



# Economic Briefing To the Penang State Government

## Penang SMIs and AFTA: Are We Prepared?

### Introduction

Much has been touted about the promise of the ASEAN Free Trade Area (AFTA): a larger domestic market of 515 million population; economies of scale; a bigger base for raw materials sourcing; access to capital, technology and skilled people; and opportunity for country specialization.<sup>1</sup> Yet, while opportunities are aplenty, the threats are just as numerous. AFTA opens the door for intense competition from our ten ASEAN neighbours – the most formidable forces coming from lower cost producers such as Thailand, Philippines, and Vietnam. Compliance with AFTA's agreement means that Malaysia's competitiveness in traditional export industries will decline due to our high labour cost, resource and expertise constraints, and technological obsolescence. The removal of protections, such as quota system and monopoly status, exposes local small- and medium-scale industries (SMIs) to the elements of intense competition.

In a statement made during a February 2003 SMIs and SMEs roadshow in Petaling Jaya, the vice president and working committee chairman of SMI Association of Malaysia, Mr. Lee Teck Meng, echoed the need for small and medium-scale industries and enterprises to position themselves to compete with other players in the global village. He mentioned in particular the threats of AFTA and WTO, which he said would be the key factor for business survival. To add to that, he raised the issue of lackadaisical competitive cultures among Malaysian SMIs in comparison to Singapore, Thailand, South Korea, and China, and further cited that Malaysian businesses have become overly comfortable due to the abundant resources available at hand.

To underscore the significance of SMIs to the country's economic growth, the Malaysian Budget 2004 emphasized the need to strengthen small and medium industries as a vehicle for private investment promotion, focusing on supporting large domestic industries and producing components for industries abroad. In relation to that, a High-Level SMI Council has been established "to formulate comprehensive policies and strategies to ensure a more integrated development of SMIs in all sectors"<sup>2</sup> To support that, other incentives have been proposed ranging from an increase of the threshold of chargeable income subjected to corporate taxation, to stimulation of existing venture capital, debt venture, and technology development funds.

Underneath the din of excitement, the question remains whether Penang's SMIs are strong enough to withstand the onslaught of competition. Will they collapse like paper castles against fiercer and cheaper ASEAN producers? How aware are Penang's SMIs of the implementation and implications of AFTA and how are they preparing for it?

#### Inside this issue:

Penang's SMIs and AFTA: Are We Prepared?	1
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These guiding questions steered SERI towards a survey of Penang-based SMLs during the second quarter of 2003. A total of one hundred small and medium enterprises were interviewed. Due to the high concentration of manufacturing activities in the state, manufacturing SMLs receive almost all of the survey's attention. Fabricated metals and precision tooling, as well as plastics / plastic products manufacturers make up a large part of the surveyed companies.

In summary, SERI found that Penang-based SMLs desperately need to upgrade their awareness level of AFTA, as well as plan, prepare, and execute with great alacrity. This article summarises the findings from the survey and recommends ways to help the SMLs to deal with the winds of change.

## A Snapshot of Penang's SMLs

The Small and Medium Industries Development Corporation (SMIDEC) – a government agency aimed at promoting the development of Small and Medium Industries (SMLs) in the manufacturing sector – defines SMLs as “manufacturing companies or companies providing manufacturing related services with annual sales turnover not exceeding RM25 million and with full-time employees not exceeding 150”<sup>3</sup>. While our definition of SMLs is less stringent than the official SMIDEC definition, almost 90 per cent of the survey's interviewee companies fall within the 150-people labour limit.

