Thailand, Indonesia, South Korea, and Malaysia. However, Thailand, Indonesia, and Malaysia are the member of the ASEAN. They have the same economic structure especially in manufacturing sector, while South Korea is the NICS. Therefore, this paper would like to emphasis on the ASEAN's country and with the same economic structure, Thailand will be more emphasis.

Context of crisis

The economic crisis in Thailand is a complex phenomenon with many causes. There are two key and interrelated factors. The first is excessive private sector borrowing. The second is panic and the subsequent collapse of investor confidence.

Private sector borrowing took place in the context of an economic boom that started in the second half of the 1980s. Much of this borrowing went into real estate and stock markets, ending in a "bubble" economy that has burst. Companies borrowed foreign currency on short-term loans and banks increased their lending too easily and rapidly for use in unproductive investments. Lending was based not on feasibility of the projects, but on personal relations. Many Thai companies and banks has borrowed offshore in foreign currencies short-term at lower international interest rate, and used the money for long-term investment. With the opening of Bangkok International Banking Facilities (BIBF) in 1993 and with an interest rate differential of several percentage points, companies and banks took advantage of this option and believed that the exchange rate regime would be maintained, large, unhedged positions. At the same time, governments had liberalised their financial markets without strengthening their loose financial and banking regulatory and supervisory systems.



They also did not change their inflexible exchange rate system that tied their currencies to the US dollar during a period when the US dollar was growing stronger against all currencies since 1995.

These widen current account deficit to 8 percent of Gross Domestic Product(GDP), On 2nd July 1997, the Thai government decided to float the Thai baht. Now, companies and banks which had borrowed US dollar with the rate of 25 bahts per US dollar will need 52 bahts to buy one US dollar to repay. The total external debt is us dollar 93 billion, or about 97 percent of GDP at current exchange rate.

Thailand's experience highlights that high rates of investment are not sufficient to sustain a large current account deficit and growing domestic credit. While most of the new funds went to investment and not consumption, the investment was often in the "wrong capital stock". Few investments were in activities that would earn foreign exchange; rather they went into updating facilities geared for domestic production or into non-productive assets. With the relative price of non-tradables rising, this was a rational response, but it has consequences for the ability of firms to increase exports now that the asset bubble and the baht has depreciated so drastically.

Once lost confidence in Thailand, fund managers in foreign countries sold out their assets. Their selling brought down the stock market. By converting baht into US dollar, they caused a further fall in the exchange rate. This crisis is a crisis of confidence.

THE EFFECT ON SMALL AND MEDIUM ENTERPRISES (SMEs)

One of the current impacts of the economic crisis on manufactures is finance crisis. Certainly regarding the financial structure of SMEs there is a heavy reliance on short term borrowing. The average bank debt-to-equity ratio is about 150 percent with almost all of the debt short term. Now, banks are increasingly refusing to roll over credit. Entrepreneurs fear that the crisis may lead to the prolonged weak macroeconomic policies and persistent cost-push inflation and managing the uncertainty of the real devaluation. Faced with three major problems for doing businesses, Thai entrepreneurs have suffered badly in the hostile environment. It urgently needs to be solved in order to gain clear solutions and advices to businesses. The three major problems are as follows:

1. Financial liquidity management

The financial liquidity problems is the most important problem foe doing business nowdays. There are several kinds of financial liquidity problems such as (1) insufficient cash for clearing checks; (2) reduced credit term from production firm to distributors; (3) suppliers have liquidity problems in purchasing raw materials, bringing problems to production firms which cannot produce goods; (4) reduced credit lines from financial institutions; (5) lack of liquidity stemming from the suspension of 58 financial companies' operation; (6) insufficient cash for the monthly payroll of the workers and staffs; (7) reduced salary; (8) cut fringe benefits and bonuses; (9) lay off workers and staffs; and (10) terminate the services of the workers and staff.

2. Managing cost-push inflation and baht devaluation



According to financial liquidity problems, firms currently face management problems due the baht devaluation which has also affected the cost of funds, production and management. The cost of raw and supporting materials quite high forced management to increase prices, while purchasing power of people is decreasing. Thai entrepreneurs lack confidence in managing the operations including decision regarding appropriated product pricing levels.

