

# Small and Medium Enterprises in BIMSTEC

## Synergies and Emerging Issues for Cooperation

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# Small and Medium Enterprises in BIMSTEC: Synergies and Emerging Issues for Cooperation

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Tirthankar Mandal\*

*Abstract:* The Small and Medium Scale Enterprises (SMEs) have been playing an important role for the development of a country. However, we observe a very uneven development of this sector in the recent times. The SMEs of the developed countries are continued to contribute substantially in country's growth process, while those from the developing countries have not fared well. The failure of the developing countries to take the SMEs sector development initiative in the right direction has been the major reason for slow process of this sector. During the recent past, the BIMSTEC countries have taken some important steps to rejuvenate their SMEs sector by integrating them to the global production networks and developing product specific policies. However, most of the countries in the BIMSTEC are yet to take the advantage of the situation and thereby need a collaborative effort in the process. This paper looks at the possibilities of such efforts and policies.

## 1. Introduction

Small and medium size enterprises (SMEs) play a key role in economic growth and industrial development of a country. They make vital contributions in improving economic and social sectors of a country through stimulating large scale employment, investment, development of indigenous skill and technology, promotion of entrepreneurship and innovativeness, enhancing exports, and also building an industrial base at different scales. SMEs worldwide have been benefited from the

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combined interactions of forces of product mix, locational factors, and market advantages (Ahmed, 2006). Structural and operational changes at the global level have intensified the competition internationally, where multinationals are playing the pivotal role (UNIDO, 2000). Under this changed situation, the SMEs are continued to enjoy their importance through increased exports and employment (UNIDO, 2000; Wattanapruttipaisan, 2002). At the same time, the increase in market competition, and entry of transnational players in otherwise protected market have made the operational conditions difficult for SMEs. Despite these adversities faced by the SMEs, the recent empirical results emerged from the country reports indicate that the growth of this sector has occurred at the expense of their larger counterparts (ISED, 2005). Their recent resurgence in the world economy, especially those hailing from the developed countries, have fostered the case for the growth of SMEs in the developing and least developed countries (LDCs).

Emphasis has always been given in the promotion and development of SMEs since it has been seen as the major employment providing sector in LDCs. The SMEs in LDCs, producing products and services with moderate quality applying outdated technologies, have been facing tough competition with the imported products. The situation may further be worsened in the days to come because SMEs have to compete with international competitors due to free trade and phasing out of tariff barriers (UNIDO, 2000). Therefore, the changes that have been taking place in the international economic scenario have definitely brought challenges for the SMEs. However, at the same time, globalisation has also opened up new business and market opportunities for SMEs (Wattanapruttipaisan, 2002).

The onset of globalisation has resulted in economic integration across the world. Regional economies are playing a pro-active role in the integration process through their linkages with the global economic structures and processes. Factors like information technology boom, trade liberalisation, and creation of trans-national trading blocs have created huge opportunities for the SMEs across the world (UNIDO, 2000). The intensified global competition has forced the multinationals

to decentralise their activities, and greater prominence for regional activities has become the order. This led to the growth in the new initiatives to promote enterprises at the local and regional levels, through the SMEs (UNIDO, 2000). The gains have been noticed through its participation in the global production chains across countries and sectors. UNIDO notes that, the SMEs across the world has reacted to the process by means of participation in one or more global production chains through linking local networks to their international counterparts and vice versa.<sup>1</sup> The efficiency of these chains at different levels lies in the linkage of upstream and downstream activities within the network. The gradual reduction of barriers to entry in production process and increased competition have opened up the scopes for all through these production chains. These chains are basically of two types: one, the 'producer driven', and the other, 'buyer driven'. The producer driven chains are found in case of capital intensive industries, like in cases of automobiles, aircraft, software, etc. The firms associated within the chain have comparative advantage in their respective production related activities and is vertically integrated. On the other, the buyer driven chain consists of retailers, marketers, and branded manufactures whose comparative advantage lie in the designing and marketing of products. Typically these production and supply chains are formed in the consumer non-durables segment like the readymade garments, footwear, etc. having a horizontal networking among the chain (Palit, 2006). Given this, one of the focal point of this paper is to understand the evolving positions of SMEs in the era of globalization with specific reference to BIMSTEC regional economic bloc.

## **2. Small and Medium Enterprises and Their Developmental Roles**

Across the world the SMEs are defined on the basis of two criteria: volume of turnover and number of person employed in a particular organisation.<sup>2</sup> According to the standard EU definition, if the total number of employees happens to be fewer than 50 for an organisation, it falls within the category of 'small', and those with strength less than 250 but more than 50 identified as 'medium' scale industries. In

the US, there is no standard definition of small business enterprises the definition is largely industry specific. In India, the classification is of three types, the factory sector for large units, factory sector for small-scale units, and village and small scale units.

It has been observed across the world that, regional cooperation in support of the development and integration of SMEs yields in increasing social and economic returns within and across the nations.<sup>3</sup> A competitive and innovative SME sector holds out enormous promise for the region, particularly in terms of:

- higher income growth,
- optimal employment of domestic resources,
- more gainful integration through global and regional trade and investment, and
- greater equity in access, distribution and development.

## ***2.1 Contributions of SMEs***

The share of SMEs in an economy is an indicator of the economy's flexibility of industrial base. The ability of these industries to respond to the new customer requirements, bringing in workforce changes, and adopting new technologies, make them more flexible in adjusting with the changing environment (ISED, 2005). Small enterprises in the developing countries were purposefully meant to serve the local demand. However, the newly emerged situation has brought in changes favourable to demands and investment structures. As a result, SMEs are not only key ingredients to the global production networks across countries but also actively involved in country's innovation system.

SME sector has been playing a vital role in employment generation and in country's exports. This sector accounts for about 90 percent of all firms falling outside the agricultural sector of East and South-East Asia, and of Japan as well (Wattnapruttipiasian, 2002). In developed countries, SMEs have been playing a vital role in strengthening country's competitiveness. This is illustrated in Table 1, where we see that a major share of employment comes from SMEs sector in developed and developing countries. The SME sector in OECD

**Table1: Economic Contribution of SMEs in Selected Countries (%)**

Region/Country (*)	% of SMEs in total Industrial Units	Employment (% of Total Labour Force)	Contribution (as % of Manufacturing Output)
<b>OECD</b>			
Australia	...	70	30
Austria	99.5	72	58.2
Canada	99.7	72	...
Finland	98.5	52	40
Germany	>95	70	57
Ireland	99	49	...
New Zealand	>98.9	75	...
Sweden	99	60	57
United Kingdom	>99	44-66	Under 40
United States	99.7	50.3	40
<b>Asia Pacific</b>			
Bangladesh	...	80	25
Brunei	98	92	66
China	99	73	60
India	95	80	40
Japan	99	72	52
Malaysia	...	17.5	15
Pakistan	60	80	35
Philippines	99	45	28
Singapore	97	58	41
Republic of Korea	99.7	71	47.5
Thailand	...	65	47
<b>Western Asia</b>			
Bahrain	...	48	21
Egypt	90	11	9
Jordan	93	41	...
Lebanon	84	78	67
Syrian Arab Republic	90	91	84

*Table 1 continued*

Table 1 continued

Region/Country (*)	% of SMEs in total Industrial Units	Employment (% of Total Labour Force)	Contribution as % of Manufacturing Output
<b>Latin America</b>			
Argentina	...	44.6	35.9
Bolivia	...	26.1	17.6
Brazil	99.2	66.8	60.8
Chile	99.1	52.7	37.1
Columbia	92.1	52.5	33.3
Costa Rica	...	13.2	12.6
Ecuador	84.3	37.7	19.4
El Salvador	...	17.6	14.8
Mexico	89.7	44.6	31.1
Nicaragua	98.7	11.7	11.2
Paraguay	...	41	31
Peru	99.1	52.5	36.1
Trinidad & Tobago	71.3	57	22.6
Uruguay	96	57.9	39.7
Venezuela	93.2	39.5	13.8
<b>Africa</b>	> 90	16–33	...