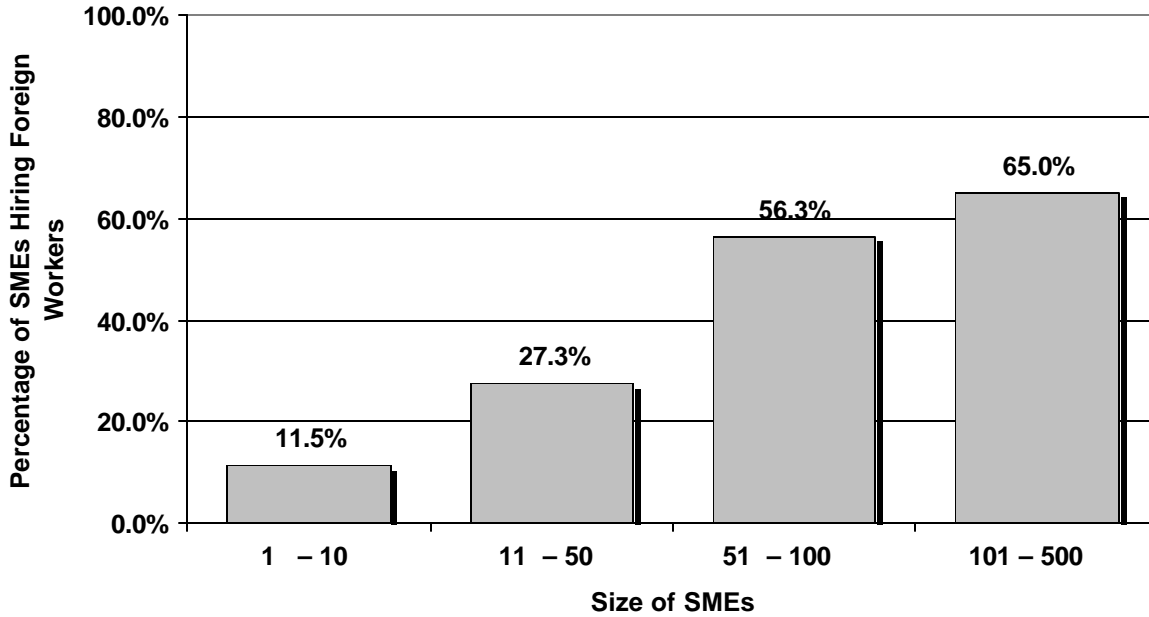
SMLs may choose to operate within industrial areas or outside of it (e.g. at business / commercial centres). In Penang, the majority of mainland-based SMLs are located within industrial areas whereas on the island, SMLs are dispersed between industrial and non-industrial areas. This could be a reflection of the bigger consumer base on the island, thus allowing businesses to be located within the city centre to serve their customers directly and more efficiently. Furthermore, Penang island's SMLs are more deeply-rooted as well. Compared to their counterparts on the mainland, many of the island's SMLs started well before the establishment of industrial zones. Even though some of the older SMLs did not survive the passage of time, newer SMLs sprang up on the same bases and continued the struggle of their fallen compatriots. Hence, SML operations within commercial districts – away from industrial areas – is preserved.

Suffice it to say, being small has its disadvantages. Limited market power aside, SMLs also have difficulties retaining workers. During a recent workshop organized by SERI, SMLs expressed concerns that workers frequently walk away several months after being trained. Their destinations: MNCs that offers better monetary rewards, career prospect, and company name recognition. Many local graduates, with illusions of high compensation, snub their noses for lesser-compensated jobs at small enterprises such as the SMLs. A solution, the SMLs said, would be to relax the rules for hiring foreign workers.

So far, foreign workers, though not a rarity, are not prevalent at Penang's SMLs. Only a third of SMLs have foreign workers in their ranks. As evident in *Chart 1*, larger companies recruit a higher percentage of foreign workers. At bigger companies, jobs are more defined hence cheaper unskilled and semi-skilled foreign workers could more easily be brought in to defray labour costs. Smaller SMLs, with their needs for versatile workers who are able to work across disciplines as dictated by fluctuating business needs, can ill-afford to hire foreign workers with minimal skills. Moreover, the logistics of hiring foreigners is complicated enough to deter the smaller companies from looking beyond the local shore. Not only do companies need to arrange for the logistics to bring the workers in, they also have to file for paperwork and be legally responsible for their presence in the country. It is indeed a time-consuming endeavour, and not surprisingly very few small SMLs are willing to sponsor foreign workers. Even for those companies that hire foreigners, less than ten per cent employ half or more of their employees from abroad.



**Chart 1 – Larger SMEs Recruit More Foreign Workers**



Source: SERI's survey.

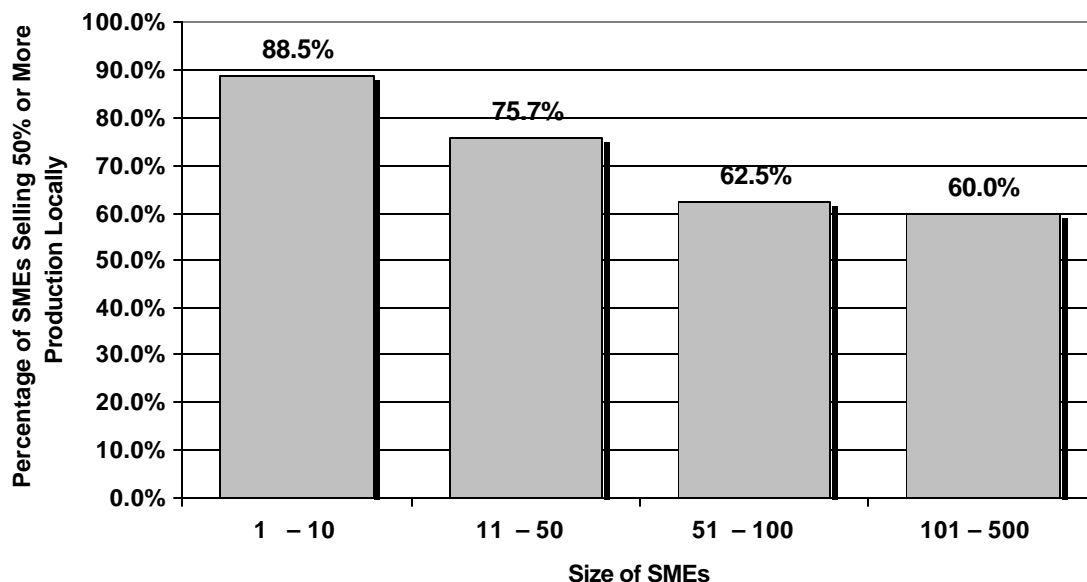
Note : Percentage based on 100 companies interviewed

