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**Industry – Government Forum:**

***Malaysian SMEs: Prospects, Challenges and Strategies  
for Competing in the New Global Environment***

**PRESENTATION ON:**

**“The Role of Industry Associations &  
Chambers of Commerce and Industry in the  
Development of SMEs”**

**by Tuan Haji Md Khair Ahmad**

**Council Member, FMM**

**Member, FMM SMIs Working Committee**

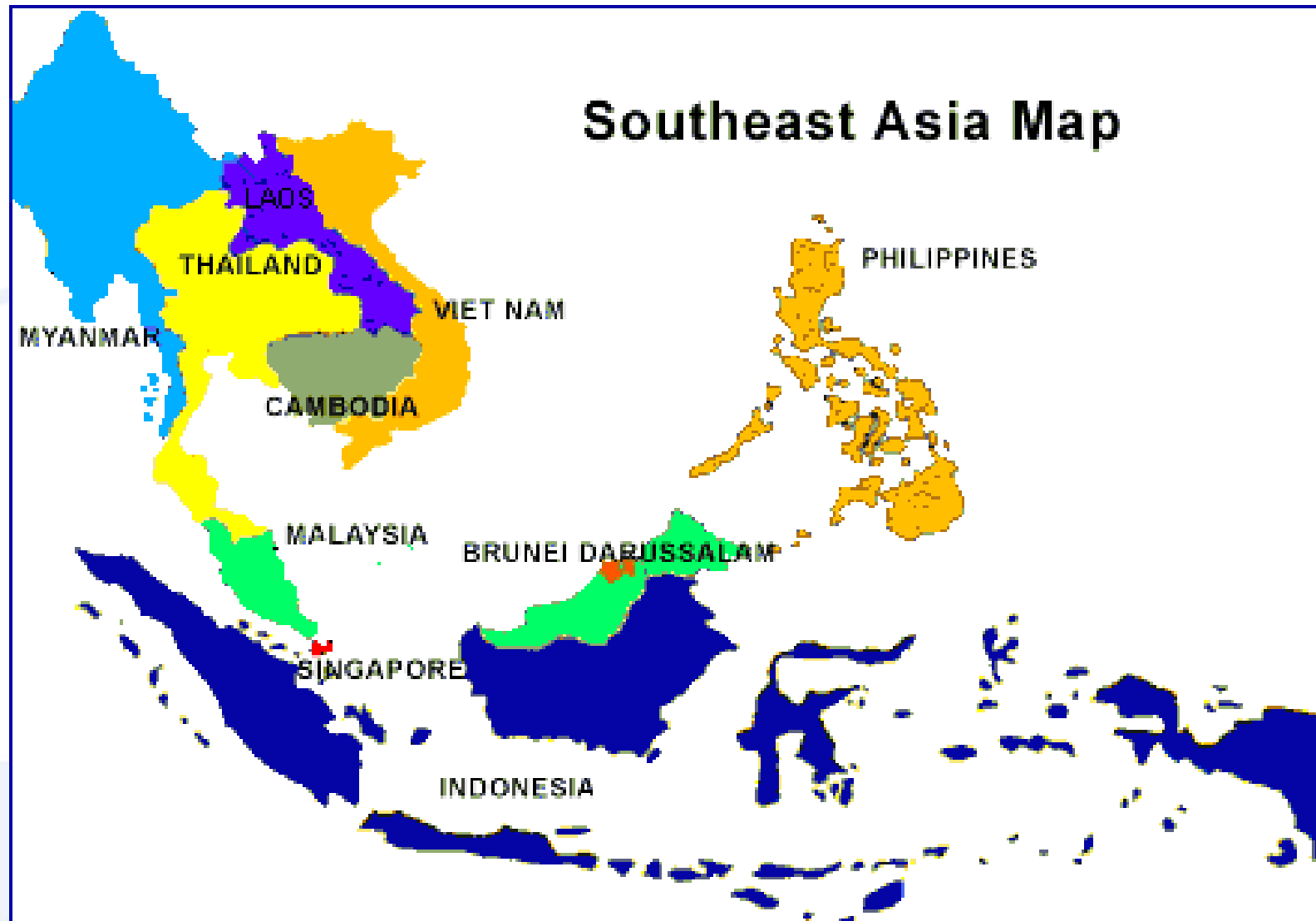
**Vice Chairman, FMM Selangor Branch Committee**



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# Map of ASEAN Countries





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# **ASEAN Member Countries**

