

PID AAM-579

01

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT IDENTIFICATION DOCUMENT
FACESHEET (PID)

1. TRANSACTION CODE
Revision No. A = Add
 C = Change
 D = Delete
DOCUMENT CODE 1

2. COUNTRY/ENTITY
ASEAN REGIONAL

3. PROJECT NUMBER
498-0277

4. BUREAU/OFFICE
BUREAU FOR ASIA
A. Symbol ASIA
B. Code 04

5. PROJECT TITLE (maximum 40 characters)
SMALL & MEDIUM BUSINESS IMPROVEMENT

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION
A. Initial FY 84
B. Final FY 86
C. PACD 87

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)

FUNDING SOURCE	LIFE OF PROJECT
A. AID	2,650
B. Other U.S.	
1.	
2.	
C. Host Country	900
D. Other Donor(s)	
TOTAL	3,550

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY 84		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ST	S-800	840		1,000		2,650	
(2)							
(3)							
(4)							
TOTALS						1,000	2,650

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
800 | 874 | 730 | 110

10. SECONDARY PURPOSE CODE
S-772

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	PRE	TECH	LAB	PVON
B. Amount				

12. PROJECT PURPOSE (maximum 480 characters)

To improve and increase the services and resources available to ASEAN small and medium businesses

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: One USDH project development officer
One small business training specialist (6 weeks)
One ASEAN small business consultant (6 weeks)

Funds \$15,000 in PDS funds

14. ORIGINATING OFFICE CLEARANCE
Signature: Donald N. Melville
Title: AID/ASEAN Liaison Officer
Manila, Philippines
Date Signed: MM DD YY 01 3 16 81 3

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY 01 3 16 81 3

16. PROJECT DOCUMENT ACTION TAKEN
 S = S-s-p-e-n-d-e-d
 A = A-p-p-r-o-v-e-d
 D = D-i-s-a-p-p-r-o-v-e-d
CA = Conditionally Approved
DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY
Signature
Title

19. ACTION REFERENCE

20. ACTION DATE
MM DD YY

ASEAN PROJECT IDENTIFICATION DOCUMENT

SMALL & MEDIUM BUSINESS IMPROVEMENT

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I. Project Setting

A. Background. Formed from within in 1967, ASEAN has slowly and steadily evolved the means and mechanisms for intra-regional cooperation and exchange in matters of mutual interest to its member countries. The approach has been to carefully work for consensus approaches to common concerns. To this end, standing committee structures have been established, including the Committee on Science and Technology (COST), Committee on Trade and Tourism (COTT), Committee on Industry, Mining and Energy (COIME), among others.

In March of 1982, the COIME presented a proposal for ASEAN-U.S. cooperation in the small and medium business sector. The proposal was for \$100 million of assistance including: (i) support for joint ventures and sub-contracting; (ii) capital assistance for credit and related uses; (iii) transfer of appropriate technology; and (iv) equipment donations. The proposal led to series of meetings and negotiations between COIME, Agency and State Department officials, both in Washington and the field. A Working Group was established to advance the proposal. In October of 1982, the Working Group sponsored a seminar presentation by Dr. Joseph Stepanek, an expert in East Asian business and industry affairs, who endorsed the rationale for proposed assistance to small and medium enterprises in the region.

These efforts have maintained momentum for the project as well as helped refine the initial proposal. One refinement was the decision that, given AID resource limitations, the proposed capital assistance elements would have to come from other, larger donors. The Asian Development Bank (ADB) has expressed interest in so providing (see Other Donors section below).

In March of 1983, and as a logical next step in the process, the Agency entered into detailed field discussions with appropriate ASEAN institutions in order to develop the PID. The emphases of the discussions were to further refine the project concept, identify implementing agencies and prepare preliminary cost estimates. Both ASEAN and U.S. participants in PID preparation find the proposed project to have a logical and top priority place within the framework and strategy of ASEAN-U.S. cooperation for development.

B. Strategy. The U.S. assistance strategy is to be as forthcoming and responsive to ASEAN proposals as policy and budgetary considerations permit. One key policy criterion is that proposals be based on clear regional needs and rationales. In accord with Agency priorities, the ASEAN program is stressing institutional development and technology interchange among the member countries. Training and technical assistance have been and continue to be the largest uses of funds. The Agency sub-strategy for institutional development with ASEAN is to support regional entities that: emerge organically and legitimately from within; are non-exclusive and consensus-oriented rather than combative; relate to existing institutions; and are developmental in broad terms. Support to bureaucratic superstructures is thus avoided.

* ASEAN countries: Indonesia, Malaysia, Philippines, Singapore & Thailand

The proposed project flows from this policy and strategy framework. In addition, it will be the first project in the program to channel resources directly to private sector producers as well as the first to explicitly incorporate a policy studies and research element. Further the Small and Medium Business Improvement Project is designed as an initial intervention that will help identify and lead to additional assistance and investments downstream. A "rolling" sub-strategy for assisting the region's small/medium business sector is thus envisioned. It will help meet a key challenge to the ASEAN program -- which is to increase its impact on developmental problems and constraints -- as well as promote ASEAN-U.S. commercial cooperation.

- C. Other Donors. As noted above, the ADB is expected to assist with the kinds of capital assistance requested in the initial ASEAN proposal. The Bank plans to soon initiate a region-wide study of the small and medium industry sector. AID has offered to assist the study by providing a consultant for the Bank's team.

The World Bank (IBRD) has made Structural Adjustment Loans (SALs) to both the Philippines and Thailand. With these loans, the IBRD provides expert technical advice on a range of difficult and sensitive issues, e.g. import and interest rate policies, exchange rates, etc. The proposed project does not overlap with such efforts, nor with ongoing International Monetary Fund (IMF) discussions, e.g. in Indonesia.