*Note:* \* various years.

*Source:* SME Export Contribution UN Country Statistic, (obtained from UNDP website).

countries employs almost 70 percent of the total working force, and the same is also valid in case of developing countries. However, the cause of concern is the LDCs, whose share of employment in the SMES sector has been smaller than the developing and developed countries.

The contribution of the SMEs in the country's output in developing countries is quite similar to that of developed countries. The OECD countries contribution accounts for almost 50 percent of the total output. Table 1 indicates that the developed countries have been able to transform SMEs sector into a substantial employment generating

sector. Besides, OECD countries contribution accounts for 40-60 percent of the exports, which is also substantial. The developing countries in the Asia-Pacific region show a clear division with respect to the contribution of the SMEs in the exports, which has employed almost 45-92 percent of the total labour force. The countries which are less industrialized like Bangladesh, Pakistan, and Philippines have contributed about 15-28 percent of their total exports, and the countries like Korea, Singapore, Thailand, Japan, China, etc. have contributed about 60 percent of the exports. These countries have strong SME development strategies which ultimately resulted in the growth of this

**Table 2: Exports of SME Sector in Selected Developed and Developing Countries**

Country	Exports/GDP (%)	Share of SME in Exports (%)
Denmark	27	46 (M)
Finland	19	23 (M)
France	18	26 (M)
Greece	12	19
Italy	15	53
Japan	12	13.5
Netherlands	47	26
Sweden	25	30
United States	12	31
China	21	40-60
Korea	27	40
Indonesia	23	10.6
Taiwan	44	56
Thailand	29	10
Malaysia	72	15
Singapore	138	16
Vietnam	7	20

*Notes:* Exports as percentage of GDP - UN country statistics. M = manufacturing only. Exports are direct exports by SMEs. This understates the true contribution of SMEs to exports.

*Source:* SME export contribution – OECD country studies. <http://www.arts.monash.edu.au/ausapec/smepolic.htm>. (APEC and SME Policy: Suggestions for an action agenda, Chris Hall, 1995) and Exporter Database, United States (various years).

sector. The developing countries of the Latin America also show a similar picture. SME sectors in the countries like Argentina, Brazil, Chile, Columbia, Paraguay, Peru, Uruguay and Trinidad Tobago have employed almost 40-60 percent of the total labour force, and contributed about 35-57 per cent of the exports, whereas the same in countries like Bolivia, Nicaragua, Ecuador, and El Salvador has contributed only about 11-20 percent of the total exports. Interestingly, all of these countries have almost 80-92 percent of the industrial units under the SMEs sector. This also reflects the uneven contribution and development of the SMEs sector in the developing world.

The importance of SME as a sector has been reemphasized in the policy formulations due to the shifts in the industrial production from 'Fordist' to mass production approach. From the Table 2, we notice that almost all the developed countries have experienced a robust export growth with Netherlands having highest 47 percent. Further, the Table 2 also exemplifies the vibrancy of this sector in the recent years for the developing countries like China, Thailand and Korea. The exports of developing countries like China, Taiwan, and Korea is largely contributed by the SME sector. However, the SMEs in rest Asian countries are yet to make a considerable foray in export market.

### **3. SMEs in BIMSTEC Countries**

#### ***3.1 India***

India was the first among the developing countries to formulate policies to support SME sector before it became more generic phenomenon (Mohan, 2001). In India, the small scale industries are involved in manufacturing labour intensive goods. The basic focus of the Indian Government on SME sector has been on the employment generation. The basic institutional structure has focused on the creation of employment alongside the promotion of small scale industries through positive technical and marketing support. This has led to the formation of various facilitating organisations at the central and the provincial levels throughout the country. From the Second Five Year Plan onwards the policy attained a dualistic dimension emphasising both on development of capital intensive heavy industries on one hand and

**Table 3: Performance of the Indian SMEs**

Year	Total SSI Units (lakhs)	Fixed investment (Rs. Crore)	Production (Rs. Crore)		Employment (lakh persons)	Exports (Rs. Crore)
			Current prices	Constant prices (1993-94)		
1990-91	67.87	93555	78802	84728	158.34	9664
1991-92	70.63	100351	80615	87355	165.99	13883
1992-93	73.51	109623	84413	92246	174.84	17784
1993-94	76.49	115795	98796	98796	182.64	25307
1994-95	79.60	123790	122154	108774	191.40	29068
1995-96	82.84	125750	147712	121175	197.93	36470
1996-97	86.21	130560	167805	134892	205.86	39248
1997-98	89.71	133242	187217	146262.9	213.16	44442
1998-99	93.36	135482	210454	157525.1	220.55	48979
1999-00	97.15	139982	233760	170379.2	229.10	54200
2000-01	101.1	146845	261297	184401.4	238.73	69797
2001-02	105.21	154349	282270	195613	249.33	71244
2002-03	109.49	162317	311952	210636	260.21	86013
2003-04	113.95	170219	357733	228730	271.42	NA
2004-05	118.59	178699	418263	251511	282.57	NA

*Source:* Annual Report on Small and Medium Industries 2005-06, Ministry of Small Scale Industries, Government of India.

continuing support to the small scale sector, on the other. The key elements of India's policy for the support of small scale industries have been small scale reservations, fiscal concessions by way of lower duties, preferential allocations of and subsidization of bank credit, extension of business services by the government and preferential procurement by the government. Thus, the small scale industries are sought to be protected from the competition of the large scale both through reservations and fiscal concessions. These policies have served the need of the earlier decades, but they have become ineffective in the present situations.

The economic developments over the years in India have resulted in the phenomenal growth in the number of SMEs. Presently, there are 11.8 million small scale units, of which more than 10 million are unregistered, producing almost 8000 different items out of which 506 are exclusively reserved for this sector. This sector employs 28.2 million people, and accounts for almost 34 percent of country's exports in 2004-05. The sector has registered an annual growth rate of 6.7 percent of GDP, and has a share of 39.4 percent of the total industrial production.<sup>4</sup> The dominance of this sector has been found in the areas of sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food, and leather products.

The decade of nineties exhibits a gradual rise in the number of SMEs in India despite gradual liberalization of the sector to the world. The employment has also kept pace with the rise in the absolute number of industrial units. The export earnings have increased during the same period depicting the importance of the sector to the economy. The employment has risen by 72 percent during the same period and in the export earnings have increased by 79 percent between 1990-91 and 2002-03. According to Central Statistical Organization (CSO), the growth rates of the SMEs contribution to the GDP has increased steadily from 7.3 percent growth in 1994-95 to 8.5 percent in 2003-04.

### *The Effect of Fiscal Policy*

Despite this substantial contribution to the economy in general, the Indian SME sector suffers from various impediments to growth under

the new rules of liberalization of the market and changed dynamics. The incentive packages offered to the SSI units actually are not promoting the growth of the sector in terms of size. The fiscal incentives prevailing in the form of turnover based excise duty structure, and fiscal exemptions are enough to limit the industrial units to a particular size<sup>5</sup> to avail the concessions offered. The result is the existence of large number of cloned units in a particular area producing same items.

### *The Effect of Reservation Policy*

The experience with reservation policy initiated during 1967 have proved that the 'good intentions of government have manifestly not registered in the business calculations of the small enterprises' (Mohan, 2001). In the Second Census of the SSI units shows the misplaced importance of the reservation, out of 200 products leading in value of output produced by the SSI units, only 21 percent are reserved, of the total 1076 items reserved, more than 200 were never produced at all by the SSI units.<sup>6</sup> Also only a few reserved products attracted levels of significant participation. The large scale units which were producing items included in the list were permitted to do so even after reservation. This provided unintended protection to the large units giving them substantial monopoly power. It has been found that in the office furniture segment, the large units protected in this way enjoyed dominance in the market at the high end segment, while the small scale units remained at the lowest end.<sup>7</sup> Under the liberal trade situation, continued persistence with the reservation policy is bound to have its deleterious effect with the removal of quota restrictions, which allows most of the items under the reserve list to be imported.