## **(Since 1976)**

July 1976 Indonesia, Malaysia, Thailand,  
Philippines, Singapore  
(6 founding member countries)

Jan 1984 Brunei

July 1995 Vietnam

July 1997 Lao PDR, Myanmar

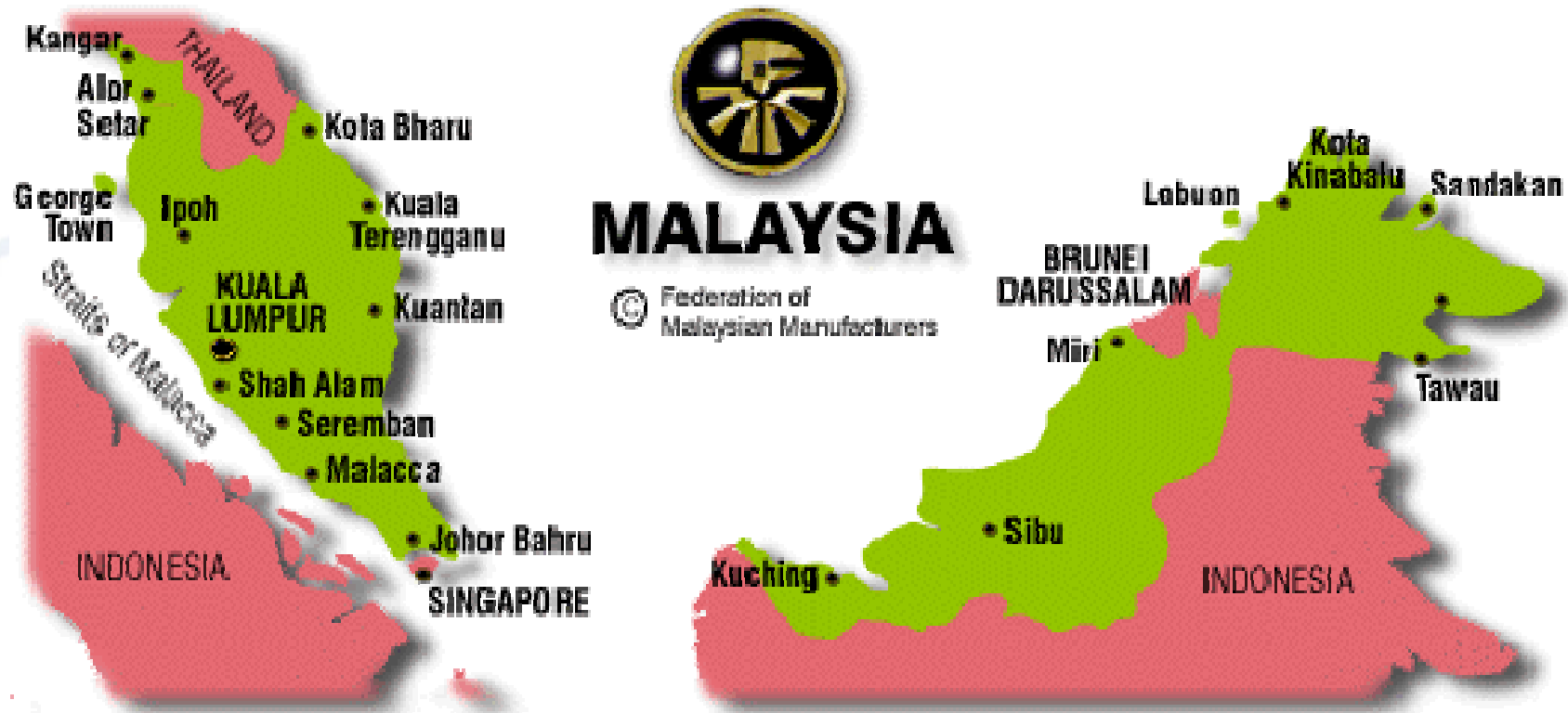
April 1999 Cambodia



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## Malaysia - Basic Information



- \* **Population – 26.64 million (Economic Report 2006/07)**
- \* **Area - 330,252 Square Km**
- \* **Per Capita Income – RM19,739 (Economic Report 2006/07)**