The preliminary project design also reflects careful attention to the need for bilateral donor coordination, especially by the implementing agencies. For example, project assistance to the Asian Institute of Management (AIM) will not duplicate planned assistance from the Private Enterprise Bureau (PRE). (See Attachment D hereto for a summary of the AIM proposal to PRE.) Similarly, assistance to Technonet will not conflict with the support that institution is receiving from Canada and Japan.

At the same time, care must be taken to avoid overlap with AID's ongoing and planned bilateral projects in the private and small enterprise sectors. (Ongoing projects include private sector projects in both Indonesia and Thailand, while planned projects include the Central Java Enterprise and Small and Medium Enterprise proposals in Indonesia and the Philippines respectively.) Implementing agencies and beneficiaries under the proposed project have been selected with the objective of complementing bilateral efforts very much in mind. Still, intra-AID coordination is an open concern that will be continually observed throughout the detailed design and implementation of the project.

II. Sector Problem and Constraints*

- A. Problem. In the ASEAN countries labor, particularly unskilled labor, tends to be abundant while capital and energy are scarce. The combined labor force of ASEAN members is growing at a faster rate than the overall population which now exceeds 250 million. Taken together, these factors present a considerable challenge for sustainable employment generation.

As noted in its initial proposal to AID, the ASEAN countries recognize the small and medium business sector as having major potential for meeting the job-creation challenge. Large-scale industries tend to be capital-intensive, while light or smaller industries tend to be labor-intensive and capital-efficient, allowing the coverage of more enterprises and employment by the scarcer factor of production. The work of Dr. Samuel Daines and others identifies further economic benefits associated with smaller-scale enterprises, e.g. they tend to use locally available raw materials and link closely to primary producers.

In brief, ASEAN planners know these advantages to small industry growth. They are visible to the naked eye in "little dragons" nearby (e.g. Hong Kong, South Korea, Taiwan) which are demonstrating that industrial strength is the basis for a nation's ability to provide for its people, including its disadvantaged and needy. In part, the request for assistance recognizes a challenge beneath the challenge. It is to provide the small and medium business sector with equal access to the resources it needs for growth.

- B. Constraints. Constraints to more rapid growth and development of ASEAN's small and medium business sector vary, of course, from country-to-country. But they generally relate to policy, technological and managerial issues.
1. Policy. Policy constraints can cover a range of macro-level concerns such as exchange rate regimes, levels of protection afforded a country's "modern", large-scale industrial sector, other forms of subsidy, the content and magnitude of public sector budgets, interest rates, credit policies and channels and so forth. As noted above, the IBRD and IMF are "policy-active" in the ASEAN region, e.g. the former with its SAL operations in the Philippines and Thailand, the latter with discussions and negotiations in Indonesia and elsewhere. These efforts are bilateral rather than regional in nature. AID support and

*This chapter is based on (i) the October-1982 seminar by Dr. Stepanek, (ii) analytical work and papers prepared by the World Bank and AID as well as (iii) information developed during the joint ASEAN-USAID work in March of 1983 to prepare this PID.

participation in them is thus more properly accomplished through our bilateral USAIDs in the ASEAN countries. Credit availability and collateral requirements are viewed as a constraint. As noted above, the ADB is expected to address this need.

Certain policy issues, however, are regional in character. One is the ASEAN effort to establish industrial complementation schemes. Another concerns interest rates in trade finance. The latter issue is important to the private ASEAN Finance Corporation (AFC)* which was founded in May of 1981 by the ASEAN Banking Council. One of the AFC's initial efforts is to establish a secondary market facility for ASEAN Banker's Acceptances (ABAs) to provide liquidity for and encourage growth in intra-regional trade. "Hitches" remain to be worked out, e.g. the difficulty associated with inter-country differentials in interest rates on export credit which affect the attractiveness and structuring of a secondary market facility.

The project will support practical study and research designed to help resolve such policy-related concerns. Specific research and interchange designed to encourage cooperation between the ASEAN and U.S. business sectors is also planned.

2. Technological. Technological constraints facing the sector are complex. They involve not only issues of access (channels and transfer mechanisms) but also of appropriateness (relative capital-efficiencies) and adaptability in the small to medium size firm. Industrial technology is extremely diverse. Even within a type of business like metalworking, the choices and options for production are considerably more numerous than they are in respect to, say, techniques and practices associated with the production of one agricultural crop. (This is partly why public sector agricultural extension services are often successful while public sector industrial extension services rarely are; the former do not need to manage as much variance and diversity as the latter to be effective.)

Further complicating the matter is the firm's periodic, competitive need to improve and upgrade its production capabilities in response to technological change and to changes in comparative advantage. For instance, generally widening wage differentials between Southeast and South Asian countries are

*The AFC is based in Singapore. Its broad objectives are (i) promotion of industrial development, (ii) promotion of intra-regional trade, (iii) promotion of financial cooperation within ASEAN, and (iv) mobilization of financial resources. President Lim Ho Hup and his staff of 20 are seeking to develop the operational means needed to advance these objectives

compelling the former to increasingly search for better and more productive technologies with which to survive. Again, this helps explain ASEAN's request for assistance.

The project proposes a modest but systematic approach to technology. It will strengthen and use a network arrangement capable of helping identify and respond to specific technology demands and needs with the expertise sought.

- c. Managerial. Managerial needs in ASEAN's small and medium business sector include both general skill-building in functional areas such as accounting and finance, production, marketing, employee development and so forth. More specific needs relate to the identification, assessment and adaptation of new technologies. Of course the mix of these needs varies from country to country and even from sub-sector to sub-sector.

The project approach to managerial needs parallels that to technological needs. It is to identify them up close, on-the-ground and respond to them with appropriate expertise and training as directly as possible. Again, established networks will be strengthened and used for these purposes.

