

## Chapter 5

# Policies for Promotion of Malaysian SMEs Go Global in the Digital Economy: SMEs Go Global From Malaysia

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### ABSTRACT

*The main purpose of this study is to seek industrial players' inputs on fiscal and monetary policies necessary to enhance SME export performance. The authors use survey data from 215 small and medium enterprises having export markets. They report the most essential governmental export support policies from the perspective of the industry players. The study revealed that accessing to financing is the top request to the government. Other policy recommendations are related to market access, human capital development, tax regimes, infrastructure and technology adoption, legal and regulatory environment, and monetary policies. This study gives implications for Malaysia External Trade Development Corporation (MATRADE) policymakers and export-oriented small and medium enterprises (SMEs). The study contributes to the Malaysian SMEs in relation to inputs to the government to improve their export performance especially using e-commerce.*

### INTRODUCTION

Regional Comprehensive Economic Partnership (RCEP) is the world's biggest free trade, aiming` to facilitate trade and cooperation throughout the Asia-Pacific regions in 15 countries. The RCEP's member countries are willing to accept e-commerce/digital trade provisions that adopt digitalized solutions. The

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RCEP will significantly accelerate the digitalization of the cross-border e-commerce. Asian e-commerce is growing rapidly. Many countries in the ASEAN countries have demonstrated a strong commitment to the digital trade e-commerce. The ASEAN Digital Masterplan (ADM) 2025 has a vision that 2021-2025 could see the ASEAN make giant strides towards becoming both a digital economy and a digital society, with the ASEAN population now own broadband devices and cloud services while the COVID-19 pandemic has inadvertently allowed people to engage in digital-oriented economic activities (ASEAN Secretariat, 2021). A regional market of ASEAN and RCEP can help SMEs pilot their exports.

SMEs have always been important in the development of the economy. SMEs contribute significantly to the nation building especially in terms of employment and GDP. Based on SME Corporation Malaysia (2013), the manufacturing process is defined as the conversion of components as well as materials into new products. The meaning associated with services indicates all services. In addition, mining & quarrying, construction along with primary agriculture are also included. According to SME Corporation Malaysia (2019), SMEs contributed 66.2% of employment, 38.3% of GDP and 17.3% of export in 2018. In comparison, countries such as Germany recorded 57% share of GDP (Small and Medium Industries Development Corporation Malaysia, 2006). In other words, there is still the lack of global expansion activities among SMEs.

According to Department of Statistics Malaysia, DOSM (2018), the total amount of SMEs is 907,065, which converts to around 98.5% of business establishments in Malaysia. In terms of SMEs establishment by Sector by 2016, SMEs consist of a sizeable amount of service sector SMEs which adds up to 89% SMEs in the entire Malaysia. The list is consecutively followed by manufacturing (6%), construction (4%), agriculture (1%), and mining sector (<1%). According to Key Statistics on SMEs 2016/17, the main SMEs establishment states in Malaysia that represent 19.8%, 14.7%, 10.8%, 8.3% and 7.4% of the total establishments are Selangor, Kuala Lumpur, Perak, Johor and Pulau Pinang. Digital Trade Free Zone is also a significant milestone in globalization. Malaysia External Trade Development Corporation (MATRADE) indicates that SMEs should reduce their dependency on the domestic market and start looking for their expansion beyond Malaysia. Despite all the merits of expanding abroad, Malaysian SMEs need to be alert and to amplify their horizons so that this move will improve their performance, but also to mitigate risk. The export performance of SMEs in 2018 remained 17.3% in 2018. SME exports increased to RM171.9 billion in 2018. Despite making up 98.5% of business establishments in Malaysia, only 17.3% of export rate was contributed by SMEs. However, only 50,197 or 5.53% of Malaysian SMEs involve exporting activities. The export share of SMEs was more than 20 percent less than that in countries such as the Philippines, Hong Kong, Taiwan and even the USA (World Bank Group, 2020). Exporting is the most used mode of entry while increasing profit is the main cause for internationalization (Abdullah and Zain, 2011).

Globalization and digitalization are unavoidable trends for businesses. Rapid updates have been brought by disruptive innovations. These challenges were mentioned by MATRADE which highlighted that more international companies are entering the local market, propelling SMEs to move on to greener pastures in overseas markets. With more export, Malaysia can also benefit from it with faster economic development, and faster rate of employment. The government is encouraging the SMEs to increase their export to expand their markets overseas as part of their business growth. The Government's commitment is to drive the nation's digital economy agenda. It will serve to expand the e-Commerce sector by facilitating SMEs to enhance their online presence and entering third country markets. Malaysia's SMEs using e-Commerce are offered the opportunity of global expansion via export to grow exponentially. Change in the mindset among leaders of SMEs is necessary to move forward. Malaysia and Alibaba Group opened

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