

## **SMEs Development and ASEAN Economic Integration: An Analysis of Singapore and Malaysia**

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### **ABSTRACT**

This article aims to examine the role of the Association of Southeast Asian Nations (ASEAN) member states in enhancing the capability of small and medium enterprises (SMEs) for the purpose of achieving their ASEAN Economic Community Blueprint. A comparative case study between Singapore and Malaysia was adopted whereby multiple sources of data and information were gathered and synthesised using content analysis. Quantitative data were also used to support the qualitative analysis. An essential result indicates that even though Singapore and Malaysia have collectively agreed to develop regional economic community using SMEs as a tool, their strategic-oriented economic policies seem to be affiliated outside the group. They are more open to trade and investment with countries outside the group than their ASEAN partners. Additionally, besides the internal restrictions and differences on productive resources, market demands, workforce skills, and even technology and innovation for SMEs development, a paramount challenge stems from the aspiration of being the key economic player at both regional and global levels. Therefore, the pursuit of economic power has practically undermined the collective agreement mentioned above, and has simultaneously put the ASEAN regional economic integration process in jeopardy in face of the inconsistency of its member states' strategies and policies.

*Keywords:* ASEAN Economic Community Blueprint, ASEAN Economic Community, economic integration, regional cooperation, small and medium enterprises development, strategic orientation

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### **INTRODUCTION**

The initiative and development of small and medium enterprises (SMEs) has been a

prominent matter on the agendas of ASEAN member states. In the context of developing countries, it has particularly been placed as part of the bottom-up approach for national economic development strategies, with the aims of increasing employment rates, household incomes, and, as the ultimate goal, national economic stability and competitiveness. At both national and regional levels, the increasing productivity of SMEs has widely become an agenda of regional economic cooperation aimed at bridging the economic development gap among member states (Economic Research Institute for ASEAN and East Asia [ERIA], 2014; Kone, 2012; Samaratunga & Weerasinghe, 2002).

In the case of the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC), the development of SMEs has, since the 13<sup>th</sup> ASEAN Summit held in Singapore on November 20, 2007, been highlighted in the third pillar of the ASEAN Economic Community Blueprint as a path towards the creation of equitable economic development. Besides narrowing the economic gap between member states, its aim is to encourage SMEs to participate in regional and global value chains, and focus on efforts to build the capacity of ASEAN member states to ensure their effective integration into the economic community (ASEAN Secretariat, 2015a; Tay & Kiruppalini, 2015).

Also included in this regard is to achieve balanced and sustainable economic development among ASEAN member

states, including paving the way towards a common market and production base (ASEAN Secretariat, 2015a; Kawai & Naknoi, 2015). With an aspiration of bolstering domestic economic development from the bottom, each member state has put enormous effort into strengthening their SMEs capacity by investing in science and technology, social infrastructure, marketing channels, and human resource development in order to produce more skilled labour and productive workforce, for instance. Nevertheless, there has been a matter for consideration regarding the consistency of economic-led regional integration and the strategic orientation of each member state, reflected and discussed further below.

### **Scope of Analysis**

Theoretically, different contexts of international circumstances lead to different concerns of national interests which in turn, have affected the policy choices of governments (Jackson & Sorensen, 1999). This perspective rests on the assumption that the policy direction of government is always oriented toward the changing system of international relations. At the same time, the policy choices of governments also clearly influence the existing regional organisations they join (Kimura, 2013; Narine, 2005; Rai, 2010). As shown in Figure 1, domestic demand for economic development is more or less related to foreign policy, thereby shaping the form of inter-state relations and regional cooperation (Tay & Kiruppalini, 2015).