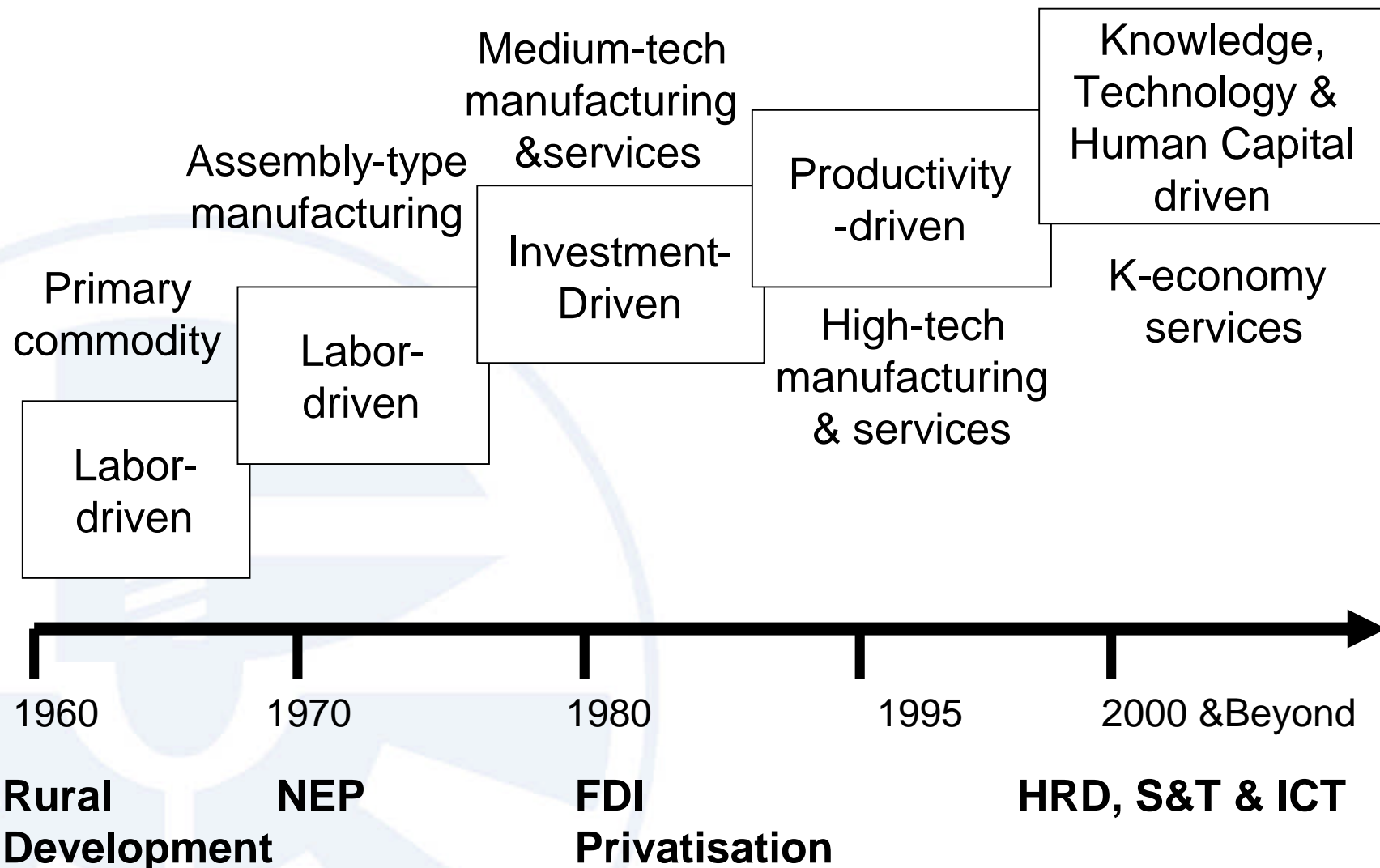


## **MALAYSIA ... some background information**

- **Malaya became independent from Britain in 31-8-1957**
- **Formed Malaysia with the inclusion of the states of Sabah and Sarawak (in Borneo)**
- **Malaysia was one of the founder members of Association of South East Asian Nation in 1976 (ASEAN).**



## Malaysia ... Phases of Development





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# Malaysia's Path to Industrialisation

- **Before & after independence up to 1970s**
  - Agro-based - rubber, cocoa, pepper, tin, timber etc.
  - Diversify economy - agriculture to manufacturing from 1970
- **New Economic Policy (NEP) 1971 - 1990**
  - From 1980s during Tun Dr Mahathir's prime ministership
  - Eradication of poverty regardless of race
  - Elimination of identification of race with occupation
- **5- year economic development plans - Malaysia Plan**
  - Beginning 1966
  - Eighth Malaysia Plan, 2001 - 2005
  - Mid-term reviews carried out
- **National Agriculture Policy - NAP3 : 1998 - 2010**