III. Project Description

- A. Goal and Purpose. Attachment A hereto contains the Preliminary Logical Framework. As shown, the project is designed along a continuum of goals and purposes. Its primary goal is to increase the growth of ASEAN's small and medium business sector. This will contribute to higher level, socio-economic goals such as increased employment and incomes as well as improved standards of living among the poor.

The project purpose is to improve and increase the level of services and resources available to the sector on an ASEAN-wide basis. Intermediate to this principal purpose is an organizational objective of strengthening the capacities of participating institutions and networks to serve the sector.

- A. Project Elements. Two project elements will contribute to achievement of the project purpose as described below.
 1. Studies and Research. As noted in section IIB above, the project will support practical study and research oriented to the resolution of specific issues and problems. One example may be helping the AFC to operationalize its proposed ABA market facility. ASEAN interest has also been expressed in evaluating/reviewing the performance to date of trading companies established in member countries. The idea is to develop specific recommendations for operational improvement. Trading companies are recognized as a form of commercial organization having considerable potential for serving the small and medium business

sector, e.g. with marketing and banking services. Trading company experience and lessons learned within the wider East Asia region -- e.g. in Korea, Taiwan, Japan (with sogo shoshas) -- might be reviewed as well.

In this connection, the ASEAN private sector is proposing creation of an ASEAN Trade and Investment Corporation. The plan is to incorporate it in Singapore in mid-1983. This Corporation may need some focussed, pragmatic assistance, e.g. to plan its promotional effort among the small and medium trading sector, coordinate with the AFC, etc. In brief, promising new institutions and approaches to intra-regional trade and investment are emerging in the ASEAN region and particularly from the private sector. They create both needs and opportunities for appropriate assistance that can benefit the small and medium business sector through access to new resources and services.

As also noted in section IIB, practical research and interchange to encourage cooperation between the ASEAN and U.S. business sectors will be supported. One example is the role of U.S. trading companies, many of which are forming up under the 1982 Export Trading Company Act and many of which will be both buying and selling in the ASEAN region. Specific operational studies may be useful, e.g. setting up for business with ASEAN, ways and means of transferring needed technology, joint venture and licensing practices, sub-contracting arrangements, etc. Again, the trading company form of commercial organization holds promise for providing commonly-needed services to the small and medium industry sector as well as potential for mutually benefitting the source countries.*

Finally, this project element will help determine and define downstream assistance and investment requirements. The project approach is to continue assisting the ASEAN small and medium business sector on a "rolling" basis as noted in section IB above.

It is planned that the Institute of Southeast Asian Studies (ISEAS) in Singapore will have primary responsibility for the management of this element. ISEAS is well-connected with both

*For example, Korea's small to medium enterprise sector has historically benefitted from the technologies and production processes imparted through contacts with traders. In the second case, it is worth noting that two large Japanese trading companies have lately been among the top 10 exporters from the U.S.

the region's public and private sectors and is judged capable of defining, coordinating and conducting the studies and research with other appropriate institutions. An initial commitment of \$500,000 to this project element is reasonable. During detailed design, refinement of the criteria, methodology and procedures for using study and research funding will be treated. Preliminary data on cost estimates are contained in Attachment B hereto.

2. Technology Transfer and Training. As noted in section IIB, the project will define and help meet localized needs for technology, technical know-how and training in the ASEAN member countries. The idea is to help equalize the sector's access to the resources it needs for growth -- capital, foreign technology, essential imported raw materials, consulting skills, etc. -- resources that are commonly available to and used by the modern large scale industrial sector.

It is expected that Technonet Asia, with headquarters in Singapore, will coordinate this project element. Technonet is comprised by (i) an outreach system of Industrial Development Officers (IDOs) and participating agencies located in each ASEAN country and (ii) a network of affiliations with technical institutions around the world. The entity is structured to: transmit information about technical and training needs "as found" and identified in ASEAN's small and medium business sector; and respond to those needs with the resources of its affiliates. For these organizational reasons, Technonet is judged an appropriate coordinator and implementing agency.

Technonet receives annual financial support for its core budget from the Canadian International Development Agency (CIDA). Other donors include or have included the Japanese International Cooperation Agency (JICA), Appropriate Technology International, agencies of the United Nations, etc. For purposes of this project, Technonet's need is not for core budgetary support but for special resources to expand and improve its operations and coverage in the ASEAN countries.

- a. Technology Transfer. Working through its outreach system of IDOs and participating agencies in each ASEAN country, Technonet will identify technical needs and locate the appropriate expertise either from within its network of affiliates or outside, e.g. the International Executive Service Corps (IESC). During the ASEAN-AID PID preparation effort, the team visited two participating agencies -- the Economic Development Board of Singapore and the Institute for Small-Scale Industries of the University of the Philippines -- who will help conduct the grassroots work with the small and medium business sector. While both

agencies have ongoing programs, each could identify specific technical needs among their business-clients, e.g. techniques for electroplating, manufacturing tools and dies, etc., and each was interested in the proposed project as a way of meeting those needs.

Beside specific technical responses to sector needs identified by IDGs and ASEAN participating agencies, the project will advance other objectives for sector development. For example, one approach will be to seek opportunities for closer interaction between large and target small and medium enterprises. In theory at least, both groups can gain through:*

- (i) Subcontracting of components, large to small and small to large.
- (ii) Product selection and design by large for manufacture in small.
- (iii) Assessment of appropriate technology by large for small.
- (iv) Tutelage contracts for management and technical services, large to small.

While the difficulties of "bringing off" such arrangements are not to be underestimated,** the project will make resources available for the effort. Technonet will make similar efforts to promote private sector sales or transfers of appropriate technology, licensing arrangements, etc. The studies and research element is planned to help identify means and mechanisms for such approaches.

*From a recommendation by Dr. Stepanek.

**For instance, certain pre-conditions are necessary for significant levels of sub-contracting to occur, e.g. the existence of wage differentials between larger and smaller firms, a certain willingness and trust between the parties and so forth. Further, investment funding for such arrangements is required and would need be found from non-project sources.