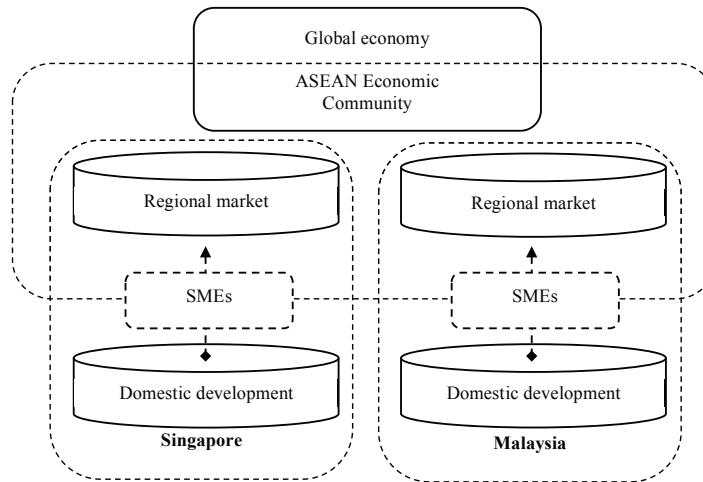


Figure 1. Scope of Analysis

In reference to Figure 1, the scope of this analysis is devoted to shedding light on the interaction between the domestic and foreign policies of ASEAN member states and the ASEAN economic integration process in the course of the intercalation of SMEs development and governments' economic strategy serving as the key analytical point. To clarify these points, a comparative case study between Singapore and Malaysia has been employed.

### THEORETICAL DISCUSSIONS

The years of rising of regionalism and attempts towards regional integration among developing countries began in the 1960s. In view of all the variations in regional formations, there is copious amount of substantive literature on regionalism providing both conceptual and analytical frameworks for diagnosing its nature. Nevertheless, obviously, substantial variables affecting the pattern of interstate

cooperation and the direction of regional organisations have also changed in tandem with changes in international relations (Rosellon & Yap, 2010; Samaratunga & Weerasinghe, 2002; Tay & Kiruppallini, 2015).

Equally important, a mutual collaborative agreement, which is made by governments at the regional level, does not infer that it would be manifested in a collective action at the local level and accomplished through a shared vision. In so far as there is deliberation about the importance of cross-border economic linkages as a solution mechanism for regional cooperation processes, the role of government alone cannot make it possible. On the contrary, the role of local economic actors and the readiness of their operative resources are required to fulfill these processes (Anderson, 1991).

Theoretically, as discussed above, it refers to as the complex network of

flows across state boundaries, involving the movement of goods and services, capital, technology, information, and people (Hurrell, 1995; Noble, 2005). In the sense of the creation of regional cooperation, as based on constructivist concepts, regionalisation does not come about unless the states and people of each state in a particular region desire it to do so (Wendt, 1992). Regional cooperation may come into existence through a spontaneous or unintended convergence of political regime and economic policy, but often one can identify a triggering political event which sets the process in motion (Katzenstein, 2000).

In view of these arguments, there are two critical theoretical debates. The first issue is that successful economic cooperation in one area would permeate to other areas, and eventually be integrated as a whole. This implies the important roles of the market and economic actors in stimulating closer regional cooperation (Wendt, 1992). The second argument issue is that regional integration cannot succeed unless states decide to promote it. The possibility of regional integration implied in this statement requires an active role for states (Katzenstein, 2000).

In the case of ASEAN, the shared vision of member states is to enhance ASEAN as a dynamic regional association. As a code of conduct, member states explicitly prescribe the right of every state to lead its national existence free from external interference, subversion, and coercion. This is because the member governments

attempt to strengthen their internal stability at both the local and national levels to cope with the external challenges of complex interdependence at both regional and global levels (Narine, 2005; Noble, 2005).

In this regard, the momentum of the ASEAN economic community will come about only if the sense of community, or at least regional cooperation, is substantially encouraged (Hwee, 2005; Kawai & Naknoi, 2015). This leads to a caption idea that the economic community could be established by member states through their economic interdependence, together with the role of their local economic actors which are already destined in the ASEAN Economic Blueprint to play a more meaningful role. With this proposal, it can be said that integration in one policy area would pervade other areas of the economy and spill over into connected areas.