Consistent with the hiring trend of foreign workers, there is also a correspondence between company size and likelihood of sourcing inputs abroad. Our analysis shows that 58 per cent of the smallest SMEs (i.e. with 1-10 employees) source their entire production inputs locally while only 13 per cent of the bigger SMEs (i.e. with 101-500 employees) buy all inputs locally. It is probable that smaller SMEs do not welcome the complexity of dealing with foreign market inputs sourcing. Even though the local market may not offer the cheapest input, it offers unparalleled convenience – no import paperwork, no hidden costs for shipment and custom clearance, and (possibly) faster delivery. Besides, SMEs may have an entrenched, and perhaps even symbiotic, relationship with their local suppliers. Inertia, more often than not, preserves the existing relationship.

In terms of local versus target markets, a large percentage of SMEs produce mostly for the local market. For those companies that export to foreign markets, three-quarters sell a minority proportion of their products overseas. Drilling deeper, we found that small SMEs are more likely to sell locally; inversely, bigger companies more frequently export their products overseas. It is unclear, however, whether the size of a company is the cause or effect of its export tendency. One hypothesis is that production limitation constrains export capabilities (i.e. a cause). Production constraint prevents small companies from satisfying demands abroad. Alternatively, it is also possible that a company's inward-looking tendency only serves to constrict its own growth potential unnecessarily, especially in a market the size of Malaysia. Therefore, inward-looking companies remain small while the risk-embracing companies achieve growth (i.e. an effect).



**Chart 2 – Larger SMIs Sells Lower Percentage of Production Locally**



Source: SERI's survey.

Note : Percentage based on 100 companies interviewed

### “Huh, What is AFTA?”

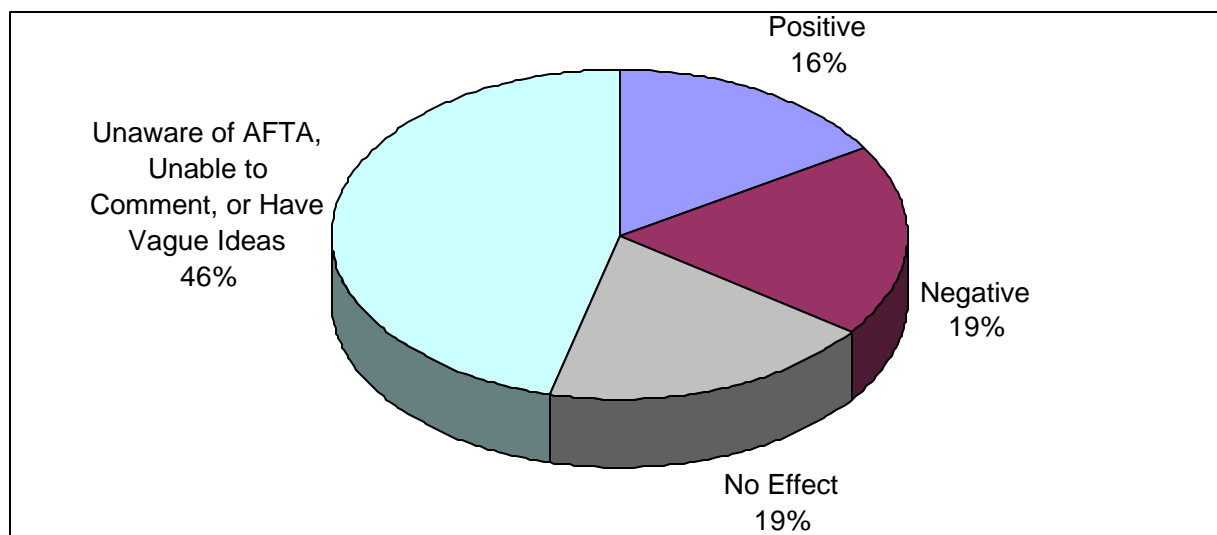
“AFTA? Is that to do with car duties?”