- **Industrial Master Plan (IMP)**

- 1986 - 1995: IMP1 (12 sectors)
- 1996 - 2005: IMP2 (22 industry clusters & manufacturing plus-plus)
- 2006 – 2020: IMP3 (2006 – 2020)
  - *To achieve global competitiveness through innovation and transformation of the manufacturing & services sectors*
  - 12 manufacturing industries (6 non-resourced based & 6 resource based)
  - 8 services sub-sectors
- Implementation mechanism for:

- **IMP3: 2006 - 2020**

- Industrial Planning Committee
- Steering Committee
- 9 Technical Resource Groups
  - \* *Macroframework*
  - \* *HR Development*
  - \* *SME Development*
  - \* *Investments*
  - \* *Sectoral*
  - \* *External Trade*
  - \* *Marketing/Brandname*
  - \* *Logistics*
  - \* *Technology/IT Development*



- **Vision 2020**
  - Striving to be an economically developed country in 30 years from 1990 - 2020
  - Nine Challenges
    - 1 Establishing a united Malaysian Nation
    - 2 Creating a psychologically liberated, secure and developed Malaysian society
    - 3 Fostering and developing a mature democratic society
    - 4 Establishing a fully moral and ethical society
    - 5 Establishing a matured, liberal and tolerant society
    - 6 Establishing a scientific and progressive society
    - 7 Establishing a fully caring society and a caring culture
    - 8 Ensuring an economically just society
    - 9 Establishing a prosperous society
- **Annual Economic Development Budget**
  - Ministry of Finance
  - MITI
  - Frequent meetings to iron out problems



- **National Economic Action Council (NEAC)**
  - National Economic Action Plan (NEAP)
  - Set up in Feb 1998 to address East Asia financial crisis
    - 14 Ministers, 10 private sector
    - Exco chaired by Prime Minister
    - Chief Ministers and Menteri Besar from 14 States
- **Some Notable Strategies/Features**

*(Introduced by former Prime Minister, Tun Dr Mahathir Mohamed)*

  - **Look East Policy**
    - Learning good work ethics of industries in Japan, Korea, etc
  - **Malaysia Incorporated Concept**
    - Public-private sector working like partners in business
  - **Privatisation**
    - Privatisation of public utilities like water supply, electricity, telecommunications and services like airport, seaport, roads, rail, sea & land transportation, building of roads, etc
  - **Leadership by Example**



- **Government Agencies Promoting Industrial Development**

**(with public and private sector participation)**

- **Malaysian Industrial Development Authority (MIDA)**
- **Malaysia External Trade Development Corporation (MATRADE)**
- **Small & Medium Industries Development Corporation (SMIDEC)**
- **National Productivity Corporation (NPC)**
- **Malaysian Industrial Development Fund (MIDF)**
- **Malaysian Industrial Estates Limited (MIEL)**
- **Human Resource Development Council**
  - **Human Resources Development Fund (HRDF)**
  - **private sector managed and dominated**
- **Standards and Industrial Research Institute of Malaysia (SIRIM)**
- **Small & Medium Enterprises Bank**



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# Private Sector Participation

- **Representation in all government advisory and consultative organisations:**
  - Malaysian Business Council
  - Malaysian Economic Consultative Council
  - National Economic Action Council etc.**at Federal & State levels**
- **Representation in important economic development entities:**
  - Malaysian Palm Oil Board
  - Malaysian Rubber Board
  - Malaysian Timber Council



## **Positive Role of Trade Organisations**

- **Active participation in annual dialogues with Ministry of International Trade & Industry, Ministry of Finance, etc.**
- **Deep involvement in formulation & implementation of various government policies, strategies, plans, review, refine.**
- **Private sector trade and industry organisations set up various working committees to complement government efforts in promoting trade and investment inside & outside the country e.g. Small and Medium Enterprises, Human Resource Development, Information and Communications Technology, International Trade and Industry.**



## **Government is pro-business**

**Private sector collaborate with public sector to overcome challenges in SOCIAL, ECONOMIC & POLITICAL areas, both in the country as well as outside the country.**