In particular, in driving the ASEAN economic community, as it has been defined in the ASEAN Economic Blueprint, developing the capacity of SMEs as a bottom-up approach to economic development strategy is recognised to be an important factor for the achievement of a common market and production base, or at least of equitable economic development (ASEAN Secretariat, 2015a; Kawai & Naknoi, 2015).

As mentioned in the 2016-2025 ASEAN strategic action plan for SMEs development (ASEAN Secretariat, 2015b), light is shed on the creative initiatives that encourage SMEs to participate in regional and global value chains, and focus efforts to build the capacity of ASEAN's most recent member

states to ensure their effective integration into the economic community. Equally important is that the collective action must be in accordance with collective strategy and should be in line with shared vision accordingly.

## **MATERIALS AND METHODS**

In accordance with the circumstances presented above, this investigation contains mainly qualitative research conducted by means of a comparative case study: the role of Singapore's and Malaysia's governments in developing their SMEs in line with the ASEAN Economic Community Blueprint (ASEAN Secretariat, 2015a; 2015b). Specifically, analysis is devoted to shedding light on the consistency between domestic and foreign policies, particularly in regard to SMEs development. This comparative approach is deployed analytically so as to provide inductive inferences regarding the influences of the policy decision-making of ASEAN member states on the ASEAN Economic Community.

Importantly, according to the global competitiveness index surveyed by the World Economic Forum (WEF) (Jones, 2015), selecting these two competitive ASEAN member states as a comparative case study can help to clearly reflect the realisation of whether or not ASEAN member states might be able to achieve the goal of the ASEAN economic community.

In doing so, secondary sources of data were systematically gathered and synthesised. These consist of relevant official documents regarding the

governments' policies on SMEs capacity development, and the documents which relate to the ASEAN Economic Community Blueprint. Also included were academic research and relevant reports of professional organisations. Quantitative data, such as key economic indicators and volume of trade and investment, were also utilised to support the qualitative analysis. In the course of selection, these documents were thoroughly distilled by means of the method of content analysis.

## **RESULTS AND DISCUSSION**

Generally speaking, Singapore and Malaysia have similar economic systems. Both of them emphasise mixed economies in which free-market policies and practices have come hand-in-hand with government intervention (WEF, 2015). Also included is the economic activity of SMEs. In a similar manner, the aims of SMEs capacity development in these two states are to stabilise their local economies on the one hand, and to increase their economic leverage at the regional and global markets, on the other.

In these two states' local economic contexts, both of them have put enormous effort into increasing SMEs capacity, which acts as a catalytic agent for domestic economic development (Rosellon & Yap, 2010; Tay & Kiruppallini, 2015). The SMEs in both states are dominated mainly by the service sector, while other major industries such as electronic, electrical products and chemicals are also promoted. In doing so, Singapore and Malaysia have initiated various sources of financial

assistance, tax treatment, and funding for the provision of factory construction, research and development for innovation and technology, as well as human resources development. These are parts of SMEs development strategies for both newcomers and existing SMEs.

Nevertheless, the results reveal that there are some inconsistencies in SMEs development and relevant policies of the two countries which explicitly and implicitly impose obstacle to the process of ASEAN economic integration. An important difference is grounded in their policy content and implementation processes. In order to encompass all essential related issues, discussions are divided into domestic and foreign policy perspectives, which can be explained as follows.

### **Domestic Policies for SMEs**

#### **Development: Singapore**

According to the collected data, Singapore's SMEs account for up to 99% of all domestic enterprises, which contribute about 50% to the increase in gross domestic product (GDP) ("Innovation, technology and talent - Keys to grow your business, Singapore", 2016). The Standards, Productivity and Innovation Board of Singapore (SPRING), which is an important public organisation under the supervision of the Ministry of Trade and Industry, has arranged key objectives for SMEs development strategies that cover productivity and innovation as well as standards and quality of labour skills.