Laughable but sadly true, this is a common response given by Penang's SMIs in relation to our question on AFTA's implication. Ordinary workers and people-on-the-street may be forgiven for glossing over AFTA but when SMI owners and managers who are supposed to draw the strategic direction for business enterprises, give the blank look, the situation is unmistakably dire. To add fuel to fire, AFTA has been implemented for almost two years, that is since January 1, 2002. As of January this year (2003), 98.8 per cent of the total tariff lines (products) for the original six member countries are already in the Inclusion List of the Common Effective Preferential Tariff Scheme (CEPT) for tariff concessions; of this, 99.6 per cent have duties between 0 to 5 per cents.<sup>4</sup> By the end of this year, it is projected that at least 60 per cent of products would have zero tariff. By 2010, the original six members of ASEAN would have eliminated duties from all products, for the rest of the ASEAN members by 2015.

How about Penang SMIs? According to our survey, our SMIs are in great danger of being left behind in the race for ASEAN market liberalisation. Shockingly, as shown in Chart 3, almost half of the SMIs interviewed show an unhealthy level of ignorance about AFTA's implementation and implications. Some, though vague on the details of AFTA, are at least aware of it. Others are misinformed about its implication. The last group, either plagued by apathy possess no knowledge whatsoever. The gradation of severity is highlighted in Table 1.



**Chart 3 – Awareness and Impression of AFTA Among SMLs**



Source: SERI's survey.

Note : Percentage based on 100 companies interviewed

**Table 1- Severity of Ignorance Level Among SMLs In Relation to AFTA**

<i>Level of Severity In Terms of AFTA Knowledge Limitation</i>	<i>Description</i>	<i>Examples</i>
Least Severe:	Misinformation about the mechanisms and implications of AFTA. This results in understatement of AFTA's effects.	"My business is concentrated locally so I won't be affected by AFTA"  "We are small, so it may have no direct effect on us."
Moderately Severe:	Heard about AFTA but unaware of exact mechanisms and implications due to apathy. As a result, SMLs merely possess superficial information (e.g. reduction in car prices or tariff reductions).	"We don't know in detail about the content. Not many people know either. It is regarding free tax or maximum of 5% tax."  "I have heard about it but know nothing about it"  "Not much clarification from the government regarding AFTA and how it affects us."
Most Severe:	Complete ignorance of AFTA	"I have never heard about it."  "I don't know."



Of the other half who is knowledgeable about AFTA, opinions are almost equally split between positive, negative, and no effect.

It has been found that SMI's knowledge and impression of AFTA is linked to several factors. For one, size is an influencing factor. Larger companies, as expected, have better perceptions (i.e. more positive responses) of AFTA because they are more likely to be the benefactors following the implementation of AFTA. With their higher production capabilities and better distribution networks, they are positioned to take advantage of the intra-ASEAN trade liberalisation. The smallest SMIs, on the other hand, tend to be most ignorant of AFTA. It is very likely that small SMIs frequently missed out on the various workshops, seminars, and discussions targeted towards SMIs, either because they were never invited or never made time to attend these events. Either way, it is high time that small SMIs receive further attention. Another corresponding factor would be the location of the SMIs – those located within industrial areas are more likely to be aware of AFTA than those that are not. Twice as many SMIs (in terms of percentages) outside of industrial areas are unaware of AFTA. However, that does not mean that the industrial area-based SMIs have better opinion of AFTA; they are not any more likely to view AFTA positively than their counterparts elsewhere. And lastly, broader exposure to foreign markets affects the level of knowledge to a certain extent. Intuitively, we can expect that the more a company imports and exports, the more it is bound to come across trade news and consequently, be proficient in the AFTA language. Based on our survey, the correlation between trade exposure (ie. most imports and / or exports) and awareness of AFTA exhibits an upward trend, except that SMIs with the highest exposures to trades are also frequently ignorant of AFTA – just like their least trade-exposed counterparts.

### The Optimists

The optimists among the SMIs are larger companies and are more likely to import more production inputs. Furthermore, they are largely macro-oriented or tend to view the implication across a longer time-span. Technologically, Malaysia is ahead of the Philippines and Thailand and only slightly behind developed countries such as Singapore, Taiwan, South Korea, and the US. Therefore, Malaysia is able to play on the intermediate space by producing high quality products at a lower cost.