### **Example:**

- 1997/8 Financial Crisis,**
- SARS**
- AFTA**
- WTO**
- GLOBALISATION**



**There are successes and there are failures  
as the system needs constant monitoring  
and improvements**

**However the close cooperation between the  
public & private sector has brought  
Malaysia to what it is today.**



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# Malaysia's Advantages

## 1. Malaysian entrepreneurs:

- 30 years of industrialization manufacturing experience
- Acquired niche technologies in supplying components & services to MNCs in Malaysia/ overseas besides exporting products/ services themselves

## 2. Malaysia:

- Relatively long political & economic stable environment
- Business friendly administration under MITI
- Member of **ASEAN (10 countries; 530 million people)** where **AFTA** is practiced – **40% or more ASEAN content can go into other ASEAN countries with not more than 5% import duty.**



## Malaysia's Advantages

### 2. Malaysia:

- Former Chairman of OIC (*57 Muslim majority countries; 1.2 billion people*) where 'halal' products (food, cosmetics, pharmaceuticals) made from palm oil with Malaysian 'halal' certificate are welcome.

3. Many high value add products, that can be made from palm oil and biomass, rubber, timber which Malaysia has in abundance as raw material.

4. The technology to convert such raw materials is available, as other countries are already importing these raw materials and turn them into value add items for their own consumption or export them.



## **Definition of SMEs**

**MANUFACTURING COMPANIES WITH :**

**ANNUAL SALES TURNOVER NOT EXCEEDING  
RM25 MILLION**

**OR**

**FULL TIME EMPLOYEES NOT EXCEEDING 150**

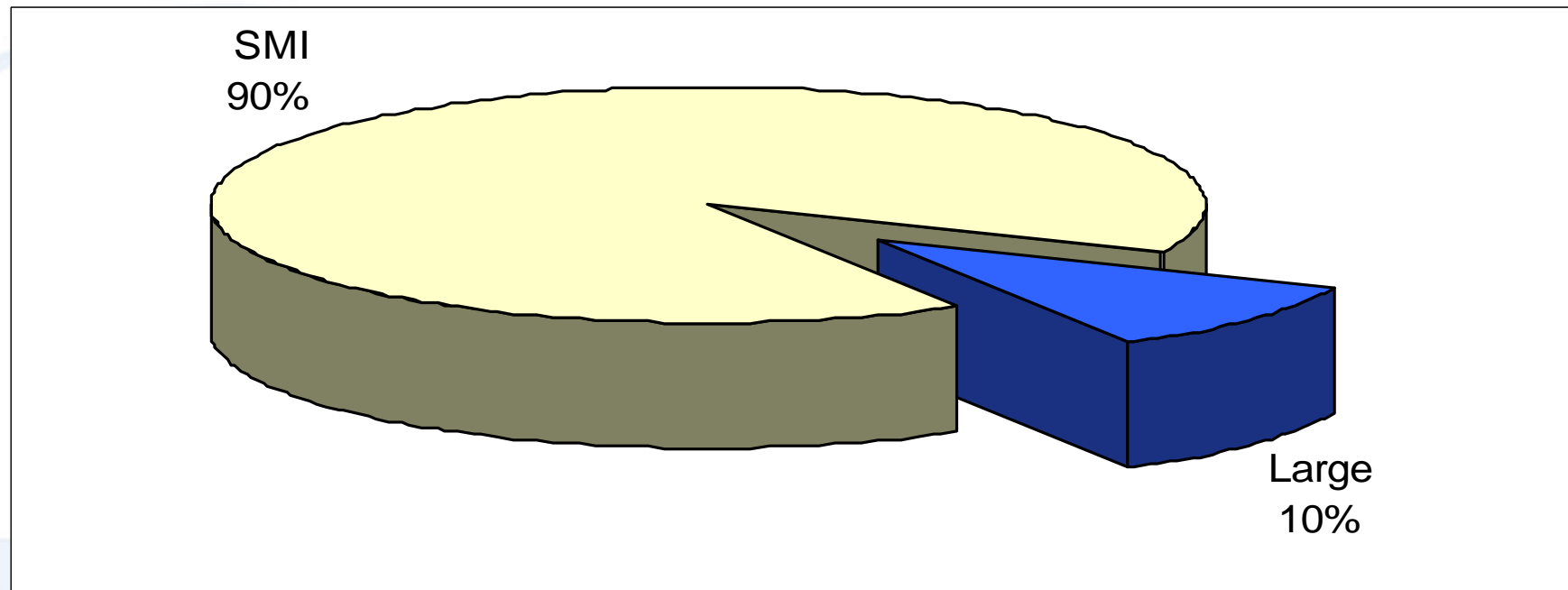


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## Profile of SMEs in Manufacturing