In 2016, Singapore supported SMEs development in various aspects such

as technology and innovation, human capital, productivity, and service quality ("Innovation, technology and talent - Keys to grow your business, Singapore", 2016). Singapore has also put enormous effort into encouraging both domestic and overseas investment in industries with particular emphasis on technological capacity-building and creating national intellectual property (Business Catalyst Group, 2016). This is in line with the concept of "from value creation toward value-added".

In doing so, as it is a part of the 'smart nation' scheme, financial and tax measures have been rearranged in order to bolster the capacity of local business operations, together with machines and equipment which are needed for production. In particular, the focal point is on innovative technology for production. Such a policy area aims at increasing the economic leverage at the regional and global levels, as indicated by Ministry of Trade and Industry (2011) in the national economic development strategy in the following: "Supporting stronger alliances between large and small players to promote technology transfer, test-bedding and commercialization so as to help SMEs build up capabilities to enter international markets, as well as anchor larger foreign players in Singapore."

At the same time, Prime Minister Lee Hsien Loong, on December 1, 2015, also set up the Committee on the Future Economy (CFE) to push development policies, covering the young entrepreneurship project for the younger generation as well as paying special attention to attracting highly-skilled



labour and professionals from abroad (Tan & Tan, 2014).

### **Domestic Policies for SMEs**

#### **Development: Malaysia**

In the case of Malaysia, the number of SMEs is up to 97% of all domestic enterprises, contributing to almost 40% of GDP (Salikin, Wahab, & Muhammad, 2014). Specifically, almost 98% of all SMEs in Malaysia are in the service sector. This is partly a legacy of the 1971 New Economic Policy of the government (Lean & Smyth, 2014). In order to develop the capacity of SMEs, the National SME Development Council (NSDC), which is an important government agency working on policy and strategic direction for SMEs, has placed emphasis on productivity-driven SMEs.

Importantly, unlike Singapore, Malaysia tries to stabilise its internal economy by attracting only large-scale foreign direct investments in response to the vision of being a high-income country by 2020 which is a part of the economic policy announcement of Prime Minister Najib Razak in 2015 (Ramli, Kamarunzaman, & Ramli, 2013; SME Corporation Malaysia, 2016). It is somewhat different from the case of Singapore in which the Malaysian government still has high autonomous control over domestic affairs, and gives priority to domestic investment (Salikin et al., 2014).

In addition, an important factor encouraging this is the low price of domestic products together with high demand for domestic goods and services. In addition

to what is mentioned above, there are also efforts laying great emphasis on human resources development. According to SME Corporation Malaysia (2012), the government tries to develop labour skills, focusing on technical and vocational education and training as well as education system reform as a whole.

Nevertheless, even if Malaysia is not as limited by geographical area and natural resources as Singapore, it is striving for technology transfer from foreign investors in order to enhance the productivity of SMEs. According to research by SME Corporation Malaysia (2012), this is mainly due to the lack of participation of SMEs in the national innovation system. While universities and public institutions undertake applied research, there is lack of alignment to market demands. Most SMEs still recognise productivity improvement activities as a cost rather than as a long-term investment, thereby also hesitating to invest in more advanced technologies.

#### **Foreign Policies for SMEs Expansion**

In principle, regionalism is defined as a dynamic political process characterised by economic policy cooperation and coordination among states within a given region (Hwee, 2005; Katzenstein, 2000). According to theoretical discussion, collective action must be in accordance with collective strategy, and should additionally be in line with collective vision. This means that a sense of community should be encouraged together with mutual agreement between states and people. However,

the economic data shows that the policy choices of Southeast Asian countries are more outward-oriented in conjunction with the main stream of global political economy. This implies that defining the position of the state at the regional or global levels is relevant to the shaping of regional cooperation patterns.