3. Regaining consumer confidence

After baht float on July 2, 1997 both entrepreneurs and consumers at all levels receives widely affect by economic recession, while the government did not provide clear measurment and strategies to tackle these problems. These have generated more confusion and lack of confidence in investment including consumers' delay of consumption. Many of them are shifting their consumption pattern tertiary or secondary into primary or basic needs.

4. Market capabilities

The export sectors growth rate had already showed down. This was due to the fierce competition poised by South Asian, Chinese and Vietnamese companies. The show down in the industrial sector combined with the current financial crisis has resulted in either a tempory cutback or cease of operation, including reduction or bermination workers. Why did Thailand lose in the fierce competition? The answer is simple. The competitiveness of the industrial sector itself has weakened.

Firstly, enterprises are still using outdated technologies that resulted in low productivity and low product quality. Product development was lacking particularly in coming out with high value added items.

Secondly, entrepreneurs lack management and marketing knowledge.

Thirdly, the basic skills of the labor force is low.

Fourthly, many export items have high import contents, particularly the raw material. In addition, most export items are destined for the middle and low-end market brackets.

Lastly, Thai exporters have limited access to markets.

There is not much choice left for most of the country's small and medium entrepreneurs (SMEs). Eighter they downsize, freeze or even worse, close their business.

STRUCTURE OF SMALL AND MEDIUM ENTERPRISES IN THAILAND

Small and medium enterprises have varied in Thailand. The Ministry of Industry uses employment and equity to define small and medium industries (SMI) and refers to legally registered factories. The employment criterion to define small scale industries (SSI) places a ceiling of 50 employees, and between 50-200 workers for medium scale industries (MSI). In terms of equity, SSIs have an invested capital not exceeding 10 million baht (about



USD355,000), and MSIs from over 10 million baht to 100 million baht (about USD3.55 million)

The bank of Thailand, the Small Industry Finance Corporation (SIFC), and the Industrial Finance Corporation of Thailand (IFCT) adopt a common definition for SSIs by using net fixed assets, that is, not more than 20 million baht (about USD710,000).

The member of enterprises throughout the country was estimated at 239,678 in 1993 of which 69,856 or 29 percent belong to the manufacturing sector. The manufacturing enterprises registered a growth rate of 4.9 percent over the 1992 figure of 66,566. Out of the total number of establishments, 224,695 or 93.7 percent are considered small enterprises employing between 1-49 employees. Total number of employees in the small enterprises sector was 1,478,000 or 30 percent of total enterprise employment of 4,911,787. Total manufacturing enterprises accounted for 58 percent (2,576,000) of total enterprise employment.

The number of industries (excluding rice mills) throughout the country as of 1991, was 64,107 of which 63,230 (98.6 percent) were considered SMIs, broken down into 51,232 SSIs (90.7percent) and 4,322 MSIs (7.6 percent). In terms of geographical distribution, it is estimated that about 45 percent of the industries are located in the Bangkok Metropolitan Area and the surrounding provinces (Samut Prakan, Samut Sakhon, Pathum Thani, Nonthaburi, and Nakon Pathom). SMIs' share of employment in the industrial sector was estimated at a high of 73.8 percent, 47.4 percent of value added, and 50.5 percent of export value.

The role of SMEs

The socio-economic contributions of SMEs encompass employment, value added, capital formation, foreign exchange earnings and savings, income generation, rural industrialization, savings mobilization, and human resource development. Small enterprises, therefore, perform a vital role in our economy a sides from being the seedbed of entrepreneurship. The SMEs concept, extending out to the people in the rural area. And that is the one of the very effective methods to stop domestic migration. And that is one way to stop the people from the upcountry from trying to come down to the central plain, looking for jobs. SMEs is the answer to that problem.

SMEs play an important role in this conventional view of the engines of asian growth. Although evidence is a little slim, SMEs appears to contribute in the following ways:

- 40% to 60% of Capital investment comes from SMEs,
- About half of productivity growth comes from SMEs,
- SMEs employ about half the workforce,
- About 35% or more of exports are generated by SMEs.