### *Reservation Policy and the Exports*

The SSI exports from India are typically populated with low end products because of the constrained imposed on the SSI units in terms of investments. This prevented the larger investments, which is imperative to achieve higher quality and higher unit value. It has argued, the policy of reservation prevented the SSI units to grow from small to the larger size (Mohan, 2001). The East Asian countries experienced a robust growth in the exports leading to high manufacturing growth and scale. It has been noted that in absence of reservation, the Indian

large enterprises would have entered the areas reserved for the SSIs and would have achieved a much higher export growth rate, in the process would have led faster paced technology upgradation that would have benefited the SSI sector through linkages existing in the production (Mohan, 2001). The case of CISCO systems is the best example of this. The unit started as a small scale unit and gradually expanded its scale to become a MNC with existence in 85 countries in the world. This was not the case with the Indian small scale industries.

The Indian experience with the licensing and regulation as policy instruments actually has pervaded the design of promotion for the SSI sector. The success of a project was dependant on the procurement of licenses rather than the entrepreneurial and economic capabilities. The small scale units could not participate successfully in procuring licenses and quotas. The protectionist policy actually defies the logic of complementarities that exist between the small scale and other higher scales. The relationship of interdependence was neglected by the policy makers.

### *New Policy Initiatives*

The new policy initiatives announced during the 1990s are directed towards abolishing impediments to growth of these industrial units under the new dynamics of market. The emerging policies focus on increasing the scale of the units to the optimal level so that it can survive the competition and intensity of the new order. In this regard the government has constituted an apex body to resolve the difficulties faced by the small scale sector. Through Small Industrial Development Bank of India (SIDBI) the government wanted to address the problem faced by this sector. It was conceived to be the nodal agency and was supposed to provide assistance through finance, technology requirements, R&D facilities for the small scale industries. The main emphasis was however on provisioning of finance. Through the formation of National Equity Fund, government wanted to provide support to the tiny sectors. The loan facility was made simpler through Single Window Facility. To boost the women entrepreneurs of this sector, Mahila Udyog Nidhi (MUN) has been started, and the process of forming Voluntary Agencies in the line of Self Help Groups (SHGs)

have been in place in order to develop an efficient micro-credit network for this sector. SIDBI has been supporting the SSI units through venture capital funds to build up technology for export capabilities, import substitution including cost and total quality management and acquisition of ISO certification for expansion of capacity. The major schemes are a blend of technology development and/ or providing finance to the industrial units.

### *Technology Development Initiatives*

The opening of the economy has exposed the SSI sector to the global and domestic competition. Since 2003-04, the government, with a view to enhance the competitiveness of the sector, has taken various measures like: (a) assistance to industry associations/ voluntary agencies to set up testing centers; (b) field testing stations provide testing services for quality upgradation; (c) under the integrated technology upgradation and management programme, 59 clusters have been taken up in collaboration with UNIDO; (d) under the scheme of promoting ISO certification, the units are given 75 percent of their expenditure to obtain certification subject to a maximum of Rs 75000; (e) credit linked subsidy scheme has been started for Technology Upgradation purpose and a 15 percent capital subsidy is admissible on loans upto one crore; (f) to tap the huge potential of biotechnology, Biotech Cell has been constituted under Small Industries Development Organisation (SIDO).

### *Credit Delivery Initiatives*

The Government of India in 2004-05 has come up with a package of steps to ensure credit delivery to the SSI sectors. They can be summed up as (a) the composite credit limit has been increased to 5 million from existing 2.5 million during 2004-05, (b) the turnover eligibility limit has been raised to Rs 40 million to allow the SSI to operate optimally in the budget 2005-06, (c) the RBI has formulated a scheme of Small Scale Enterprises Financial Centers (SSEFC) to encourage the banks to establish mechanisms for better coordination between their branches and the SIDBI, (d) the Laghu Udyami Credit Card Scheme has been liberalized since the budget announcement of 2004-05, by enhancing the credit limit from Rs 200,000 to Rs 1 million, (e)

from 2003-04 onwards, the Indian Banks Association has advised the banks to adopt the interest band of two percent above and below their prime lending rate (PLR). The government has constituted a fund of Rs 100 billion to address *inter alia* the problem of inadequacy of financial resources at competitive rates for the small scale sector.

### *Future Prospect*

The focus on SME sector should be two-folds: (a) to upgrade the technology so that we can meet the global pressure of competition, and (b) to make uninterrupted flow of finance to the enterprises. The first one can be developed through the process of developing industry-institution collaboration with the technological institutes like the engineering institutes, polytechnics and the IITs. The trained manpower could be utilized to develop and modify the already existing technology used in these units in a cost-effective manner. Furthermore, there should be more exposure to the indigenous innovators through government support and training. The problem of finance can be solved through developing micro-credit system and by minimizing the transaction costs that exist in the form of strict collateral requirements. The concept of Credit Card should be made wide and also the insurance cover criteria can be included to it in similar line of the Kisan Credit Card. The liberalisation of the economy has opened up the possibilities of developing ancillary industries. The SIDO has initiated various programmes for development of the ancillarisation in the country.

### **3.2 Thailand**

SMEs sector in Thailand has been playing a pivotal role in country's development for last two decades. SMEs sector in this country accounts for 99.5 percent of total enterprises (2004), generates 70 percent of country's formal employment, contributes to 38 percent of country's GDP, and 26.5 percent of country's exports. Most enterprises are built up from SMEs and provide important linkage with large enterprises. In many sectors, this sector introduces new product innovation and adapt to the global environment better than large enterprises. In 2004, employment in SMEs sector accounts for more than 70 percent of the total employment in Thailand (see, Table 4). In many areas, SMEs

**Table 4: Share of SME Employment in Thailand**

Sector	1994	1999	2004
	%		
Manufacturing	31.21	29.19	34.7
Trading	34.99	37.42	28.2
Servicing	33.8	33.39	29.5

*Source:* ICSI Herald Special Issue-Vol.XVIII No.12-02.

also serve as ‘On the Job Training Units’ for various kind of labor force for the entire economy.

From the NSO Survey, 33.63 million persons are employed till January 2005, of which 37.17 percent has education lower than primary level and 21.5 percent has primary education. Most of the Thai SME workers have limited education and skills, either in business administration or production skill. Department of Skill Development (DSD), Thai Ministry of Labor has been taking a lead role in skill development of the labor force, while training of entrepreneurs is

### **Box 1: ISMED Strategy**

ISMED services are client based. It stratifies SMEs into four development stages: potential and emerging entrepreneurs, the existing SMEs afflicted by the economic crisis, those with fair sustainability, and those with high competitiveness. Its services are customized to meet the different needs of SMEs at each stage. The services also take into account sizes of SMEs’ organizations, business areas (production, trading, service, agri-business, etc.), and attending persons (executives, employees, business successors, etc.). The services have to be effective, time-affordable, and economical for SMEs of each target group. To assure quality service, ISMED comprehensively monitors and evaluates the services on inputs, processes, outputs, and outcomes. By “hand-holding” SMEs it tracks the individual and responds to changing parameters.

*Source:* ICSI Herald Special Issue-Vol.XVIII No.12-02.

operated under the Institute of SMEs Development (ISMED), Department of Industrial Promotion (DIP), Ministry of Industry, and Department of Business Development, Ministry of Commerce.