- b. **Training.** Closely related to the above technology transfer activity will be short-term training courses that respond to small and medium business needs. Technonet has proven capacity to design and conduct such courses in the ASEAN region, again drawing on its outreach system and network of affiliates to put it together. It specializes in short courses on topics of local interest ranging from entrepreneurial development to technical subject matter.

Beside Technonet, it is planned the Asian Institute of Management (A.I.M.) will provide training under the project. A.I.M. specializes in short-term management courses in problem solving and decision making, people and systems, money and systems, and managerial processes. The Institute has also developed some industry-specific short courses (e.g. in banking) and is improving its curriculum by adding new technology and technical adaptation content. Moreover, AIM is currently studying business practices among the overseas Chinese with a view to learning and adapting such practices for purposes of a greater Asian mode and content in the training. These curriculum improvements will be incorporated into both the long-term degree programs and the short-term, month long courses which have proven popular and in demand around the region.

The mix of Technonet and AIM short-term training will be determined during detailed project design. Both institutions are judged appropriate for inclusion in the project as both offer unique approaches appropriate to the small and medium business sector.

Some \$750,000 of project resources are tentatively budgeted for technology transfer activity described above, while \$1.25 million is provisionally reserved for training activities. This illustrative allocation of resources will be reviewed during detailed design work. See Attachment B hereto for preliminary cost estimates.

- c. **Preliminary Budget.** In addition to the above funding allocations, \$150,000 is provided for a foreign national personal services contractor to help manage and coordinate the multi-institutional project. Accordingly, the preliminary budget for the initial three year project period is as follows:

Preliminary Project Budget
(In US\$000)

<u>Uses of Funds</u>	<u>Sources of Funds</u>		<u>TOTAL</u>
	<u>AID</u>	<u>ASEAN</u>	
1. Studies/Research	500		500
2. Technology Transfer/Training			
- Technology Transfer	750		750
- Training	1,250		1,250
3. Contract Coordinator	150		150
4. Operating/Supporting Costs	---	900	900
	<u>2,650</u>	<u>900</u>	<u>3,550</u>

Again, refer to attachment B hereto for the bases of these preliminary cost estimates.

- D. Expected Impact. Principal outputs of this initial three year Small and Medium Business Improvement Project will include: practical studies and research completed and applied; technical and know-how needs identified and responded to; training needs similarly identified and responded to; and the spin-off indication of follow-on needs for assistance to and investments in ASEAN's small and medium business sector. Some of the downstream assistance and investment requirements are expected to be suitable for AID support, while others may be appropriate for other donors. Too, it is expected that the project will identify approaches and actions the ASEAN countries can take on their account without need of external support; such a showing of the way to self-help would be a key indicator of project success.

The planning and research element will be practically oriented and supportive of the technology and training element, e.g. by potentially assisting activities to facilitate intra-regional trade, deeper coverage by the trading company form of commercial organization, etc. Taken together, the two project elements will help expand and increase the access of ASEAN's small and medium business sector to the resources it needs for growth.

IV. Feasibility Considerations

- A. Social. The proposed project is appropriate in the ASEAN socio-cultural context. Implementing agencies are indigenous to the region. Private sector participants -- beneficiaries will avail themselves of project-supported opportunities on a strictly voluntary basis.

Primary beneficiaries will be small to medium size entrepreneurs, their employees and the families of them. Definitions of the size of participating firm will be explored during detailed project design. However, flexibility will be needed here as, in the regional picture, definitions of small and medium size firms vary from country-to-country. For example, Singapore defines small enterprises as having up to \$1.0 million in fixed assets, with medium-size enterprises as having from \$1.0 million to \$2.5 million. Size definitions will likely run smaller than that in other ASEAN countries. In this context, efforts will be made during detailed design to structure part of the service delivery of technical know-how and, particularly, training to benefit the informal sector of micro-enterprises.

Other beneficiaries will include officers and employees of the implementing agencies, namely ISEAS, Technonet and AIM. It is further anticipated that U.S. private sector entities may benefit, e.g. the newly formed trading companies along with affiliated producers and buyers and sellers to them. Materialization of these benefits, however, will depend on some factors exogenous to the project (e.g. the extent of interest and presence in the region of such entities) and efforts to quantify such benefits would be hazardous.

- B. Technical. As noted in the above discussion of constraints, technological development in the small and medium business or industry sector is a complex matter. There is "no easy way" as one Eastern adage would state it. A variation of this theme was stated by an official interviewed during the ASEAN-AID PID development effort. While acknowledging the need for new technology and know-how, he emphasized that "We're developing the best way we know how." Not all of the desired technology and know-how is available due to competitive practices of protecting trade and processing secrets.

To repeat, the project takes a modest but practical approach of trying to link up demanders of technical information with suppliers of it. One important task in project preparation will be assessing, to the extent feasible, the types of technology and know-how for which there is a felt need. A rather wide range of technical interests were noted during PID preparation. Interest was expressed in electro-plating, precision machining, printing, color scanning, tools and dies, bakery products, etc. For this reason, no rigid criteria as to class of participating business or industry are deemed appropriate. The project's socio-economic goal should be kept firmly in mind as should the inherent limitations of top-down planning. (One ASEAN official told the PID team that our country sees no need for a five year plan; things keep changing and we have to adjust!)

- C. Economic. This is a technical, rather than capital, assistance project. It, thus, does not lend itself to formal approaches of quantitative analysis. Rather, the project's economic justification rests on its attributes of cost-effectiveness. It relies on in-place, sector-based institutions and networks that are in continual contact with both demanders and providers of technical services. This limits the administrative or overhead expense associated with project activities. The project is judged appropriate from a comparative cost perspective.
- D. Environmental. The project is benign with respect to environmental issues. Attachment C hereto contains the Initial Environmental Examination.
- E. Relevant Experience and Lessons Learned. A principal lesson learned from doing regional projects with ASEAN is to select capable, technically (rather than bureaucratically) - oriented institutions for implementation. The project's executing agencies -- ISEAS, Technonet and AIM -- are all judged appropriate in this context.