However there is some reason to believe that SMEs play a much more important role than is conventionally thought. SMEs are responsible for 70% or more of net job creation and economic growth (Chris Hall).

SME support agencies need to address these issues systematically. Programmes of assistance should be aimed at providing the entrepreneurs with more information and knowledge so as to stimulate change and innovation and increase the attractiveness of various growth options. Emphasis should also be placed on enhancing the competitiveness, productivity and profitability of the enterprises, thereby increasing the prospects for long-term survival and growth, and in the process improving employment security for those engaged in the SME sector. Agencies can also promote international enterprise alliances, between SMEs, between SMEs and large-scale enterprises, in the form of joint ventures, sub-contracting arrangements, technology and skills transfer, and various trading partnerships. It is important that entrepreneurs have access to best practices, improved and modernised technologies, and useable market information. Support agencies have have a key role to play in fostering and facilitating these developments.

In order to facilitate and enhance the process of trade liberalization, governments, in dynamic partnership with the private sector, hope to formulate guidelines, incentives and support so as to create an environment even more conducive to enterprise. We know that small and medium scale enterprises or SMEs play a very important role in the production and trade of goods and services in most economies, including APEC's. We know that by equipping entrepreneurs and their staff with advanced knowledge of production techniques, good business practices and management, these SMEs can significantly improve their competitiveness, productivity, and profitability in a much wider globalizes market.

GUIDELINES TO SOLVE PROBLEMS

1. Liquidity management and restoring the domestic credit system

* Entrepreneurs have to increase their own efficient in managing liquidity by the following measures:

- (1)Reduce investment in inefficient projects and projects with no future market;
- (2)Reduce production to match demand for products and reduce inventory as low as possible;
- (3)Implement efficient inventory and accounts receivable management systems;
- (4)Be strict when grant the credit to clients and increase the credit lines of good clients;
- (5)Increase the channels of distributions to retailers directly;
- (6)Establish an appropriate debt structure by using long term debt to finance long term projects; and
- (7)Extend credit term from oversea suppliers.



- Promoting the collaboration among trading partners including financial institutions by the following measures:

- (1) Manufacturers extend credit terms to prime customers; and
- (2) Commercial banks increase credit lines and extend payment term for their clients who need money for their main business by introducing the Domestic Letter of Credit (DLC).

2. Managing cost-push inflation and the baht devaluation

* Entrepreneurs must try to lower costs as much as possible without decrease quality and/or human resources development by using the following measures:

- (1) Implementing production processes efficiently and effectively as well as eliminating waste and non-value-added activities as much as possible;
- (2) Producing high quality products to meet consumer needs;
- (3) Replacing imported assembly parts, import products, and raw materials with local content;
- (4) Upgrading standardized products and industrial equipments such as pallet etc.;
- (5) Modifying salary and wage structures to appropriate levels.

* Using technology and new concepts to lower costs and increase productivity.

- Business must promote and encourage financial management in this uncertain environment as the following measures:

- (1) Managing foreign exchange exposure gradually by taking short-term or fixed positions;
- (2) Using one fixed exchange rate throughout the company to set product costing and for management, revising periodically when appropriate;
- (3) Restructuring debt such as using long-term debt to finance assets and loans should be hedged.

- Restructuring the organization to increase management efficiently

- (1) Reducing the workforce and flattening the organization structure;
- (2) Most entrepreneurs should try keeping employment as much as possible together with having plans to recruit the workers.

3. Regaining consumer's confidence

- Entrepreneurs must have good faith and positive attitudes toward the situation in Thailand. Even though the current economic situation still creates uncertainty and troubles in the future, they must have firm belief in their existing markets as well as



potential markets. It is important to be aware that the economic recession at present is only a normal business cycle.