In regard to economic direction, Singapore pursues a liberal economic system and encourages a proactive economic policy by focusing on regional and international markets. This has resulted mainly from the limitations of geographical area, natural resources, and domestic market demand. As mentioned above, the Ministry of Trade and Industry (2011) of Singapore has set a vision for the country to be a leading global city with a dynamic economy, world class enterprises and innovative and productive SMEs. Relevant to this is the aspiration that Singapore has positioned itself to be the regional hub in various sectors such as aviation, medical care, and finance.

On the contrary, even if Malaysia emphasises economic links with more

developed countries outside the region such as China and the Middle East, Malaysia pays attention mainly to stabilising its domestic economy. This has partly resulted from high domestic market demand. In addition, Malaysia still needs to develop its system of information and communication technology which is needed for domestic economic development.

The different strategically-oriented foreign policies of both Singapore and Malaysia, as such, could lead to an ambiguous feature of regional integration processes in general, and the creation of the ASEAN Economic Community in particular (Hwee, 2005; Kawai & Naknoi, 2015; Kimura, 2013). Evidence for this are the economic linkages of both Singapore and Malaysia which are, as obviously displayed in Table 1 and Table 2, more extensive with extra-ASEAN economic powers than with intra-ASEAN economic partners. The values of trade and investment are also included with the economic activities contributed by SMEs.

Table 1  
*Intra and Extra-ASEAN Trade of Singapore and Malaysia (up to 10 June 2016) (US\$ million)*

Country	Intra-ASEAN Export		Extra-ASEAN Export		Intra-ASEAN Import		Extra-ASEAN Import	
	Value	Share to total export	Value	Share to total export	Value	Share to total export	Value	Share to total export
Singapore	118,271.4	32.3	248,072.9	67.7	63,779.3	21.5	232,985.6	78.5
Malaysia	56,200.4	28.1	143,668.8	71.9	46,690.1	26.5	129,270.9	73.5

*Note:* From ASEAN Secretariat (2015c)



Table 2  
*Foreign direct investment net inflows, Intra and Extra-ASEAN, of Singapore and Malaysia (up to 3 June 2016) (US\$ million)*

Country	2013			2014			2015		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Singapore	4,556.2	55,823.4	60,379.6	5,214.1	69,206.2	74,420.3	3,416.3	57,868.5	61,284.8
Malaysia	2,187.5	10,109.9	12,297.4	2,284.0	8,591.3	10,875.3	2,719.0	8,570.6	11,289.6

*Note:* From ASEAN Secretariat (2015d)

The overall volume of trade and investment reflects the inconsistency of economic policy, on the one hand, and implies the different strategic positioning of ASEAN member states, on the other. As mentioned earlier, the collective economic agreements made by governments cannot guarantee viable regional economic cooperation. In the meantime, initiatives of government alone cannot drive regional economic cooperation processes. On the contrary, regional integration necessitates collective action together with the participation of local economic actors to fulfill such processes (Kawai & Naknoi, 2015; Noble, 2005; Wendt, 1992).

## CONCLUSIONS

As discussed above, the results of this research show that even if Singapore and Malaysia demonstrate their willingness to develop their SMEs in line with the ASEAN Economic Community Blueprint, potential factors in driving regional integration processes are still open to debate.

The fundamental factor is the direction of domestic affairs which is limited by natural physical barriers, on the one hand, and domestic economic demand and

technological transfer for manufacturing, on the other. Singapore is defined by the former context, while Malaysia is characterised by the latter. In view of these circumstances, it can be argued that even though the collective goal of SMEs development strategy is manipulated to decrease the development gap that existed between member states, the readiness and ability of the SMEs themselves are, partly or totally, dependent on the economic strategies of their governments.

Second, a parallel issue is the limited economic potential and market demand of ASEAN member states which might become a propelling factor for them to take a more outward-looking approach in attempting to deal with the mainstream at a global market level. With reference to the economic data shown in Table 1 and Table 2, it could be argued that even if ASEAN's market seems to be widening, it might be the result of foreign investments rather than internal expansion. This is evident when we consider the inconsistencies of individual member states' domestic and foreign policies, on the one hand, and their foreign policies, on the other.

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