Further the project is somewhat a pilot, experimental effort designed to "learn-by-doing" and to identify new assistance and investment needs in the process of implementation. The constant need for alertness and a results orientation in implementation is perhaps the main relevant lesson to be observed for this project.

V. Project Administration.

- A. ASEAN Implementing Agencies. The ASEAN COIME will provide a broad overview, coordinating and evaluative function under the project. Executing responsibilities will be with ISEAS for the studies and research element, with Technonet for the technology transfer activity, and with both Technonet and AIM for the training activity. As noted, a number of outreach agencies in each ASEAN country will also participate in the project. A key task during detailed design work will be to clearly define coordinative relationships between these entities, financial and fiscal responsibilities, etc.
- B. Agency Arrangements. The project will be coordinated by the ASEAN Liaison Office (ALO) based in Manila supported by legal, controller, and procurement staff available in the region. To assist, a foreign national PSC will be hired and possibly based in Singapore where two of the implementing agencies, ISEAS and Technonet, have their headquarters. During project preparation, the need, extent and type of implementation support required from AID/W will be assessed and defined.

C. Design Schedule. It is anticipated the PID will be reviewed by the APAC in April. Assuming approval, the detailed design effort should be initiated forthwith. The ALO foresees need for participation of a project development officer and, possibly, a training specialist. Participating ASEAN agencies will participate fully in project paper preparation. This will assure a realistic detailed design as well as help develop a sense of proprietorship that will encourage successful project implementation.

VI. Policy Issues

No unusual policy issues are foreseen for this project. However, one potential issue may come up. It is the extent to which countries currently outside ASEAN might participate in the project. For example, Brunei is expected to join ASEAN in 1984. While Burma is not expected to join ASEAN any time soon, it was previously invited to do so and frequently attends ASEAN committee meetings in observer status. APAC guidance is sought on this potential issue.

Attachment A

Preliminary Logical Framework

1. Goal

a. Socio-Economic:

- (i) Improve living standards among the poor.
- (ii) Increase employment and incomes.

b. Sector: Increase the growth of ASEAN's small and medium business sector.

- Principal Assumption: complementary capital assistance will be made available by other donors or participating ASEAN countries.

2. Purpose

a. Primary: Improve and increase the level of services available to ASEAN's small and medium business sector.

b. Intermediate: Strengthen the capacity of participating institutions and networks to serve the sector.

- Principal Assumption: Participating institutions will continue to receive support from other donors; planned assistance will materialize, e.g. PRE to AIM.

3. Outputs

- a. Practical policy and sector studies identified, completed and applied.
- b. Sector technical and know-how needs identified and responded to with appropriate expertise; joint venture, sub-contracting and licensing arrangements promoted and established.
- c. Sector training and know-how needs identified and responded to with appropriate courses.
- d. Downstream assistance needs identified and advanced.

4. Inputs

- a. Studies and Research - \$500,000.
- b. Technology Transfer and Training - \$2.0 million
- c. Contract Coordinator - \$150,000
- d. Operating/Support Costs - \$900,000.

Attachment B

Preliminary Cost Estimates

Cost estimates for the three-year Small and Medium Business Improvement project are tentative and illustrative at this point. They will be finalized during detailed design work. During PID preparation, potential uses of the Study and Research Fund were identified totalling more than 60 percent of the amount budgeted. Potential uses of the Technology Transfer and Training Fund were identified totalling nearly 100% of the amount budgeted.

1. Tentative List of Studies and Costs

a. Asian Bankers' Acceptance Market (ABA) Study. General objective: to help ASEAN Finance Corporation make the ABA more operational and effective. Estimated cost: \$30,000 for three person-months of advisory assistance (\$10,000 per person month, including travel).

b. Study for Planned Asean Trade and Investment Corporation (ATIC) General objective: to help this new institution become operational and effective, e.g. plan promotional campaigns, coordinate efforts with bilateral and other regional entities, etc. Estimated cost: \$60,000 for six person-months of advisory assistance (\$10,000 per person-month, including travel).

c. Research of ASEAN-U.S. Economic Relations for Development. General objective: to promote closer political, economic and developmental relations between ASEAN countries and the U.S. Specific foci: (i) trade relations between ASEAN and the U.S.; (ii) U.S. investment in ASEAN; (iii) determinants of ASEAN-U.S. trade and investment; (iv) approaches to promote economic cooperation and schemes for increased trade and investment. Estimated cost: \$217,000. See ISEAS' preliminary proposal for this research sub-project annexed to this Attachment B. (Note: the proposal will be, of course, subject to negotiation/revision, e.g. by further specifying policies and practical outputs.)

d. Other studies were tentatively identified during PID preparation, e.g. a review of ASEAN country experiences with trading companies aimed at developing recommendations for improvement. However, such studies are at a sufficiently preliminary stage as to preclude meaningful statements about scope and estimated cost.

2. Tentative List of Technology Transfer and Training Costs

a. Technology Transfer: \$750,000. Managed by Technonet Asia, this element will provide technical experts in response to specifically-expressed needs of ASEAN's small and medium business sector. Some 100 person-months (at \$7,500 each) were judged reasonable over the initial three years.

b. Training: \$1.25 million. It is planned the training fund will be allocated to short-term courses conducted by both Technonet and AIM, with precise allocations determined in detailed design work. Technonet estimates the cost of a one-month course -- in one country, with 30 participants -- to be \$50,000, including costs of lodging, per diem, etc. AIM estimates the cost of a one-month course -- in one country, with up to 60 participants -- to be \$60,000, excluding costs of lodging, per diem, etc.