Over the years SMEs sector in Thailand has evolved from tiny entrepreneurial base to vast and forward looking business sector. The strengths of Thai SMEs are as follows: (i) high flexibility and adaptability, (ii) high utilization of local/domestic resources and knowledge, (iii) well performed in skill-based sectors; food, fashion products; tourism and related products and services, and (iv) eligible in producing products which are various in design and quality. At the same time this sector has several weaknesses, such as (i) losing competitiveness in labour-intensive and resource-based sector, (ii) employing low quality workforces; (iii) limitation in applying good governance: accounting system; consumer and environmental responsibility, (iv) limitation in access appropriate fund, and (v) lack of integrating and networking system

However, SMEs sector in Thailand has been facing deceleration in production and exports mainly due to competition from neighbouring countries and the ongoing process of economic integration in the region. SMEs promotion system is still fragmented both in policy formulation and implementation. High competition results in Nutcracker situation. There are obstacles from public administration authorities.

### *Future Prospect*

The strategy of revival of the SMEs has been devised on the basis of a master plan which conceptualizes the development of the sector through a set of broad based initiatives along with the meeting of specific demands of different sub-sectors. These are based on the reduction of obstacles to business operations and developing basic infrastructure facilities. This will ensure sustainable growth for the sector. With the sustained support from the Japanese Government, the Thai authorities have linked up the different strategies of revival through a series of interlinked ways. The existing enterprises will be rehabilitated through the technology upgradation process on one hand and removing obstacles to business on the other. There will be

development of adequate community enterprises. Now to link up with the external market, the authorities have decided in favour of raising the exporting potential of industries. The question of technology development is tackled through two pronged strategies of faster fund mobilization and use of new technology in the relevant field. The strategies have been aimed to use the high end technologies to produce valued products; therefore, the use of nanotechnology and biotechnology has been advocated. These developments have paved the way for the emergence of a knowledge based economy for Thailand. The future industrial products will be more and more knowledge intensive and will be high valued. The economic changes in the world have opened up the scope for international economic grouping in the form of FTAs. The regional cooperation has a great potential because it will open up the scope of trade as well as inflow of funds and technology. The share of SMEs in exports is mainly concentrated in sectors like cereal and grain, plastics and plastic based products, and electronic and electrical appliances. The new development strategies will work in favour of upgrading the product quality via design and development and production technique improvement. The deregulation of rules and regulations will help in expansion of market horizontally through sales expansion and new market penetration.

### ***3.3 Bangladesh***

The development strategy in Bangladesh has followed the private investment route, controlled by a host of regulations involving sanctions on investment, credit disbursement, import licensing, and foreign exchange allocation. The impact of these regulations was manifested through the inability of the SMEs to cope with the large scale counterparts. The economic reforms undertaken during the eighties helped to remove a large part of the policy bias against SMEs that prevailed earlier (Hossain, 1998). However, with the economic reforms, the removal of import restrictions resulted in a huge revenue loss to an estimated amount of US\$ 11 billion. Since, there are no estimates yet about likely losses to the domestic trade and economy of the country from the flood of imported consumer and industrial products - cosmetics and toiletries, food and beverages, textiles and apparels, footwear and leather goods, chemicals and pharmaceuticals, light

engineering products, machine tools, hand tools and so on, the actual effect of the neo-liberal policies are believed to be much more than the revenue loss.

The mainstay of the economy being agriculture and fisheries, with a contribution of 22.83 percent to the GDP in 2003-04; at 1995-96 constant prices (crop 12.98 percent, livestock 2.90 percent, forestry 1.84 percent, and fisheries 5.15 per cent) and provided over 72 percent of the total employment. The manufacturing contribution to GDP in 2003-04 was 16.25 percent accounting for only 5.4 percent of the total employment. Since the additional employment generation of the traditional sector being limited, the future of employment generation rests on the manufacturing sector itself whatever might be the situation. It is the only sector to fall back on under the present situation. The trend of fairly stagnant growth rate over the decades has to be reversed in order to make this sector a vibrant one in terms of employment generation and maintain an overall growth rate of 8-10 percent per annum. With an overall industrial employment of 80 percent and consisting of 90 percent of the total industrial units, the SME sector is the real thrust area to be utilized to fulfill the target in the most cost-effective route. Industrial Policy of Bangladesh 1999 describes small industries as those employing less than 50 persons and having a fixed capital investment of Bangladesh Taka 100 million (US\$1.69 million). Medium industries were defined as those employing between 50 and 99 workers and requiring investment between Bangladesh Taka 100 and 300 million (US\$ 1.69-5.07 million). This policy is now under revision as Industrial Policy 2004, which is yet to be finalized and officially published. According to media reports, the definition of industry has been reportedly revised in terms of “replacement costs”, taking the cost of factory set-up and land as fixed. An industry with a replacement cost of Bangladesh Taka 15 million (US\$ 254,000) is expected to be termed a small industry and one with a replacement cost of Bangladesh Taka 15-100 million (US\$ 0.25-1.69 million) as a medium industry. It may be noted that neither the existing nor the proposed definitions take into consideration other important factors, like technological requirements, technical complexities of production,

degrees of skills required in workers and managers, degree of value addition and turnover, import requirements, need for working capital, and probable trade barriers to market access.

There are no confirmed numbers of SMEs, operating in Bangladesh today. A survey results indicate that there were about 6 million micro, small and medium enterprises (MSMEs) in 2004, which included enterprises with up to 100 workers employing a total of 31 million people, equivalent to 40 per cent of the population of the country of age 15 years and above. About three quarters or more of the household income in both urban and rural areas is provided by the MSMEs. The relatively high level of income contribution was due to the fact that the enterprises worked ten hours per day, 28 days per month for eleven months a year. The survey also found that the industrial structure of SMEs consisted of primarily wholesale and retail trade and repairs (40 percent), production and sale of agricultural goods (22 percent), services (15 percent), and manufacturing only (14 per cent). Thus, the survey has brought out very prominently the fact that the large untapped potential for expansion in manufacture and production could be exploited (or contributing more significantly to the national economy. Another vital finding of the survey under discussion was that SMEs contributed Bangladesh Taka 741 (US\$ 12.5) billion or nearly 25 percent of the GDP (Bangladesh Taka 2,996 billion) in 2003. Those who tend to look down on micro and small industries may be shocked to note that enterprises employing 2-5 workers are credited for having contributed 51 percent share of the total SME contribution to the economy, followed by 26 percent by those having only one worker and 10 per cent by those having 6-10 workers. The sectoral contribution of SMEs to the GDP is also appreciable. Manufacturing has contributed the highest proportion (38 percent), followed by agriculture (24 percent) and, closely following, wholesale and retail trade and repairs (23 percent).

The size of investment varied from industry to industry and enterprise to enterprise. The highest investment was found to be Bangladesh Taka 3.5 million (US\$ 60,000) for food processing and the lowest Bangladesh Taka 12,747 (US\$ 216) for coir processing.

The average investment per enterprise in the sample was found to be Bangladesh Taka 1.1 million (US\$ 18,700). To compare what it might cost to provide employment to 25 million new jobs in the large industry sector, one needs only look at some of Bangladesh's large fertilizer factories. Thus no elaborate argument is needed to establish the case of promoting micro as well as small and medium enterprises as the most cost-effective and advisable means of providing employment and injecting dynamism into industrial growth, both for poverty alleviation and for contribution to the GDP.

In doing so the apex body of the small scale industries, namely, Bangladesh Small and Cottage Industries Corporation, has come up with a series of fiscal and financial incentives ranging from providing tax-holidays up to five or seven years, accelerated depreciation allowance (for those not benefiting from the tax holidays), concessional duties on imported machinery based on area demarcation, exemption of VAT for imported machinery spares, differential tariff duty structure for imported raw materials, intermediate inputs and finished products were offered to this sector. Special incentives were provided to the Non-Resident Bangladeshis for investment in Bangladesh. They will be given at par status of the foreigners, and will enjoy the benefits offered to them.