- Entrepreneurs should concentrate in the business that they are keen for and produce what consumers want. Selling good quality product with fair price seems to be the best solution at the moment.
- Entrepreneurs must improve the administrative system in their organizations. The focus should be placed on the operational efficiency in all business functions as well as the improvement of the business discipline in their organizations. Those internal operations which should be more connected in terms of efficiency and effectiveness are accounting, finance, production, selling, marketing, personnel management, etc., . All of these business functions must integrate a good system of information flow internally and externally to establish a better coordination and better integration within organization. However, it is very crucial that Entrepreneurs must consider to keep the long-term competence of their companies, though they have to reduce some costs if a company needs to downsize, this must be done with a good plan and good measurement which must be development in order to maintain morale and motivation of their employees.
- Entrepreneurs must build up the new economy value system within their business organizations. This value must start at the top executives.

POLICY DIRECTIONS FOR SME DEVELOPMENT IN THAILAND

The policies of the Thai government for SME development are embodied and articulated in various forms. These include Acts of Parliament, National Economic and Social Development Plan, and Cabinet resolutions. These, in turn, are translated into objectives, targets, strategies and action plans by the various ministries. The various instrumentalities of the government operationalise these plans, strategies and action plans into programmes, projects and activities.

In terms of business survival and growth, various specialised government agencies provide technical, technological, financial, managerial and marketing assistance to SMEs through training, consultancy, extension service, information dissemination, study missions, trade fairs and exhibits, and research. These services are either free or subsidised. As a result of the baht flotation, several industries particularly the export-oriented industries with low import content, are benefiting, while others are unfortunately adversely affected. However, the government has taken steps and has come up with measures to cushion the impact of the baht flotation. These include, among others, a review of the targets of the Eighth National Plan, formulation of long-term plans to strengthen Thailand's competitiveness and restore investor confidence, including measures to generate savings in the public and private sector, restructuring of the country's agriculture and industry, retraining programme on new skills including technical and business management skills for retrenched workers, duty free importation of capital machinery, reduction in time for collecting tax rebate for exporters from 3-6 months to 45 days, as well as the setting aside of 20 billion baht for low interest-loans to strategic business that have been hurt by the flotation.



DEPARTMENT OF INDUSTRIAL PROMOTION

The Department of Industrial Promotion (DIP) under the Ministry of Industry acts as the lead agency of government for SME promotion and development and follows the guidelines set by the Ministry of Industry and the National Plan in elaborating its own policies to support the sector. These policies include:

1). Encouraging the dispersal of urban industries to rural areas by:

- preparing industrial feasibility studies
- stimulating, guiding and providing advice to investors
- providing industrial information and incubator service for new entrepreneurs

2). Encouraging investment in SMEs by:

- transferring knowledge to rural entrepreneurs
- providing advice and incubator service to both existing and new entrepreneurs
- promotion the use of the Consultancy Fund for developing SMEs in the rural areas
- carrying out career training on cottage and handicraft industries for local people
- providing investment loans for cottage and handicraft industries

3). Establishing industrial networks by:

- promoting rural industries in the form of community industries
- promoting linkages between large industries and SMIs
- coordinating with government financial institutions on loan policies
- promoting rural development

4).Promoting investments in highly potential industrial sectors and enhance the competitiveness of Thai industries by:

- encouraging investment in and developing technological capabilities of SME supporting industries
- undertaking activities according to the master plan for the development of supporting industries

5). Enhancing the competitiveness of export-oriented industries by:

- developing skilled workers for the gem and jewelry industry
- promoting textile industry by modernising its manufacturing technologies



- developing the skill of entrepreneurs in business negotiation and joint venture

A study report on Industrial Sector Development of Supporting Industries in Thailand (March 1995) prepared by UNICO International Corporation for DIP and the Japan International Cooperation Agency (JICA) included a proposed master plan for the development of supporting industries but which also affect SMIs in general. The proposal covers six elements, viz.:

- * Policy and Legislation
- * Market Development
- * Technology Upgrading
- * Financial Support
- * Upgrading of Management
- * Investment Promotion

For many years now, there have been persistent recommendations from many quarters—from donor agencies to development practitioners and industry associations, for a basic law on SMEs which would provide comprehensive and clear guidelines for the promotion and development of SMEs. A draft has long been prepared by DIP, but the proposal did not take off the ground as some key government officials did not perceive the need for such a law, considered it premature or even redundant to existing laws.