For illustrative purposes at this stage, the training budget may be allocated as follows:

- (i) Technonet courses: 12 @ \$50,000 = \$600,000. (12 courses would be one per quarter over three years and benefit 360 entrepreneurs.)

- (ii) AIM courses: 5 @ \$60,000 = \$300,000
plus approximately equivalent participant costs = 300,000
(5 courses would allow one per ASEAN country and benefit up to 300 entrepreneurs.) \$600,000

3. Contract Coordinator: \$150,000. It is planned that a foreign national consultant from ASEAN will be hired under a personal services contract. This contractor will provide overall project coordination, develop and maintain data for evaluation purposes, generally performing such tasks as are necessary to prompt and effective monitoring, implementation and evaluation of the project. Estimated cost: three years at \$50,000 each, including travel.

4. Operating/Support Costs. These will be financed by the participating agencies and will be detailed during preparation of the Project Paper.

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· ASEAN-US ECONOMIC RELATIONS

A Research Proposal

The ASEAN Economic Research Unit of the Institute of Southeast Asian Studies is undertaking and coordinating research in four main areas: ASEAN cooperation and intra-ASEAN trade; ASEAN external relations; commodity problems; and capital flows and monetary aspects. In the field of external relations, the Unit is already undertaking a series of research projects, funded by various foundations and agencies:

ASEAN-Japan Relations, funded by and in collaboration with the Japan Center for International Exchange;

ASEAN-EEC Economic Relations, funded by the Konrad-Adenauer Foundation, West Germany;

ASEAN-South Asia Relations, funded by the Ford Foundation (India), and in collaboration with the Indian Council for Research in International Economic Relations;

ASEAN-Korea Relations, in collaboration with and funded by the Korea Institute for Industrial Economics and Technology.

In addition, the Unit is involved through the participation of its members in a number of other ASEAN external relations projects, i.e. the ASEAN-Australia research project and a project on ASEAN-New Zealand relations.

Japan, the US and the EEC are ASEAN's main trading partners. For this reason, the Unit considers it necessary to give priority to

ASEAN economic relations with these three countries or areas in its research focus. While extensive research projects are already under way with regard to Japan and the EEC, it has not yet been possible to find the necessary funds to initiate a research programme on ASEAN-US relations. The following proposal develops the focus, the methodology and the costs of such a project. While doing so, extensive use has been made of the experience gained by the Unit in undertaking similar projects in other areas.

1. Background

Since its formation in 1967 the member countries of ASEAN have been gradually working towards regional cooperation. This process was accelerated in 1976 after the Bali Summit of Heads of Governments. Since then various schemes of economic cooperation have been put into effect, including the ASEAN industrial projects, the ASEAN industrial complementation schemes, the preferential trading arrangements, cooperation on energy, food, transportation and communications, as well as joint approaches to external economic problems. With regard to the latter, ASEAN has set up dialogues with its major economic partners, i.e. Japan, U.S.A., Australia, New Zealand, the European Community, etc.

ASEAN countries and the US have always had strong economic links. More recently the strengthening of ASEAN as a regional group of countries has led ASEAN to attempt to improve the relationship between the US and the ASEAN grouping as a whole. However, preliminary investigations by both sides have come up with more questions than answers. More information and a better understanding among a

wider circle of people of the several aspects of the relationship will therefore be very useful to ASEAN as well as the US. This research and seminar project is expected to contribute towards the progress of inter-regional cooperation efforts between ASEAN and the US.

1.1 The Current Economic Relations between ASEAN and the US

Facts and figures on international trade, investment and foreign aid put the ASEAN-US economic relations in its proper perspective. In terms of trade volume, the US ranks second as a trading partner of ASEAN. In 1980 the US took 17% of ASEAN exports and provided nearly 15% of its imports. The comparable figures for Japan were 26% and 21% and for EEC about 12% (both ways). While these statistics indicate the significance of the US to ASEAN in terms of foreign trade, the reverse is not readily obvious since ASEAN accounts for only 3% of US total exports and 5% of its imports. However, ASEAN supplies a significant portion of US imports of natural rubber (90%), crude petroleum (10%), tin (70%), sugar (15%) and tea (15%). Two-way trade between ASEAN and US increased by 400% or at a compound annual growth rate of 8.7% during the period 1970-77.

Trade with the US is important to all of the ASEAN countries, but especially for Indonesia and the Philippines. Although the ASEAN-US trade balance is in favour of ASEAN, bilateral relationships indicate that substantial trade surpluses have been enjoyed only by Indonesia, Malaysia and the Philippines. Thailand and Singapore have had sizeable trade deficits with the US. This explains why international trade issues relating to better access to the US markets rank

high in the ASEAN-US dialogues. The US, however, has not been willing to give any major trade concessions to ASEAN, arguing that its oil import bill from ASEAN oil exporters has shot up considerably. For example, in 1977 USA's oil imports from ASEAN amounted to US\$3.0 billion while its trade deficit with the region was US\$3.7 billion. This is the reason why Indonesia has been excluded from the US Generalized Scheme of Preferences (GSP) enjoyed by other developing countries.

Foreign investment is another area of interest in ASEAN-US economic relations. Foreign investment is a very important source of capital formation in ASEAN countries. Although it is difficult to assess the accuracy of available statistics for cross-country comparisons, they do provide some broad idea of the pattern of foreign investment in the region. The US accounts for 18% of the total foreign investment in ASEAN. This figure amounts to 15% of total US investment in developing countries. The share of the US in total foreign investment is significant in all ASEAN countries, especially in the Philippines and Singapore, and while the US tops the list of foreign investors in the Philippines, it occupies second position in Indonesia and Thailand (after Japan) and third position in Malaysia (after Japan and EEC). US subsidiaries hold substantial interests in petroleum, electrical products, chemicals and mining industries of the region. Given the fear of economic domination by Japan, ASEAN is keen to encourage greater investment from the US and both public and private attempts have been made to this effect with reasonably good success.