In order to mobilize funds, the Asian Development Bank (ADB) has offered an assistance of US\$ 50 million to the SME sector in 2004. This programme has been developed in four parts ranging from a 15 million dollar programme loan to set up policy framework for development which will help to establish institutional structure and mechanisms to support the sector, a loan of 30 million dollar to be used as a contribution to the Small Enterprise Fund (SEF) which will extend loan to the small enterprises, a technical assistance loan of 5 million dollar, and a grant of 600,000 dollars to the government to develop coordinating and implementing mechanism. In addition to this programme the Bangladesh government has extended a sum of 16.7 million dollars and the World Bank has a sum of 10 million dollars to the constitution of the SEF fund.<sup>8</sup>

It has been specially noted at the UN declared Micro-credit year 2005 Summit, that the SMEs are one of the critical areas for undertaking pro- poor economic policies. Therefore, to ensure rapid growth and development of the economy, the banks are needed to expand their portfolio towards the SME sector and also it should develop gender based policies to attract even the women entrepreneurs.<sup>9</sup>

### *Future Prospect*

Bangladesh being one of the major garment exporters can effectively manage the growth of the SME sector. The evolving global production network has already made the situation conducive for Bangladesh to involve its SMEs in the production networks. The cooperation with BIMSTEC countries will ultimately help Bangladesh to develop this sector at large. Furthermore, due to micro-credit system, the access to finance has become easy in Bangladesh. Therefore, easy access to finance and the association with the global production network, Bangladesh is poised to generate higher employment and foreign exchange. Bangladesh is endowed with a large number of English speaking populations. This also opens up outsourcing opportunities for Bangladesh in the ready-made garment sector. This can be effective either through sub-contracting or by earning direct contract from the parent company. However, the future of this sector in Bangladesh depends on technology and knowledge intensive services and industry.

### **3.4 Nepal**

Nepal has a population of 25.3 million and an annual per capita income of US\$ 240 that places Nepal at one of the poorest countries of the world. The land locked geophysical location, limited resource endowments, economic isolation, rugged mountainous terrain have contributed to the social and political backwardness of this Himalayan Kingdom. Since 1950, supported by pouring external aid, Nepal started to divert its public resources to economic and social development. However developments so far have not been able to alleviate poverty especially from the rural areas constituting the national average of 32 percent people living below the poverty line. From the perspective of economic, social, and human development indicators, Nepal stands at the bottom list in South Asia. The involvement of economically active

**Table 5: Involvement of Economically Active People in Different Economic Sectors in Nepal**

Description	Census 1991 (%)	Census 2001
Agriculture	81.2	65.7
Mining & quarrying	—	0.2
Manufacturing	2	808
Electricity & water	0.2	1.5
Construction	0.5	2.9
Hotel & trade	3.5	9.9
Transport & communication	0.7	1.6
Finance & real estate	0.3	0.8
Social services	10.2	7.8
Others & unidentified	1.4	0.8
Total employment	100	100

*Source:* ICSI Herald Special Issue-Vol.XVIII No.12-02.

people in different sectors is given in Table 5. The contribution of non-agricultural activities to GDP has been slowly increasing in recent years. Percentage contribution of agriculture to GDP has gone down to 39 percent in year 2004-05, from 48 percent in the 1990-91.

The prevalent Industrial Enterprises Act, 1992 (IEA) which was amended in 1997 has classified industrial enterprises into four categories in Nepal. The definitions of industrial enterprises in Nepal, like in other countries, have undergone some changes over time due to change in industrial policy and thrust in industrial assistance programmes. The prevalent definitions of industrial enterprises in Nepal are as follows.

- Large industries: investment of more than Nepalese Rupees 100 million in fixed assets.
- Medium industries: industries with a fixed asset between Nepalese Rupees 30-100 million.
- Small industries: investment up to Nepalese Rupees 30 million in fixed assets.
- Cottage industries: some specified traditional industries utilizing specific skill or local raw materials and resources, using less than 5 KW of electric motor and related with national tradition, art and culture.

Industrial development in Nepal is at the initial stage with all types of manufacturing industries contribution for not more than 10 percent of the GDP and providing employment to not more than 2 percent of the labor force. However, SMEs overwhelmingly dominate the industrial sector in Nepal. It plays a major role in the manufacturing sector and significantly contributes to the value addition and export trade of the country. Industrial products made in Nepal have reached more than 250 items and about a dozen of them have been included in the national list of export. The export of manufactured and processed goods accounted for more than 80 percent of the total export and which is a significant improvement when we look at the figures 15 years back. SMEs account for 96 percent of total industrial establishments and 83 percent of total employment generation by industrial sector. Only SMEs have contributed almost 9 percent in country's GDP.

The share of manufacturing value added to GDP increased from 5.7 percent in 1985 to 9.9 percent in 2001. Similarly, the share of manufacturing in exports augmented from 44 percent in 1985 to 80 percent in 2001. The manufacturing export growth has been greatly assisted by improved trade and exchange rate policies. However, they could not be sustained after the implementation of major reforms.

The number of manufacturing establishments grew slightly in 1991-92 as compared to 1986-87. However, the number of manufacturing establishments further declined from 4271 units in 1991-92 to 3557 units in 1996-97. The number of these establishments by their industry classification is shown in Table 6.

**Table 6: Number of Establishments by Sizes in Nepal**

Size of industries	1986/87	1991/92	1996/97
Cottage & small	3436	4083	3203
Medium	111	136	282
Large	67	52	72
Others	19	-	-
Total no. of establishments	3633	4271	3557

*Source:* ICSI Herald Special Issue-Vol. XVIII No. 12-02.

SMEs networking, clustering and sub-contracting exchanges are more often used by countries to smoothen and increase collective output, buy raw materials at better prices, efficient use of production facilities, sharing training, and professional costs and share the expenses connected with product development, marketing and distribution. In this case, Nepal stands at a very nascent stage. In Nepal, most of these industries are operating with backward and forward linkage rather than developing the industries in the country. Some multinational companies, such as Unilever Nepal, are concentrating on manufacturing relatively higher value-added products, shifting the production of other items to local enterprise. A local company, National Soap Industries, now meets its entire detergent powder requirements, and two other local enterprises manufacture detergent bars, and pack blended teas. Thus, Unilever Nepal is developing partnerships with local industries, though it does not source much of its inputs from Nepal. Nepal Colgate Palmolive also relies on another Indian joint venture industry named as Essel Packaging for obtaining the packaging materials. Another joint venture company called Nepal Bayern Electric is getting its raw material as well as technical backup from a German family-owned business. The production of this company is then re-exported to German partner with all of whom it has subcontracting arrangement.

Nevertheless, the industrial policy (1992) tries to establish some vertical linkages between the industrial enterprises and the raw material producers by means of providing some additional incentives to the industries using local raw materials. After the enactment of the Foreign Investment and Technology Transfer Act (1992) with its subsequent amendment, joint ventures and alliance in the form of equity and funding, technical and management support, transfer and use of process, formula, patent franchise and the technical know-how have become somewhat popular. These alliances are basically due to the establishment of multinational enterprise in Nepal, like Unilever Nepal, Coca-Cola, Pepsi, etc., and also in sectors like hotels, food retail, beverages and beer, and banking services, among others.

### *Future Prospect*

The development of SME sector in Nepal rests upon the successful adoption of new technology for time to come. The most formidable way to do it is to undergo a liberal regime of foreign investment and get it associated with the global production network (Dey, 2006). An investor friendly regime is required in this regard. With the absence of capital goods industry the initiative has to be the top priority. This requires the Government initiative to develop linkages between the transnational corporations and the SMEs sector for technology transfer and access to finance for development. To attain this, WTO compatible subsidies in research, assistance to disadvantaged regions and environmental requirements, provision of low interest for machinery and equipment should be taken up for strengthening SMEs. The competitiveness of the sector can be enhanced through undertaking proper resource management, and developing human skills. This will also help to endogenise the process of technology transfer by the transnational corporation for the SME sector. Development of proper schemes to fulfill quality standard norms of WTO for exports will help the SME sector to emerge as a key sector for employment generation and country's growth in future.