The proposed law on subcontracting promotion would have the objectives of providing measures for the efficient promotion of subcontracting arrangements between SMEs and large industries, including international sub-contracting, as well as of upgrading and strengthening the institutions promoting subcontracting.

EXISTING INSTITUTIONAL INFRASTRUCTURE MANDATED BY GOVERNMENT POLICY

Besides the Department of Industrial Promotion and the Ministry which were dealt with separately earlier, there are several Acts of Parliaments which directly relate to SME development. These refer to the setting up of the following institutions and regulations.

- **Small Industry Finance Corporation (SIFC)**

The Small Industry Finance Corporation (SIFC) was established by Act of Parliament in 1991 in order to increase the capacity of small industries in playing an important role in the economic and social development of the country through extension of long-term credit for the establishment of new business, expansion of existing business and for business improvement. It currently operates 2 provincial branches.

- **Small Industry Credit Guarantee Corporation (SICGC)**



The Small Industry Credit Guarantee Corporation Act of 1991 established the corporation to enable collateral-short but viable small industries to obtain more loans from financial institutions, to increase credit extensions from financial institutions to small-scale industries (SSIs), strengthen the confidence of financial institutions in providing to small industries, and to accelerate the dispersal of loans to SSIs.

- **Industrial Finance Corporation of Thailand (IFCT)**

The Industrial Finance Corporation of Thailand (IFCT) was established in 1959 as a development financing institution with shares from government and the private sector who control the majority shares. IFCT's main objectives are to promote and finance the development of private sector industrial enterprises and the domestic capital market. It maintains branches in 4 regions and 10 provinces.

- **Industrial Estate Authority of Thailand (IEAT)**

The Industrial Estate Authority of Thailand (IEAT) was established in 1979 by virtue of Act of Parliament as a state enterprise attached to the Ministry of Industry with and managing industrial estates throughout the the main purpose of planning, developing country. The Act was amended to cover private industrial zones so that owners of factories located in private industrial zones may be given fair protection. Th IEAT has two types of zones which require specific privileges: the General Industrial Zone and the Export Processing Zone. Altogether, there are about 45 industrial estates in the country.

- **Board of Investment (BOI)**

The Board of Investment is an agency under the Office of the Prime Minister established in 1977 under the Investment promotion Act as a tool to help promote foreign and domestic investment in Thailand and to provide assistance in such as areas as guarantees, taxes and monetary incentives. The BOI divides the country into three economic promotion zones with varying investment privileges. The BOI cooperates with DIP and privates sector business groups as well as specialised government agencies in developing supporting industries through the National Supplier Development Programme with the objective of developing SMI parts manufacturers. The BOI has set up a unit for industrial linkage development called BUILD to implement its subcontracting development programme.

- **Factory Act**

Three Factory Acts have been enacted (1969, 1975 and 1979). Among the salient features are the requirement of a permit from the Ministry of Industry before a factory can be operated or before a factory can be expanded or altered.

Other laws also apply for specific industries such as the Foods Acts, Drugs Act, Poisonous Substances Act, etc. Other relevant laws are the Machinery Registration Act, the Industrial Product Standards Act , Labour Protection Law , Tax Rebate for Export Goods Produced in Thailand Law , Building Construction Control Act, etc. These laws are enforced to safeguard the health and safety of the workers and the community, protect the environment, and to ensure a conducive working environment.



• Institute For Sme Development (Ismed)

More than 400,000 small-and medium-sized enterprises (SMEs) nationwide have been adversely affected by the impacts of the current economic crisis. To help them overcome these difficulties and to equip them for challenges of the third millennium, the Ministry of Industry, through the Department of Industrial Promotion, Thammasat University, and seven leading Thai universities establish the Institute for SMEs Development (ISMED). The institute funded under the Government's economic stimulus package intends to strengthen the competitiveness of Thai SMEs. The institute will introduce business opportunities for new entrepreneurs and offer training programs for current entrepreneurs to help them improve their business skills.