Besides, the barrier to entry for manufacturing and equipment design industries is high enough to stop many competitors dead on their tracks or at least lay the speed bump to slow them down. In their opinion, to be successful in these industries, companies need to have technological know-how, skilled human capital, and deep financial resources. Despite the market being liberalised, competitors may still find it difficult to start afresh.

The optimistic SMIs also believe in a system of checks and balances, whereby the adverse effect of one economic component could be off-set by the positive effect of another. That is to say, from a bird's eye view, AFTA will be good for Malaysian industries in the sense that it will promote free trade, price reduction, as well as open up a regional market space of over 500 million population.

Nonetheless, even though their opinions are largely positive, they are not naive enough to assume that AFTA will be beneficial right from the start. They are well aware of the initial keen competition and the need for their respective companies to stay ahead of the race. They take keen interest in finding out the details about AFTA and prepare accordingly for the imminent onset of AFTA. Preparation for AFTA comes in the form of technological upgrades, higher quality assurances, technical and managerial skill upgrades, and different approaches for regional marketing.

### The Pessimists

On the flip side, just as many SMIs are apprehensive about AFTA. Due to their prevalence as low-cost competitors, the imminent price war becomes a top concern for them. Their competitiveness position against lower cost countries such as Thailand and Philippines will inevitably be eroded. For some of them, survival is questionable. Truth be told, even though AFTA is worrisome, China poses a greater threat than ASEAN combined.

Meanwhile, local banks with their conservative borrowing criteria are not helping either. Several SMIs reported difficulty in getting loans. In fact, this phenomena has been documented in a previous Economic Brief article entitled



“Corporate Debt Issues and Malaysia’s SMI” by Dr. Chan Huan Chiang. He wrote, “Malaysia’s small and medium enterprises did not find bank financing readily available. Banks prefer to achieve their loan targets through secured instruments...and as such SMIs continue to face difficulties in funding their internal capitalization objectives.” He also described how certain SMIs with innovate products are able to hook up with venture capitalists and go on for MESDAQ listing; unfortunately SMIs involved in sub-contracting work or lower technology products are less likely to attract those kind of funds. In Penang, most SMIs would fall under the second category of less innovative products or sub-contracting works.

The eradication of government protection is worrisome for certain SMIs. Gone are the days when SMIs could count on the government to protect their industries from foreign domination. That said, it is not as though they understood government’s policies before. In fact, their perceptions of the government were rather negative. However, from this point onwards, SMIs believe they need to boost their co-operation with the government. Finally, some blame the structure of the economy. Malaysian’s more stringent labour laws increase the cost of doing business for Malaysian businesses in comparison to their peers elsewhere in ASEAN.

### On The Fence

At the same time, many SMIs are unperturbed by AFTA; they perceive AFTA’s effect to be negligible. A few companies cited the location of their company and / or the location of their customer base within the Free Industrial Zone as the reason to lay their worries to rest. Since they are already subjected to minimal import duties on raw materials, machineries, and component parts, the reduction of tariff following AFTA implementation would have nominal effect. Furthermore, semiconductor companies are already bringing equipments in from other ASEAN countries without tariffs – which means that AFTA would have limited effect. Other SMIs are more involved in trades outside ASEAN than they are with the intra-ASEAN market. Thus, even though their competitors will be entering their domestic market, they have no reasons to be concerned. No matter what, their products are already catering to the export markets.

To add to that, a small number of SMIs are confident that their market spaces do not overlap with their low-cost competitors’. Low-cost competitors may be streaming in but since they are moving into the high-end market, there is enough room for co-existence. Several SMIs are unafraid because of their forward-looking inclination. They have moved up the value chain by emphasizing product quality and marketing efforts. One has started manufacturing and promoting its own brand name – proudly “made in Malaysia” – to compete against nameless, inferior foreign brands.

In the author’s opinion, some of the perceptions are skewed. AFTA should be regarded as more than mere tariff reduction. It is a compilation of tariff abolition (or minimalisation), price drop, increased competition, greater market access, and most importantly a long battle of survival-for-the-fittest. Some of these perspectives are one-sided. For example, even though certain SMIs are already enjoying tariff exemptions at the moment, they should take precaution against the bigger implication of AFTA in terms of market liberalisation and heightened competition. These SMIs should not rest in false belief that their competitiveness will remain protected post-AFTA. The sceptical companies, meanwhile, must not only consider short-term consequences but also mull over ways to improve themselves and move up the value chain.