### **3.5 Sri Lanka**

SMEs are an important source of employment for low-income rural and urban households in Sri Lanka, where SMEs account for nearly 90 percent of industrial establishments and 70 percent of employment in the manufacturing sector. SMEs are constrained by lack of an overall strategy and policy, a weak skills base, high transaction costs due to over-regulation, and a complex tax and regulatory structure. Improving public governance and the business environment is the focus of the Government's strategy to address these constraints. Lack of management and other business skills and limited access to information and technology are the critical constraints at the level of the individual enterprise.

The Government expects that a vibrant SME sector will take the lead in generating employment opportunities and avenues for productivity growth and rising incomes for a large segment of the

low-income population. In 2005, the number of registered SMEs was gone up by 120 percent. Various government agencies use different criteria to identify SMEs such as the number of employees and size of fixed capital asset. The definition used by the National Development Bank is that SMEs are “Companies with total fixed assets of Sri Lankan rupees 20 million or less, excluding land and building”. The most commonly used definition is small scale enterprises with 5-49 employees, medium scale enterprises with 50-149 and large scale with more than 150 employees.

According to Sri Lankan Industrial Census, conducted in 2003-04, there were 121,426 industries having less than 10 employees with total employment 285,623 and 9961 industries with more than 10 employees having 747,823 employees. Among them, the number of industries with less than five employees accounted for 84.3 percent of the total, contributing 7.5 percent to the total production value, 7 percent to Gross Value Added (GVA), and 28.4 percent to the total employment of the manufacturing sector. A survey conducted by the UNDP estimates that SMEs with total fixed assets of Sri Lankan rupees 16 million or less accounted for 90 per cent of the establishment, 70 percent of employment, and 55 percent of GVA. Within manufacturing, SMEs account for 95 percent of establishments, 25 percent of output and 34 percent employment, 30 percent of SMEs are engaged in exports.

Considering a large number of employments by SMEs, and the fact that many SME units, unlike factory industries, are located in the rural areas where unemployment level is higher. SMEs are quite important in the Sri Lankan economy. It is pointed out that there are a number of problems associated with SMEs in Sri Lanka, and some of them are as follows.

- Low level of technology, marketing knowledge and management skill;
- High production cost caused by high electricity tariff, and various taxes such as import duty on capital goods, defence levy and GST;
- Difficulty of financing due to various reasons including high

interest rates, shortage of collateral, and lack of knowledge of bank procedures;

- Lack of know-how to deal with rather complicated government procurement procedures; and
- Lack of entrepreneurship.

The recent establishment of the SME Bank to support credit to the SME sector through direct financing and credit guarantees is expected to assist the SME sector. A survey done by Central Bank of Sri Lanka revealed what shown in Table 7.

**Table 7: Distribution of Difficulties Faced by Small Business in Sri Lanka**

	Industry	Services	SBEs*
No difficulty	19.0	22.3	20.3
Marketing problems	30.3	33.5	31.5
Capital inadequacy	25.4	24.4	24.9
High cost of production	8.8	7.9	8.4
Difficulty in purchasing raw materials	7.3	2.4	5.4
Non- availability of skilled labor and lack of technological expertise	4.3	4.5	4.5
Other problems	4.9	5.0	5.0

\*Small Business Enterprises

Source: ICSI Herald Special Issue-Vol. XVIII No.12-02

From the above table it is quite clear that the problems faced by the SMEs in Sri Lanka are no lesser than the problems faced by the industrial sector. However, since the SME is the most vibrant sector conducive to the growth hence much attention is required for the overall development of the sector in terms of technological skills, managing production cost and others.

### *Future Prospect*

From the forgoing analysis, it may be said that policies must be formulated to promote ancillary production and sub-contracting in

Sri Lanka. Some of the economic and legal constraints for sub-contracting should also be removed. Promotion or creating awareness in the large industries or large conglomerates is vital for fostering development of SMEs sector. Public procurement of selected spare parts for departments such as Electricity Board, Telecommunication and Railways can also be channeled to SME ancillary production units. The clusters of Industries especially in the SMEs sector should be promoted and upgraded.

### 3.6 Myanmar

Myanmar is endowed with plenty of natural resources and trainable human resources with a high literacy rate favorable for the development of its economy through resources based industrialization. Myanmar is still an agricultural country with the manufacturing sector contributing only about 9-10 percent of GDP and service sector for about 31.1 percent.

**Table 8: Number of Registered Industrial Enterprises in Myanmar in 2004**

Category (Workers)	Enterprises	
	Number	Share (%)*
Small (10-50)	33863	78.0
Medium (50-100)	6359	14.6
Large (>100)	3213	7.4
Total	43435	100.0

\*In total enterprises.

Source: Ministry of Industries, Myanmar.

The Table 8 clearly depicts the fact that the country with its vast resource base has ample opportunity for the further development which can be facilitated by strengthening the country's SME sector. Only the SMEs account for the 92.6 percent of the total industrial sector in 2004, where large industries account for only 7.4 percent. Table 9 shows the SMEs by category. In Myanmar, foodstuff industries being number one by quantity are followed by clothing and wearing apparel industries, construction industries, and petroleum product industries,

etc. There are 5029 registered Handiworks, which become popular year by year due to the development of the tourism industry.

**Table 9: Number of SMEs by Type of Industries as on 2005 in Myanmar**

Type of industry	SMEs			
	Total number	Small	Medium	Share (%)
Foodstuff	24954	21481	3473	62.91
Clothing & wearing apparel	1920	1524	396	4.84
Construction articles	2946	2417	529	7.43
Mineral & petro chemical products	1641	1286	335	4.14
Industrial raw materials	1116	859	307	2.94
Consumer good articles	937	615	322	2.36
Machinery & equipment	417	364	53	1.05
Home appliances	157	82	75	0.40
Printing & publishing	312	229	83	0.79
Electrical goods	33	15	18	0.08
Motor vehicles & trailers	83	67	16	0.21
Agricultural equipments	58	45	13	0.15
Others	5045	4470	575	12.72
<b>Total</b>	<b>39669</b>	<b>33454</b>	<b>6215</b>	<b>100</b>

*Source:* Review on Financial, Economic and Social Condition, Ministry of National Planning and Economic Development, Myanmar

With a view to develop industries along with the agricultural sector, the role of the SMEs draws special attention. The State Peace and Development Council (SPDC) formed the Myanmar Industrial Development Committee (MIDC) in 1995 with 15 Ministers as members and 2 Deputy Ministers as Secretary and Joint Secretary. The Committee then organized a Working Committee (MIDWC) with the Minister of Ministry of Industry as Chairman and the Director General and a Director of the Directorate of Myanmar Industrial Planning as Secretary and Joint Secretary respectively. The Working Committee implements the tasks lay down by the MIDC with the assistance of 9 Sub-Committees. The Objectives of the MIDC are as follows.

- Development of industries with agriculture as the base
- Enhancement of quantity and quality of industrial products
- Increased production of new types of machinery and equipment
- Production of machinery and equipment for industrial use
- Creation of suitable conditions for the changing over to an industrialized state.

There are four noted Government agencies actively involved in SMEs sector development – (i) Small and Medium Scale Industries Development Sub-Committee (Myanmar Industrial Development Committee), (ii) Directorate of Industrial Supervision and Inspection (Ministry of Industry 1), (iii) Directorate of Myanmar Industrial Planning (Ministry of Industry 2), and (iv) Cottage Industries Department (Ministry of Cooperatives). Besides, two non-government organizations are also involved in SMEs sector development – (i) Myanmar Industries Association (Union of Myanmar Federation of Chamber of Commerce & Industry), and (ii) Myanmar Small and Medium Enterprise Committee.

