

# FINANCING OF CAPITAL INVESTMENT THROUGH LEASING: A COMPARATIVE STUDY OF SELECTED ASEAN COUNTRIES

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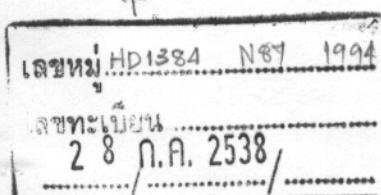
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Leasing as an important source of funding has proven its significant role in the developed countries during the 1970s to 1980s. The studies in last decades of 1980s in the three major leasing markets --US, Europe and Japan-- have shown that leasing contributed significantly in the equipment financing during their industrialization period.

### Acknowledgements

The attraction of leasing has been spreading worldwide especially to the economic growth center region in the Asia Pacific countries. Yet not much studies have been conducted to understand the structure, role and impact of the leasing mechanism as a source of funding in the developing countries. This study is an attempt to meet that need. However, because of its exploratory nature this study focuses only in leasing mechanism of the industrial or production equipment investment in three ASEAN countries namely Thailand, Singapore and Indonesia.

In order to fully understand the leasing mechanism as a source of financing, a conceptual framework has been proposed. This framework proposes three levels of analysis, namely global, macro-regional and micro-firm level. The analysis is based on four determinants in the leasing industry: legal, taxation, accounting, practice. The framework has been operationalized through the development of a questionnaire and its application in case studies from both lessor and lessee side.

The study of global-macro-regional interaction shows that leasing industry depends heavily upon the government policy, especially on the taxation regulations. It is due to the government policy that a leasing industry can grow rapidly in one time and slow down or even dying in another time. Therefore, in order to fulfill its function as a promoting factor in the development of the technological capability of the country through easy financing in industrial equipment, it needs a conducive environment in the form of supporting regulation from the government.

### 2.1.1 Main Classification of Leasing

In the context of macro-micro interaction in the three ASEAN countries under study, this study reveals that qualitative factors of availability, flexibility, less administration and speedy process are the strong points of lease mechanism compared to established financing form of bank loan. Quantitatively, lease scheme cannot compete loan scheme since the spread between the interest rates cannot offset the tax deferral benefit generated in the lease mechanism, this has been demonstrated in the case studies analysis which proposed some simple rules. The availability is the strongest reason for small and medium size companies to engage in the lease scheme since their borrowing capacity is limited.

### 2.1.2 Accounting for Leases

Based on the findings, the lessors can strengthen their competitiveness and the lessees can improve their bargaining power. Through the cooperation with the authorities, leasing mechanism can be used to promote capital investments which will eventually benefit to the whole economy of the country.

### 2.5 Conclusion