TRENDS IN POLICY FORMULATION

As already articulated in the past National Plan, the following directions affecting SMEs and SMIs will become distinctly more transparent and gain momentum in the years ahead. These include:

1. Less Government

Due to the budgetary discipline imposed by the government, the number of government officers will decrease so that eventually there will be a leaner but more efficient government staff. There is an ongoing pilot efficiency enhancement programme in selected government agencies which will be expanded to cover the entire public sector. With less government personnel there will be a corresponding move to limit government service to facilitation in the delivery of service, to institution building and network development to support and strengthen a network of SMI service providers, to coordination of the network so that in the end government personnel will no longer provide direct assistance to SMEs.

2. Private Sector Empowerment

Corollary to the trend towards less government will be the natural devolution to empower the private sector to take over some functions of the state, to be source of specialised and to regulate its own rank. Prime Minister Chavalit stated that:

“ Private individuals would be encouraged to establish organizations to control themselves so state supervision could be done away with. The role of the public sector should be limited to only servicing and facilitating. Such things as construction and building control should be handled by professional organizations from the private sector.”

The Seventh National Plan had already advocated the following:

- support for private sector role to relieve some public responsibilities, such as examination of industrial plant, machinery and equipment, as well as examination of laboratories to promote a greater speed and convince.



- budgetary support to private non-profit organizations to encourage training programmes and support activities for SMIs.
- encouraging the private sector to expend joint venture agreements in foreign countries.

The Department of Industrial Promotion (DIP) has supported this policy in various ways through:

- sponsoring the establishment of the Productivity Institute as a private body with government support to provide consultancy service to private industry in the areas of productivity and quality management. This meant turning over the consultancy function of DIP's former Industrial Productivity Division to the new institute.
- sponsoring the establishment of the Textile Institute as a private body similar to the above. This meant turning over some responsibilities of DIP's Textile Industry Division to the new institute.
- setting up of a Consultancy Fund so that SMI clients can access private and non-DIP consultants through government subsidy.
- subcontracting studies and surveys to private sector institutions.
- sourcing outside DIP for resource persons of training programmes and projects such as the Belgian Government-assisted Off-Farm Job Creation Project which is subcontracted to CARE.
- sponsoring the formation of industry associations such as the Thai Mold and Die Association and the Textile Industry Association so that they can conduct seminars and other activities on their own.

As a natural consequence of the twin factors above- less government and more private sector involvement, there will be a more dynamic public-private sector partnership insofar as sharing of decision making and responsibility for planning, implementing, monitoring and evaluating programmes and activities affecting SMEs as part of a work sharing, cost sharing concert.

More active involvement could be expected from the private sector as an advocacy body, as a consultative advisory group, as joint sponsor and as member of joint public-private sector body such as the Joint Private and Private Sector Consultative Committee (JPPCC) which is the highest public-private sector joint body chaired by the Prime Minister and having its equivalent setup in the provinces. The Thai Chambers of Commerce, the Federation of Thai Industries and the Thai Bankers Association are represented in this body. The various committees of the Board of Trade are actively involved in government consultation. Industry and trade associations are also active as a lobby group, in regulating their own ranks and in providing service to their members in terms of training, information, consultancy, business matching, joint marketing, transfer of technology and organising trade fairs, exhibitions and study missions abroad.



3. Passage of Laws and Regulations 3.

Due to the ever growing importance of SMEs as an economic and political force and the real need to strengthen the competitiveness of the sector, there will be increasing pressure in Thailand to emulate the example of the United States, Japan, Korea, Philippines and Chinese Taipei in formulating specific laws that directly affect SMEs. These new laws could revolve around:

A basic law on SME promotion (as previously mentioned) containing such provisions as:

- creation of a centralised policymaking or coordinating body responsible for SMI development and to be composed of relevant ministries and specialised agencies with strong private sector representation.
- establishment of a SME enterprise agency which evolve from a revamped DIP
- incentives for efficient and priority industries as well as industry clusters
- comprehensive package of measure to promote the sector
- * subcontracting promotion
- * modernisation promotion
- * rural industrialisation promotion
- * bankruptcy
- * structural adjustments and stabilisation measures
- * innovative financing schemes
- * technology promotion
- * private sector promotion and participation