### *Future Prospect*

Being a small in size and with tremendous resource constraint, Myanmar has been facing several challenges such as increasing imports due to global competition, emergence of new technologies and its impact, increasing costs which impact on export competitiveness, and lack of adequate innovation system. However, there is no separate SMEs policy or law for the country as yet.

The basic aim of the economic policy of the Government is to promote sustainable and balanced socio-economic development with resource based industrialization and export promotion. With regard to technology exchange it is permitted under law as a payable investment asset. The cheap labour force of Myanmar is going to benefit in the development in a huge way. The low cost of production will help it to get integrated to the global value chain. Myanmar being a member of ASEAN, as well as an active member of sub-regional organizations, such as GMS (Greater Mekong Sub-Region), ACMECS (Aye-yawady-Chao Phraya-Mekong Economic Cooperation Strategy)

and BIMSTEC, Myanmar businessmen are increasingly participating in various international interactions, such as trade, fairs, exhibitions, seminars, forum etc, facilitating promotion of trade, technology transfer and mutual understanding. Therefore, the Government of Myanmar is promoting development of private industries including SMEs as much as it can by studying the good practices of ASEAN, BIMSTEC, Korea and Japan, etc. Since Myanmar is endowed with plenty of natural resources economic and technical cooperation from abroad are welcome for mutual benefit and prosperity.

#### **4. Policy Options for BIMSTEC Countries**

Increasingly the environment for SMEs has become more favourable with the changing dynamics of the world order. New technologies have given them the ability to be flexible enough to produce with efficiency. The earlier system of mass production has given way to a more flexible structure of production system giving opportunities to develop for the SMEs through their participation in the global production network and thereby building networks of firms and institutions. It has been observed that the SMEs are concentrating one or two activities of the production chain and thereby specialising in it. This actually helps them to maintain their comparative advantage and also get the benefits of current situation. Often, the existences of these chains are cross borders and help in developing a cross-country network of the value chains (Sikkel, 2006). The developments of such chains are catalysed by the liberal policy measure leading to FDI flow, technology innovations and competition. As we have seen some of the successful case stories of the global value chains are located in the South Asia, it is of great importance we are able to develop more such in the region consisting of the BIMSTEC members. This is because the member countries have their presence in the already existing value chain that has been a success. The key issue is not to address whether to participate but to address how to participate in the value chain for the member countries.

The developing world remains largely out of the mainstream production internationalisation until the mid.1980s. But with the increasing domestic pressures to emulate the Asian Tigers, domestic

pressure to open up the market, the liberalisation of the economies became widespread for the developing economies. What followed due to liberalisation is the integration of the regional economies to the mainstream of the world production. The best bet for the developing economies under limited resources and comparative advantages is to get integrated through the value chains of productions existing all over the world. The bilateral and the multilateral agreements have actually helped the process of integration through opening of the borders, building partnerships at various production levels, and finally liberalising the markets for the products. To exemplify such a development, we notice the successful production of *Levis* jeans at the South Asian region. As observed in Sikkel (2006), the production of a modern day *Levis* jeans involves cross-country network of production units situated at different countries of the region as well as the world.<sup>10</sup> Thus, we see that the countries involved in the value chain are mostly Asian and within the chain one of the countries is a major player in the BIMSTEC also. On the question of developing such parallel value chains across the member countries the countries need to develop supply side capacity building through provision of finance, training and providing other logistics to the producers involved in the process. Sikkel (2006) has pointed out some sub regions within the South and Southeast Asia. The subregions can be formed in both producer based value chains and buyer based value chains. Due to the opening up of the economy, economies like Thailand and India attracted large number of automobile companies to develop the cars in respective countries. Due to the existence of cheap skilled labour force, there is a possibility that can be explored. However, more strong linkages can be developed in buyer driven value chains- since almost all the member countries have well developed textile industry. Therefore, the future essentially lies in the development of these production chains because it is through these chains the countries can get their pie in the global market. Given this, BIMSTEC countries have immense opportunities to consolidate their positions by forming a sub-regional production network feeding global network of production and trade.

### *Production Networking*

In the recent past a number of developments are changing the context for enterprise promotion. Networking between similar sized units has

helped to maintain efficiency in mass production irrespective of the size of the units.<sup>11</sup> The experience of networking the SMEs for production purpose has been encouraging. In today's environment, it seems that the key to competitive success lies in the capacities of whole networks rather than individual firms. The fact that the networking is successful is evident from the proliferation of new types of relationship between individual firms, and between firms and supporting institutions, being forged in countries across the world. The member countries have a substantial opportunity if right networking among various segments is done. Throughout the world various programmes have been undertaken to give a boost to the initiative of networking, in Taiwan, Centre Satellite System programme, Vendor Support Programme in Malaysia, Production Networks for Exports in China, are examples of some successful initiatives (UNIDO, 2000). The partners of the group should involve themselves to develop such initiatives based on the need and characteristics of the sector in the region. As far as the horizontal network among the industrial units are concerned, the networking is needed because it will boost the capacity to innovate, access the new markets, and meet the consumer demand (UNIDO 2000). The horizontal networks are also helpful to develop strong setup of research and development, and meet the export challenges. Therefore, such arrangements of networking among the group of industries will benefit the sector at large.

### *Cluster Development*

The clusters are the groupings of hundreds or even thousand of enterprises, all involved in a particular sector, and in some way attached to the production and sale of related and complementary products and services. For example, a knitwear cluster has not only knitting firms, but also dyers, yarn producers, textile machinery firms, chemical factories, packaging firms, as well as range of supporting bodies. UNIDO has undertaken many successful activities in India to develop such clusters for the SME sector. The development of such mechanisms is basically an approach which looks upon the industrial units as complementary units in developing a finished product. The major benefit it offers is the reduction of various implicit cost of a producer

from developing raw materials to finished product. The BIMSTEC countries are endowed with a large number of varied industrial units which have the potential to build up both horizontal and vertical cluster formation between the industry group within the country and also collaborating across the border. One of the successful developments taking place in the region is the OTOP initiative of Thailand (see Box 2). Each subregion (Tambon) has been asked to specialize on a particular product in which the comparative advantages exist. The Thailand Government has taken the initiative to market the product to the world through the use of internet and latest information technologies to make it known to the world. To maintain the quality specifications of the world market, special training programmes have been arranged with government support. This will not only raise the firms' capacity but also the question of access to the international market is also emphasised duly.

### *Ancillarisation*

The opening of economies across the world has affected the process of establishing ancillaries in different industrial sectors. The BIMSTEC policies of industrial development should address this option with due importance. With the SME sector having a wide spectrum of activities, attaining the requirements producing most sophisticated to the most traditional products, the process of ancillarisation has huge prospects, especially in the BIMTEC context. In India, the history of ancillarisation is quite old. It started under the five-year plans as a major policy decision where government made endeavour in setting up enterprises in every sectors. It is under this initiative the PSUs like HMT, and Defence Public Sector Enterprises started subcontracting the low cost technology items to SSIs and thereby helped to develop sound base of ancillarisation. It is worth mentioning that BHEL Ancillary Industries Association, which is an affiliate of the ICSI has worked commendably in building up strong setup so that the products build by the units meet the required quality. The Indian experience will be of immense importance in building up a strong ancillary based development mechanism. Furthermore, newer ancillary industries should be identified amongst the existing works and linkages need to be developed amongst the member countries. It would thus become

## Box 2: OTOP Initiative in Thailand

In the year 2001, the government of Thailand initiated the project popularly known as OTOP (One Tambon One Product) to provide sustainable income generation in order to alleviate poverty. It has been developed in the line of Japan's OVOP (One Village One Product) scheme. Under this scheme all of Thailand's 7,405 Tambons are included which has rich diversities of products. A total of 23,470 types of products are produced by the Tambons which are classified mainly into handicrafts, cotton and silk garments, pottery, fashion accessories, household items and many other articles indigenous to each community. The essential ingredient is they are all painstakingly hand-made, frequently with great skill. So far a number of product groups have been classified for promotion; these include food items and beverages, textiles and clothing, woven handicrafts, artistry items, gifts, household and decorative items, and non-edible herbal products. These cover traditional items made in village communities, each lovingly crafted with the inimitable flavour and style of their localities. With the introduction of OTOP, village communities are faced with the complex realities of trading beyond borders — the issues of meeting deadlines, quality control, production capacity, design preferences and marketing challenges. Fortunately many government agencies are providing necessary support. For instance, the OTOP Task Force of the Department of Export Promotion (DEP), Ministry of Commerce, develops activities that will assist in exporting OTOP products, such as the display of selected products at trade fairs in Thailand and overseas, as well as participating in in-store promotions and Thailand Exhibitions in other countries. Thailand Exhibitions planned for 2004 include Houston (USA), Bangalore and Chennai (India), and Sharjah (UAE). To give impetus the government has initiated a website about the OTOP products where all the details from product range to the name of the exporters have been listed and relevant information regarding the same is available. The JETRO has taken the initiative to provide financial support for the OTOP project.