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Apart from trade and investment, aid from the US is another set of issues for discussion. The US is an important source of foreign aid to the region. About 20% of the total aid received by ASEAN comes from the US. Of this, Indonesia gets 54%, Philippines 37%, Thailand 8% and Malaysia and Singapore only insignificant proportions. In the ASEAN-US dialogues, in addition to aid on a bilateral basis, aid to ASEAN as a region has been sought. Grants and concessional credits from various US agencies for the construction of infrastructure and procurement of equipment and services for the regional industrial projects and technical assistance have also been requested.

1.2 Future Economic Relations between ASEAN and the US

The nature and level of international trade and investment between ASEAN and the US will depend upon the development of the world economy in general, of the Pacific economy in particular and especially of the economies of the US and ASEAN.

Projections by the World Bank indicate that due to strong inflationary pressures and volatile external payments situation the recovery of the industrial countries from the 1974-1975 recession has been slow and erratic. It is predicted that the annual growth rate in real terms in North America in the decade of the eighties will be in the order of 3-4%. This growth rate is higher than the rate during the seventies but slightly less than that of the sixties and it is also less than the 4.2% forecast for industrial countries as a whole in the eighties. This gloomy prediction for the North American economy will adversely affect ASEAN-US trade in two ways: it will slow down the growth of imports of raw materials such as natural rubber,

tin and sugar; and it may lead to pressures for more protectionism against manufactured exports from ASEAN. It is also unlikely that any significant structural changes will occur in the US so that its internal and external constraints will be reduced and it can liberalize trade.

Given that the predicted world economic environment is expected to have a negative effect on ASEAN-US trade, the focus should be on bilateral negotiations to offset at least part of this. It was precisely with this objective that ASEAN initiated dialogues with the US. The first dialogue was held in Manila in September 1977, the second in Washington D.C in August 1978, and the third in Manila again in September 1981. In the dialogues, ASEAN, posing as a "common front", asked the US to liberalize the tariff and non-tariff barriers to trade to provide free access to US markets for its exports of manufactures and semi-manufactures. But the US has taken a hard-line stand. For example, the US rejected the suggestion for a STABEX type scheme for primary exports of ASEAN in favour of the Integrated Program for Commodities of the UNCTAD. The US has no special trade policy with ASEAN and the only major concession it has granted is the access to special preferential tariffs under the ten-year US GSP launched in January, 1976. The US GSP has benefited all ASEAN countries except Indonesia, which was excluded from this privilege since it is a member of OPEC. Further dialogues seeking the inclusion of Indonesia in the GSP scheme, broader coverage of items, adaption of less restrictive "competitive need" criteria and more liberalized and simplified "rules of origin" in the US GSP should help promote ASEAN exports to the US. It must also be pointed out that the US is the only industrial country

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in the world that has not yet granted tariff cuts on the import of tropical products as agreed upon in the Tokyo declaration on Multilateral Trade Negotiations. The US wants a list of "counter contributions" before the tariff cuts are made.

In terms of inducing increased flows of US foreign investment into ASEAN, the world and regional economic environment looks more favourable. The slowdown of economic growth in the US may encourage US capital to seek higher return investments in ASEAN. Considering the high growth rates of ASEAN countries and also the success of ASEAN intra-regional preferential tariff agreements to reduce tariffs, more US capital is expected to flow into ASEAN. Besides, ASEAN, consisting of 237.1 million people and having a GNP of US\$97.20 billion, is a market with a great deal of potential. Bilateral dialogues between ASEAN and the US have been more fruitful in promoting investment than trade flows, although the two are inter-related.

A study such as the one proposed here to examine the determinants and inter-relationships between ASEAN-US trade and investment flows will be of immense help in understanding and guiding future ASEAN-US dialogues. Hence a project such as this appears justified in terms of significance, relevance and timing.

2. Objective and Scope of the Research Project

The objective of the project is to promote closer political and economic relations between the member countries of ASEAN and the US. This is to be achieved through increased knowledge about the two regions including their potentials and future plans. Thus the immediate aim of the project will be to promote research on ASEAN-US

economic relations by means of encouraging scholars in the two regions to work together on issues which are relevant to ASEAN-US economic relations. The focus of the project will be on trade, investment and economic cooperation. Analyses are to be carried out on:

1. Trade relations between ASEAN and the US;
2. Investment of the US in ASEAN;
3. Factors affecting ASEAN-US trade, and the US investment in ASEAN;
4. Economic cooperation in schemes promoting trade and investment.

Central to the theme is that foreign trade and foreign investment are inter-related, such that trade policies and investment policies cannot be considered independently of each other. A corollary is that investment trends and policies of Japan and the US, as well as other international developments, significantly influence the pattern of trade between the two regions. An economic cooperation scheme, to be effective in the long run, should promote better trade and investment relations between the two regions.

Another objective of the study will be to further academic cooperation between scholars in the US and those of ASEAN, as well as between scholars from different ASEAN countries. There is a tendency for research in the ASEAN countries to be confined to the country of origin of the researcher, and there is too little interchange of information, research ideas and methodology between scholars and institutions within the ASEAN region. The same may be true to a lesser degree amongst scholars of Southeast Asian studies in the US. A research programme of the type proposed here will help to foster

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both competition of ideas and cooperation of scholars within and between the two regions.

It is proposed that the research programme should be planned for a three-year period. In each year four researchers from ASEAN and four from the US will be assigned specific topics decided upon by the Project Coordinator. Each of these studies will be presented at a conference to which the paper-writers and other researchers working on ASEAN-US relations will be invited. The first conference would be held in Singapore, the second in the US and the third in a country of the ASEAN region. Each researcher will submit the result of his research in sufficient time for it to be circulated to the other conference participants. After the conference, the paper-writers will be required to revise their studies in the light of the discussions and before publication. Publication of the results will be undertaken by ISEAS in its publication programme. It is proposed to offer each researcher an honorarium and to pay for direct research expenses as and when incurred.