It would also mean that private organizations would become more involve in SME promotion and economic development in general. With the passage of a proposed basic law on SMEs, it is expected that there will be mushrooming of non-governmental organizations, private organizations and even small enterprise associations, foundations or institutes which will be attached to leading universities, large companies and non-profit organizations. These will cater to the needs of SMEs in terms of training, research, consultancy, etc. This would mean an enhanced role for existing private organizations such as the FTI, Chambers of Commerce, Board of Trade, Institute for Management Education of Thailand (IMET), Population and Community Development Association (PDA), and the Thailand Development Research Institute (TDRI), industry and trade associations, among others. This would also mean more autonomy on the part of government corporations whose operations directly affect SMEs, such as the Small Industry Finance Corporation (SIFC), Industrial Finance Corporation of



Thailand (IFCT), Small Industry Credit Guarantee Corporation (SICGC), including the Industrial Estate Authority of Thailand (IEAT), among others.

4. Standardization and Simplification

As part of the basic law, there will be a uniform definition of cottage, small, medium and large industries using the following criterion or a combination of the following factors: employment, total assets, fixed assets, and equity. At present, the ministry of Industry defines a small-scale industry as having employment not exceeding 50 workers and having invested capital (equity) not exceeding 10 million baht. A medium-scale industry is defined as having employment ranging from 50 to 200 workers and invested capital from more than 10 million baht but not exceeding 100 million baht. The Bank of Thailand, the Board of Investment, the Statistics Office, as well as SIFC and IFCT adopt different definitions.

There will be standardisation and simplification of regulations, forms, training, operating systems, etc. so that these will become more customer oriented and user friendly and can readily be replicated on a mass scale for greater access by the people without sacrificing quality. These moves will definitely benefit SMIs especially in the rural areas.

5. Massive Use of Information Technology

Recognising the benefits and advances in information technology, Thailand realised that knowledge is power, but that proper use and mastery of technology are also important. Office and factory automation and communication equipment have revolutionised the manner of doing business both locally and internationally – faxes, cellular phones, Internet, E-mail, Intranet, etc. The application and accessibility of modern information technology in Thailand will be widespread and will be less costly as economies of scale are achieved. Investment by both public and private sectors in Thailand in information technology both software and hardware will expand significantly as the country joins the information cyberspace mania prevailing in other parts of the world. It is expected that a comprehensive, clear-cut policy on this subject will be formulated by the government soon. This trend will force SMIs to apply modern information technology to maintain their competitiveness and enhance their efficiency.

6. Research and Development (R&D)

Thailand's current investment in R&D on science and technology (S&T) is relatively low compared to the newly industrialising countries in Asia and developed countries. However, there is now a growing consciousness to increase R&D in S&T as a result of mass media exposure and the fruits of the dynamic efforts of various specialised government agencies. We will see dramatic increase in R&D investment by both public and private sectors to reach one percent of GDP by the year 2005. Equally important is the successful commercialisation and protection of R&D results so that attractive returns on their investment can be achieved as an incentive for further investment. This would mean that S&T agencies of the government and the private sector will become increasingly more important and prominent. Comprehensive policies in stimulating investment in R&D are expected to be announced soon. This trend should benefit SMIs.

7. Environment consciousness



As even now already pronounced, environmental consciousness by government and society with significantly increase to protect the country from the adverse effects of environmental degradation. More local and international pressure groups will make their presence felt in the way the ecological environment in Thailand should be managed insofar as renewable, non-renewable sources of energy, forest, marine and land resources, polluting and hazardous industries are concerned. Stricter measures on ecological conservation and strict compliance of existing regulations would be imposed by the government, while more cooperation among government, private sector and non-governmental, organizations would be expected. As part of their social responsibility and under external pressure, SMIs will be bound to invest in environmental protection measures, however, this should be seen as a necessary social overhead for the common good.