### **Of AICO, AIA, Services Negotiation, etc. – The Intricacies of AFTA Mechanisms Beyond CEPT**

To promote closer inter-industry links across ASEAN, several mechanisms including the ASEAN Industrial Cooperation Scheme (AICO), ASEAN Investment Area (AIA), ASEAN Services Negotiations, ASEAN Customs Initiatives, and ASEAN Harmonized Standards have been created. Their objectives are shown in Table 2:



**Table 2- Nitty-Gritty of AFTA**

Mechanism	Objective
ASEAN Industrial Cooperation Scheme (AICO)	To encourage and facilitate the transfer and investment of technology in ASEAN
ASEAN Investment Area (AIA)	To increase investment and enhance competitiveness by removing barriers to intra-regional investments
ASEAN Services Negotiations	To liberalize intra-regional services in a number of sectors, including telecommunications, tourism, financial services, construction, and maritime transport.
ASEAN Customs Initiatives	To reduce the cost of doing business by streamlining and simplifying customs and related procedures
ASEAN Harmonized Standards	To implement the Hanoi Plan of Action, especially in terms of Standards Harmonization and Mutual Recognition Arrangements (MRAs), affecting the cosmetics, telecommunication equipment, electrical and electronic equipment, and pharmaceutical industries.

Source: SERI's brochure on AFTA, US-ASEAN Business Council

Needless to say, most Penang's SMLs are fuzzy on the specifics of these mechanisms. When asked for their opinions on these, the majority are unable to comment.

The term "ASEAN Industrial Cooperation Scheme" (AICO) raised many eyebrows. Of those with opinions, the promotion of greater technological co-operation was viewed rather positively. Malaysia, being a more advanced country technologically, has a higher chance of securing technological projects. However, technology transfer is a difficult task and some worried that Malaysian SMLs are not mature enough. Others believe that AICO is beneficial for large companies with big projects only.

Meanwhile, most SMLs concur that the ASEAN Investment Area (AIA) would be a boon to Malaysia. ASEAN not only has natural resources but also the economic and political stability attractive for potential investments. With prudent policy-making, some of the intended FDIs from China could be diverted into this region. One respondent compared the AIA to existing free trade zones and concluded that it will not be any different. However, many SMLs are not confident that AIA's effect would spill into their operation. AIA is perceived as a mechanism tailored for large companies, particularly the MNCs and listed companies. In addition, most SMLs do not have the financial resources and technological know-how; and are unable to deal with foreign markets' complexities.

The remaining mechanisms receive few constructive comments. Overall, a general theme links the various comments, that is whether the implementation of these mechanisms across varying standards, national interests, and governmental commitments will be seamless or chaotic. Scepticism runs rampant.

To be fair, certain AFTA mechanisms are less relevant for SMLs than they are for MNCs and larger organizations. In that sense, their ignorance on the subject matter is understandable. In addition, a couple of SMLs operating within the free trade zones will be less affected than the others.