The Coordinator of the project will be required to travel throughout the ASEAN region in order to select the appropriate scholars for each research assignment and to coordinate their work. It will be useful if a counterpart of the ASEAN Coordinator could be found to similarly coordinate the work in the US. However, a US Coordinator has not been provided for in the attached budget.

During the first conference, discussions will also be held on the topics to be addressed in subsequent phases of the project. The annual research and seminar theme could follow the following sequence:

1. ASEAN-US economic relations.
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2. Economic changes in ASEAN and the US and impact on future economic relations.
3. ASEAN-US economic relations in the changing world economic order.

The logic behind the proposed sequence is that one should first learn about facts and figures on ASEAN-US economic relations before an analysis is made of the changes taking place in the two countries. Finally, the relationship is viewed in the global context, taking into consideration the interdependence of the international economy.

3. A Proposed Programme for the First Year

The programme of the first year should provide a comprehensive background for activities of the whole programme. It should thus include the follow topics:

1. The ASEAN-US trade relations: an overview. An analytical survey of trade relations between the two regions, making use of analytical tools like the constant-market-share model, and elasticity technique. Attempts will be made to identify factors in both regions which may have affected the trade pattern.

Author: American

2. The US investment in ASEAN. A survey of the US investment in all ASEAN countries. A comparison will be made with investment from other countries in ASEAN. Investment will be classified in terms of broad sectors and host countries. A distinction will be made between "old investment" and "new investment". Concepts such as those

found in industrial organization theory and the product cycle will be applied to explain the pattern of foreign investment.

Author: ASEAN

3. The US imports of primary commodities from ASEAN. An analysis of the dependence of the US on ASEAN for selected primary commodities. A comparison will be made with other sources of these imports. The potential growth of primary commodity imports will be based on the projected industrial growth in the US.

Author: American

4. ASEAN manufactured exports in the US market. A survey of the recent growth of ASEAN manufactured exports particularly to the US market. Specific factors leading to this development will be identified. An assessment will be made on the impact of protectionism in the US on ASEAN manufactured exports.

Author: SEAN

5. The US investment and the transfer of technology. An analysis of whether and how the US companies have transferred technology to industries in ASEAN. Influences of the technology in the subsidiaries and local companies will be made.

Author: American

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6. Contractual arrangements in ASEAN-US joint ventures: a case study. A few ASEAN-US joint ventures will be selected for an in-depth study of the contractual arrangements. An assessment will be made on the economic benefits to the US and ASEAN partners.

Author: ASEAN

7. Complementation of the US investment in ASEAN. An investigation into the possibility of the complementarity of the US investment in ASEAN. The underlying hypothesis will be that the US projects in ASEAN are complementary, and thus promote ASEAN industrial cooperation.

Author: American

8. The trading system between ASEAN and the US. An investigation into the conduct of trade between ASEAN and the US. The questions will be on who handles trade, how it is financed, etc.

Author: ASEAN

The second year topics may be on economic changes within the region which will have effects on the economic relations between the two regions. These may include the process of industrialization, effects of new development strategies (on trade and investment), technological changes, wage and price inflation, etc. In the third year factors external to the two regions, but which may affect the bilateral relations, will be considered. The roles of Japan, the EEC, Australia and other developing countries in affecting trade and investment relations between ASEAN and the US will be brought into the

picture. In effect, this will be a study on the economic complementarity between ASEAN and the US, taking into consideration economic developments in other regions of the world.

4. Timing

A project coordinator could be assigned to this project as soon as funding becomes available. He would immediately set about selecting suitable researchers for the individual studies, so that the project proper could get under way within about 2 months of the finalization of funding arrangements.

5. Budget Outline

<u>PHASE I:</u>		<u>US\$</u>
<u>Research Studies</u>		
Honorarium per researcher	2,000	
Direct research expenses	500	
	<hr/>	
	2,500	
i.e. for 8 studies		20,000
 <u>Conference</u>		
Travel for 25 participating scholars (15 international, 5 intercontinental)	17,000	
Per diem for 25 participants for 5 days @ 80:	10,000	
Local transportation and hospitality	2,000	
Copying, communications, rentals	2,000	
	<hr/>	
		31,000
 <u>Publication</u>		
Including editing, printing and distribution costs		9,000
 <u>Coordination</u>		
Honorarium Coordinator	2,500	
Travel Coordinator	2,500	
Supplies, and secretarial	5,000	10,000
	<hr/>	
Total for 1st Phase		70,000
Total for 3 phases (including 7000 extra in Phase 2 for conference in U.S.A.)		<u>217,000</u>

NB: Estimates are in 1982 prices and at 1982 Dollar exchange rates.
Adjustments may become necessary in the 2nd and 3rd year of the
project.

ICR/tsh

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UNITED STATES GOVERNMENT

Memorandum

~~Long R...~~
~~S...~~
D/U

TO Distribution

DATE: March 30, 1983

FROM ASIA/PD/EA, Bruce Blackman

R. B. ...
632-3516
~~632-3516~~

SUBJECT: REGIONAL - ASEAN Small & Medium Business Improvement Project (498-0277)
Project Identification Document (PID)
Project Committee Meeting

A Project Committee meeting to review the subject PID will be held on Monday, April 4, 1983 from 2:30 to 4:00 p.m. in the ASIA/PD Conference Room (enter at 3318 N.S.). Your participation is invited.

The follow-on APAC meeting for this project has been scheduled for Friday, April 8, from 3:00-4:30 p.m. in Room 3524 N.S. The APAC issues paper will be sent under separate notice following the Project Committee meeting.

Attachment: PID

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} ASEAN countries

cc: AA/ASIA, C. W. Greenleaf
DAA/ASIA, E. Staples
SA/AA/ASIA, J. Esposito