8. Internationalisation of Business Facilities

There will be a strong trend towards the establishment of strategic alliances by both government and private sector in different countries and towards international subcontracting to take advantage of each country's comparative advantage. Already visible are the agreement under the Asean Free Trade Agreement (AFTA), Asia-Pacific Economic Cooperation (APEC), the Asean Industrial Complementation Scheme (AICO), under the Indonesia-Malaysia-Thailand Growth Triangle (ITM-GT), Mekong River Project, and recently the partnership in economic cooperation between Thailand and Singapore in jointly developing an industrial park in the Eastern Seaboard of Thailand. These strategic moves would facilitate the movement of goods and services and their production within the agreeing countries. This trend highlights a dichotomy of countries competing in some aspects and complementing in other aspects so that the net result would be positive synergies for all. The implication for SMIs is that they have to enhance their competitiveness to reach out to international market niches and at the same time protect their domestic turf's through more efficient operations.

The ultimate goal of the inclusion of SMEs is to promote efficient, productive and self-reliant SMEs that would further contribute to the growth and development of the region and enhance the growing economic interlinkages of the regional economy.

Although SMEs are important in terms of numbers and domestic employment creation, currently they play a minor role in terms of regional trade investment. The Asia Pacific region's export markets and foreign investment flows are dominated by large companies. Hence, there need to be explicit to promote and assists SMEs as regional players.

SMEs face a number of constraints in the regional market, including limited access to market intelligence relating to business opportunities; limited access to production inputs, such as finance; difficulty in meeting product standard specifications; inadequate track records and experience; and the social and cultural mores which discourage the participation of certain groups, for example women, in business activities.

Responsibility in assisting SMEs is could be undertaken both by the public and business/private sectors. In particular, the large enterprises can, through subcontracts and



procurements, assist SMEs to upgrade their technological and managerial capabilities, such as standards quality control.

With their vast marketing, large enterprises can also be of valuable assistance to SMEs in their search for new business opportunities. Strategic alliance including franchising and new forms of dealerships benefit both large enterprises and SMEs alike.

One area where SMEs development is clearly beneficial is the development of a thriving local supporting industry. From the economy's point of view, it serves to attract foreign direct investment; reduce imports of intermediate goods; conserve foreign exchange and hence improve the balance of payments; and assist in employment creation and general economic development.

Despite meticulous forecasting and careful planning, no country can completely escape from the vagaries of economics, social and political uncertainties both from within and outside the country. Thailand is currently facing an economic crisis. But with strong faith in the resilience of SMEs against all odds, in the leadership of our government to handle their crisis, and in the common resolve of our people to improve their economic lot, we are certain we will weather this economic prosperity for all Thai people.

Big Business Linkages Business- SMEs

- Forging win-win symbiotic relations through: franchising, subcontracting, new form of dealerships, and using SME on an "as-needed" basis
- Strategic Alliances within and across national boundaries
- Business networking and information exchange

CONCLUSION

In Thailand, dynamic changes are occurring due to various internal and external factors. Those changes are affecting both public and private sectors. Among the internal factors include the flotation of the baht last July 2, 1997 the current economic downturn, government budgetary cuts as part of fiscal discipline, the rise in inflation and labour cost, lack of liquidity in the banking system, etc. Among the external factors are trade liberalisation, competition with other developing countries for foreign capital and markets, negative publicity abroad, etc. All these developments are affecting Thailand's economic progress, hence there is a need to review our targets and strategies. This is now being done by all government instrumentalities headed by the National Economic and Social Development Board (NESDB).

Despite these difficulties. Thailand's economy grew in 1997 – lower than the annual growth in the past decade but still commanding a respectable accomplishment. Thailand's economy has strong fundamentals and its prospects for growth are very bright, hence we expect a short-term economic discomfort. During this time of crisis, we have learned to realise our interdependence and our need to put our act together as demonstrated by the backlash that the baht flotation has impinged on the economies of the Philippines, Indonesia, Malaysia and Singapore.



We have established in this paper some irreversible trends that have to be considered in formulating policy directions for SMEs and SMIs. In fact, many of them would be treated as urgent under this economic situation to put our economy back on course. The policy implications resulting from these dynamic changes both positive and negative, are manifold and they have to be studied carefully.

Thailand's ability to retain its SME. Advantages or create new ones will depend on its ability to formulate a vision and create development plan designed to raise Thai SME to global standard excellence.