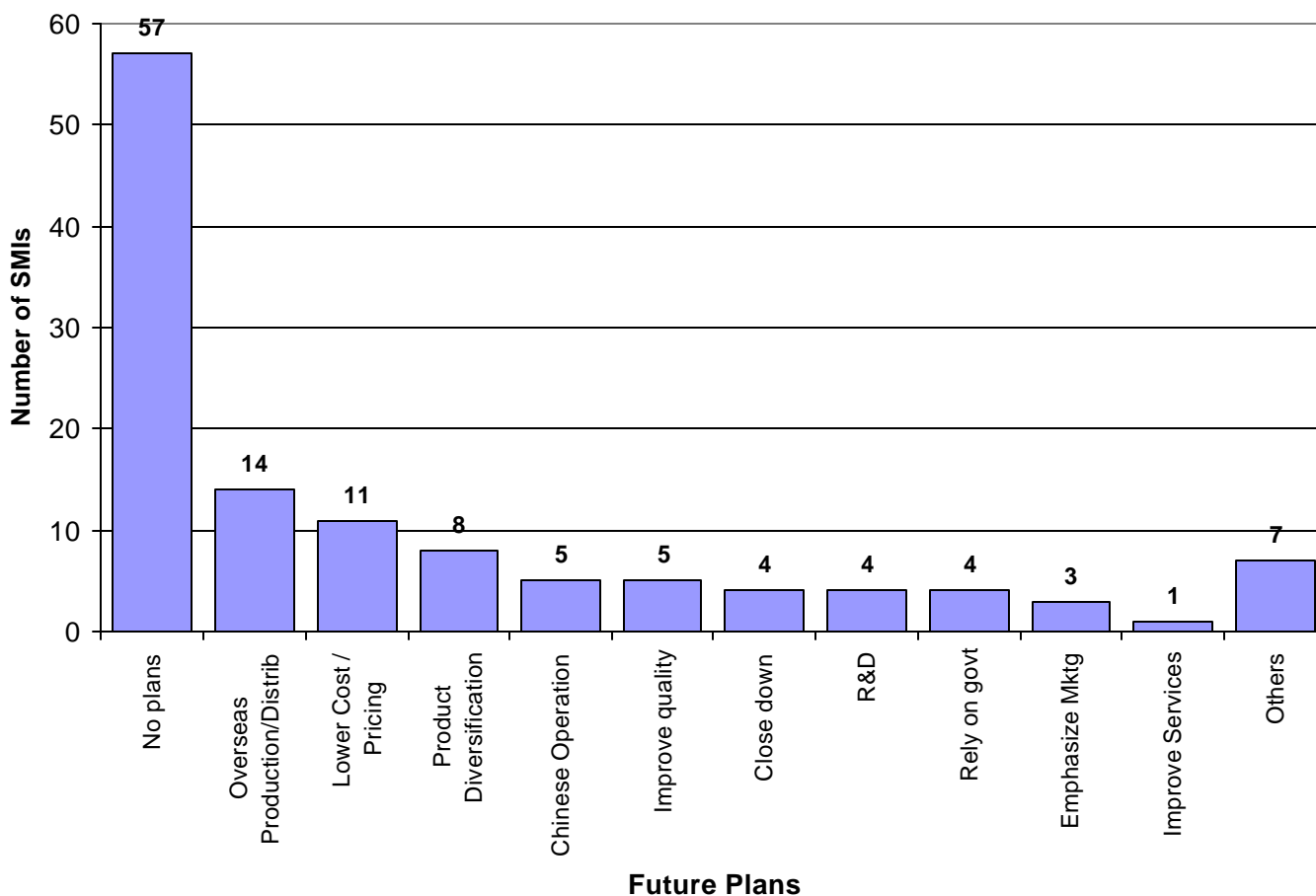


### Future Plans: How Do SMIs Prepare for AFTA?

Sun Tzu, a Chinese military genius, once wrote that “triumph over conflicts and true victory, can only be won by strategy”.<sup>5</sup> Extending the wisdom of conventional war into business warfare, Penang’s SMIs’ march into the globalised era should similarly be guided by clear strategic directions. AFTA heralds a new business reality for ASEAN businesses; a war of sorts where there will be survivors and casualties. Judging from the nonchalant attitude about AFTA, as explained in the previous section, one can almost expect Penang’s SMIs to be ill-prepared for the advent of AFTA.

Indeed, though regrettably, our survey shows that the majority (i.e. three-fifth) of SMIs are complacent or ignorant of the threats of AFTA. Chart 4 clearly illustrates the lack of strategic preparation. An overwhelming 57 SMIs (out of a hundred surveyed) could not describe a concrete plan of action. While the newer SMIs may be excused for not having a plan because of their inexperience, it is puzzling how established enterprises could justify themselves by ignoring the threats of AFTA. Some flick the threats aside casually with the belief that they will be protected from AFTA’s overwhelming presence somehow.

Chart 4 – Strategic Decisions In View of AFTA - “No Plans” Is Prevalent



Source: SERI’s survey.

Note : Numbers add up to more than actual number of interviews (i.e. 100) because companies may be considering several plans simultaneously.



At the same time, it is less than heartening to observe that Penang's SMLs are more reactive than proactive. The most popular plans of action revolve around tweaking the existing business instead of thinking outside-the-box. Top strategies cited include increasing overseas production and distribution, lowering costs or pricing (by controlling costs or reducing product margins), diversifying product lines, and growing the operation in China. These strategies of diversification, cost reduction, and profit margin squeezing may allow for short-term survival but are unsustainable in the long run. Few SMLs will be taking the proactive step of moving up the value chain – either by inching up the technology curve (e.g. more design works, research and development (R&D), and product development) or by amplifying customer experience and business development (e.g. better service and support, higher order generation, or new market paths finding). The tendency to rely on the government for handouts, tax breaks, and protection is unhealthy as well.

## What To Do Next?

In view of the problems plaguing the SMLs, the author would like to recommend four steps:

1. Educate and prepare SMLs for AFTA
2. Provide assistance to SMLs
3. Reposition SMLs towards higher value-added activities
4. Conduct continuous research

### 1. Educate and Prepare SMLs for AFTA

On the 8th and 15th September, 2003, SERI organized two full-day workshops in Perai and Penang Island to inform local SMLs on the implementation of AFTA. Participants found the workshops to be informative and used it as an outlet to share their gratitude and frustration, as well as seek for clarifications. The workshops also served as an important channel to promote closer information sharing and co-operation between the public and private sectors.