*Source:* [www.thai-otop-city.com](http://www.thai-otop-city.com); [www.thaitambon.com/English/AboutTTB.htm](http://www.thaitambon.com/English/AboutTTB.htm)

evident that through cooperation and proper exchange of know how and experience, the development mechanism will ensure the enlargement of base and spread of the sector. This will also help the people of the region to be empowered economically by getting access to income, which will ultimately help in the betterment of the self-development. Therefore, we need to develop a roadmap to develop the SSI/SMEs of the region to integrate so as to get the benefit of this unique process through the promotion of linkages, sharing of experiences and business opportunities.

### *Use of IT in Developing the SMEs*

The rapid expansion of IT and its application in almost every sphere of economic activity has initiated the process of encouraging the SMEs to make the most cost effective use of new technologies in production, marketing, and networking. However, given the tremendous concentration and its use in specific region of the world, there is a need to expand the use of IT in different sectors in this part of the world, along with the SME development process. The constraints to access the ICT technologies need to be addressed at first. The diffusion of this technology has to be made uniform without having any rural-urban bias.

### *Technology Development*

Previous technical assistance projects would often focus on building technical production skills in the sector of the SME. The future needs of the advanced developing countries are changing. The globalization of the economy is making it more important to be able to deliver customized products at short notice and respond to design changes in a quick, flexible manner. In countries such as China, large numbers of SMEs are being forced to close because they cannot meet basic environmental protection standards. This situation requires the progressive mastery of new, more sophisticated technologies. Ecommerce provides opportunities for SMEs to participate in the global supply chain. With respect to pollution abatement, technical assistance and training in technological standards should help mitigate such problems before they affect the growth of the SME sector.

### *Role of Government*

The government has to play the role of a facilitator, rather than a regulator. Under the new dynamics of economy, the government's role has been more linked to envisaging policies that are consistent. Any policies with myopic outcomes will be detrimental to the growth of the SME sector. Under the framework of development of the BIMSTEC cooperation, each governmental policy formulators need to work in a way so as to assess correctly the conjectures of the others. In this regard, the cooperation between the Governments of Japan and

#### **Box 3: Thailand-Japan Cooperation in SMEs**

Thailand-Japan cooperation in the SME sector has been a benchmark in the regional cooperation and economic development. Japan has extended its support in the planning of the policies for development, financing and providing technological know-how to Thailand. Under this multifaceted initiative, the Thailand government has made a comprehensive SME promotion law, formulated a liberal financing system to the sector. With the Japanese support, the Thailand government has built 'Training Systems for Corporate Evaluators for SMEs' which will support the SMEs to improve its system of management and finance as well as its technological skill. Japan has involved its experts in JICA to develop an effective policy for Thai SME sector. Japan has been actively involved in developing credit guarantee system for the Thai SMEs through JETRO, JBIC and JODC. Of these the JODC provided the required skill to the Thai SME Bank to develop skills pertaining to SMEs on business management and technology. For the development of rural SMEs the support has been in the areas that lead to developing and maintaining quality of product, management, and bookkeeping purposes. Thus the Thailand-Japan cooperation in the SME sector has been a holistic one ranging from logistic support to the financial one. It actually helped in developing the Thai SMEs sector to a large extent.

*Source:* [www.jbic.go.jp](http://www.jbic.go.jp); [www.mta.go.jp](http://www.mta.go.jp); JETRO on SME promotion at Thailand in the JETRO website.

Thailand will be worth mentioning. The two governments have worked together to develop the SMEs sector in Thailand. In the Box 3, we have seen that the initiatives undertaken cover various aspects of problems faced by the SMEs sector in Thailand. The technological support, the financial support and even the managerial support of the various programmes are provided through the expertise of the Japanese in this field. The supports have structured in a way to provide sustainability to the SMEs sector in Thailand. Thus, the success of the cooperation between the countries at the governmental level will depend on how better we understand the requirements of the other and become a complementary partner to each other. Therefore, we need a collaborative approach for the development of this sector at the policy making level, making it possible to sustain in the fast changing world.

## **5. Concluding Remarks**

The SMEs have been one of the fastest growing sectors in the world. A watershed in the performance of the SMEs has been observed while comparing the SMEs of the developed and the developing nations. While the SMEs of the developed countries continued to contribute substantially to the economy, the SMEs of developing countries have not fared at par with their developed country counterparts. However, not all of them fared badly. The high performers among the developing nations are those who are able to modify their sector according to the need. The successful integration of the SMEs through global production network to the world economy has opened up huge potential in future. We have seen already that Bangladesh have performed commendably after being integrated to the global production network. It also opened up the scope for other economies of the BIMSTEC to get integrated to other such production networks. Since most of the countries have a strong textiles sector in this region, the scope of developing production networks in the region is very high, especially at a time when the MNCs are looking towards the Asian region. Moreover, the BIMSTEC region has a wide range of products developed through the traditional expertise prevailed in the region. These products have high value in the international markets provided they meet the quality standards. Thailand is the only country in the region that have actually developed

a strategy to market these products and develop the region. This can be carried out in other countries like India, Bangladesh, Sri Lanka etc. since all of them have a strong handicrafts sector. The OTOP initiative is a glaring example before the other members of BIMSTEC to develop such other programmes to maintain a steady flow of income to the regions on one hand and also to market the indigenous products worldwide. Therefore, there is a substantial scope in developing the SMEs in the BIMSTEC region through the opportunities being provided under the new economic system tapping the backward and the forward linkages generated in the process of integration of the economies.

## Endnotes

- <sup>1</sup> See, UNIDO (2001)
- <sup>2</sup> While the coinage of the term has its origin at the EU, the more common standard terminology has been the Small or Medium-sized Business or SMBs. In India the SMEs are known as Small Scale Industries or SSIs.
- <sup>3</sup> For details, see USAID (2005).
- <sup>4</sup> The statistics are from the ICSI Herald, December 2005-February 2006.
- <sup>5</sup> Small scale units from 1986 onwards are exempted from paying excise duty with a turnover of 3 million rupees on their products, and the units with a turnover of 30 million rupees a year have to pay a lower amount of duty, corresponding to their large scale counterparts. However this has been discontinued for those units which produce branded items on license from the large units (Mohan, 2001).
- <sup>6</sup> See, Mohan (2001)
- <sup>7</sup> Refer, Guhathakurta (1993)
- <sup>8</sup> According to ADB News Bulletin, Manila, Philippines, December 2004.
- <sup>9</sup> See, Ahmed (2006).
- <sup>10</sup> Sikkel shows that the yarn is purchased at South Korea, woven and died at Taiwan, cut in Bangladesh and assembled in Cambodia, and zippered at Japan before finally sold to the world market. The coordination of the whole thing is being done by a set of sub-contractors who are looked after by the Li & Fung based at London (Sikkel, 2006).
- <sup>11</sup> See, UNIDO (2000).

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