Based on this positive experience, it is recommended that more workshops be held, not just to continue the active dialogue started during previous workshops, but also to target SMLs that have missed those workshops. It is also imperative to extend the effort to the many small SMLs scattered around, that may not be listed in published registries. These are the companies that will most easily fall through the crack should larger SMLs be the sole focus. As our survey confirmed, the smallest SMLs are also the ones that are least aware of AFTA.

In addition, SMLs need a structured channel to find solutions to their problems. Rather than having SMLs approach the authorities individually, the workshops will pool together the SMLs in a common room, thereby saving time and money. Most importantly, SMLs will be able to learn from each other.

### 2. Provide Assistance to SMLs

Besides organizing workshops, a central channel for access of information—specifically catered towards SMLs—is needed. This issue has been brought up by the participants of SERI-organized workshops. With the amount of information flowing around, it is important to streamline the flow; otherwise SMLs may not be motivated to keep up due to human resource constraints or other factors. The governing bodies, business associations, NGOs, and SMLs can come together to share knowledge, answer each other's inquiries, celebrate success stories, and voice their complains.

One way to do that would be to host a website which will act as the portal for Penang SMLs. A good benchmark would be the website hosted by the SMI Association of Malaysia (<http://www.smisme.com>).

Yet another alternative would be to set up a one-stop centre for SMLs whereby all the relevant information and forms would be available, and a representative from each agency (e.g. PDC, MPPP, MPSP, SMIDEC, MITI, and MIDA) be present to handle inquiries and solve problems.

Many SMLs have also voiced complaints about the difficulty of getting loans. In conjunction with that, SMLs advocated for greater government participation through provision of incentives. With the renewed thrust for SMI development as outlined in the recent Budget 2004, the reality may not necessarily be a lack of funding, but rather the manner in which



funds are allocated or information is spread. Penang's authoritative bodies in conjunction with promoting agencies – the prime examples being the Small and Medium Industries Development Corporation (SMIDEC) and Malaysian Venture Capital Management (MAVCAP) – should take the lead in ensuring fair distribution of funds to SMIs in financial need.

In addition, the flow of information with regards to assistance needs to be smoothed out. Again, to draw on Recommendation 1 above, the workshops proposed could serve as an efficient channel of communication.

### 3. Reposition SMIs Towards Higher Value Added Activities

“Only the paranoid will survive.” This is a direct quote from Craig Barrett, the Chief Executive Officer of Intel Corp., for its Penang audience on his October 2003 visit to the state.

Businesses do not succeed by staying in the comfort zone. The comfort zone, in the case of Penang's SMIs, means playing the business game the way it has always been, albeit with minor adjustments. Instead there is an urgent need to jump the chasm to start a new way of business thinking. Penang may continue competing with low-cost producing countries by cutting margins or lowering input costs but the state's competitive in this regard is minimal compared to other ASEAN countries and China. Instead, the state's strategy should be to move away from demand-based manufacturing and up the value chain towards research and development as well as marketing activities.

Morgan Stanley Dean Witter, a financial services firm, on October 28, 2003 similarly voiced its opinion that “Malaysia should move away from a single-track mass manufacturing export-oriented model funded by FDI (also referred to as the East Asia Economic Model (EAEM)) to a more balanced dual-track model that puts emphasis on the development of small- and medium-sized industry base.”<sup>6</sup> According to its Vice President and South-East Asia economist, Dr. Daniel Lim, the EAEM, which counted on excess investment by MNCs in generic production capacity, seldom creates intellectual content. SMIs, on the other hand, are nimble and flexible. Thailand was provided as a role model.

There is considerable consensus on this approach among Penang's policy makers. The next push forward for Penang would be to extend the effort to SMIs. How could the government steer the change? Education, financial incentives, and technical assistance / advice, among others, may do the trick (assuming perfect information flow from the implementing agencies to the SMIs) – but in the end, the government must be committed to it.

### 4. Conduct Continuous Tracking and Research on SMIs

Continuous tracking allows the state to gauge its progress and correct course. Otherwise, all the planning in the world would be wasted if the implementation veers away from the desired course. Last but not least, research provides insights and confirms the road map for achieving a goal – just as this study has unveiled the (lack of) preparation among Penang's SMIs, future research will reveal equally insightful findings. Without doubt, research should lay the foundation for strategizing the future. Combined, research and continuous tracking are powerful tools for the state government to ensure that Penang's SMIs stay ahead on the global race track.

No doubt, conversion of research findings and tracking results into actionable items followed by swift implementation should not be understated. Let's not give the locals a chance to say that “the Penang government is all talk and no action.”

**§ Lee Seok Yee.**

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