- **SMEs constitute 90% of manufacturing sector**
- **Number of SME companies in operation - 18,271**



Micro - 7,171, Small - 9,445, Medium - 1,655, Large - 2,090

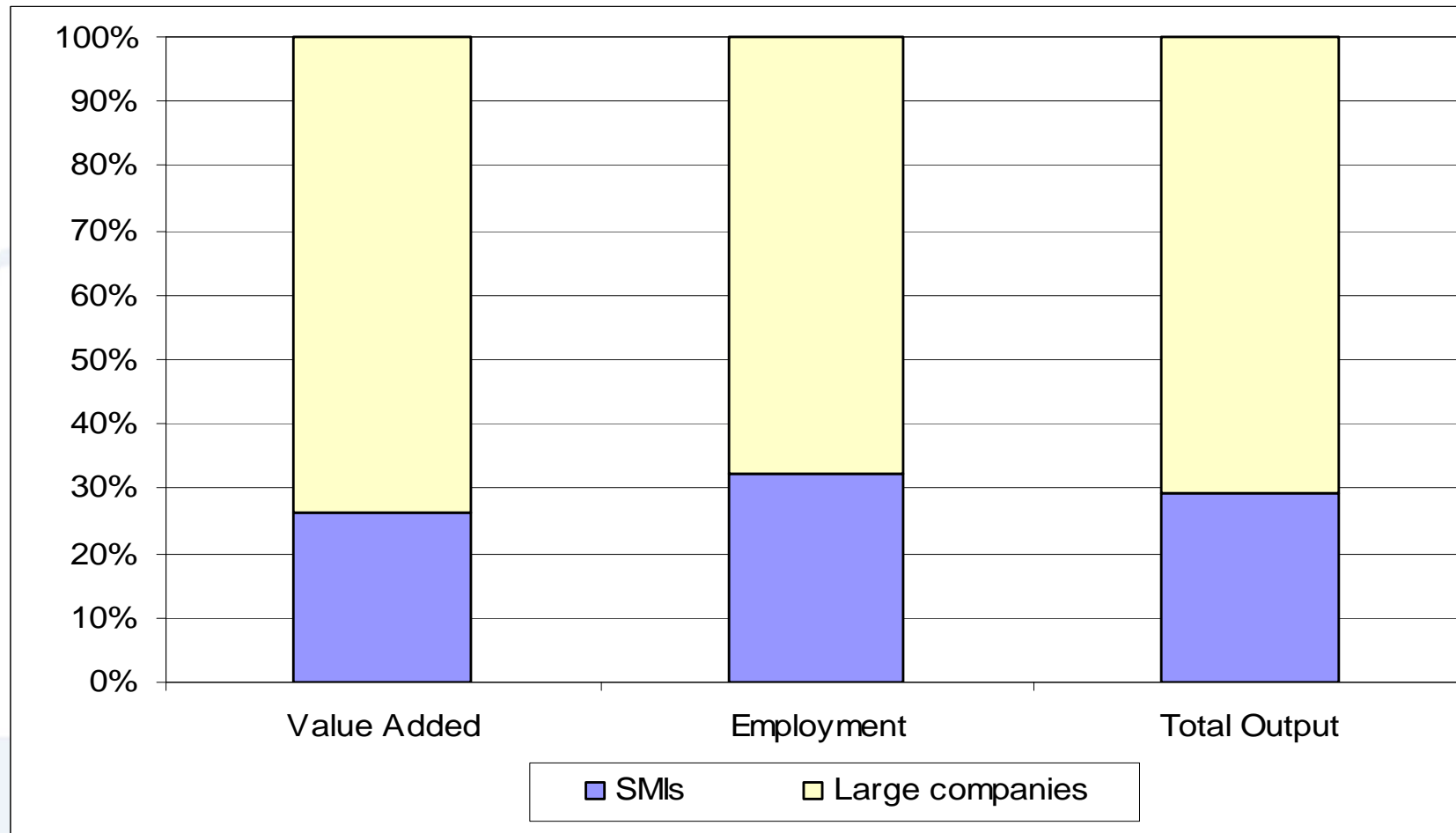
Source: Department of Statistics Census 2000



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## Contribution of SMEs



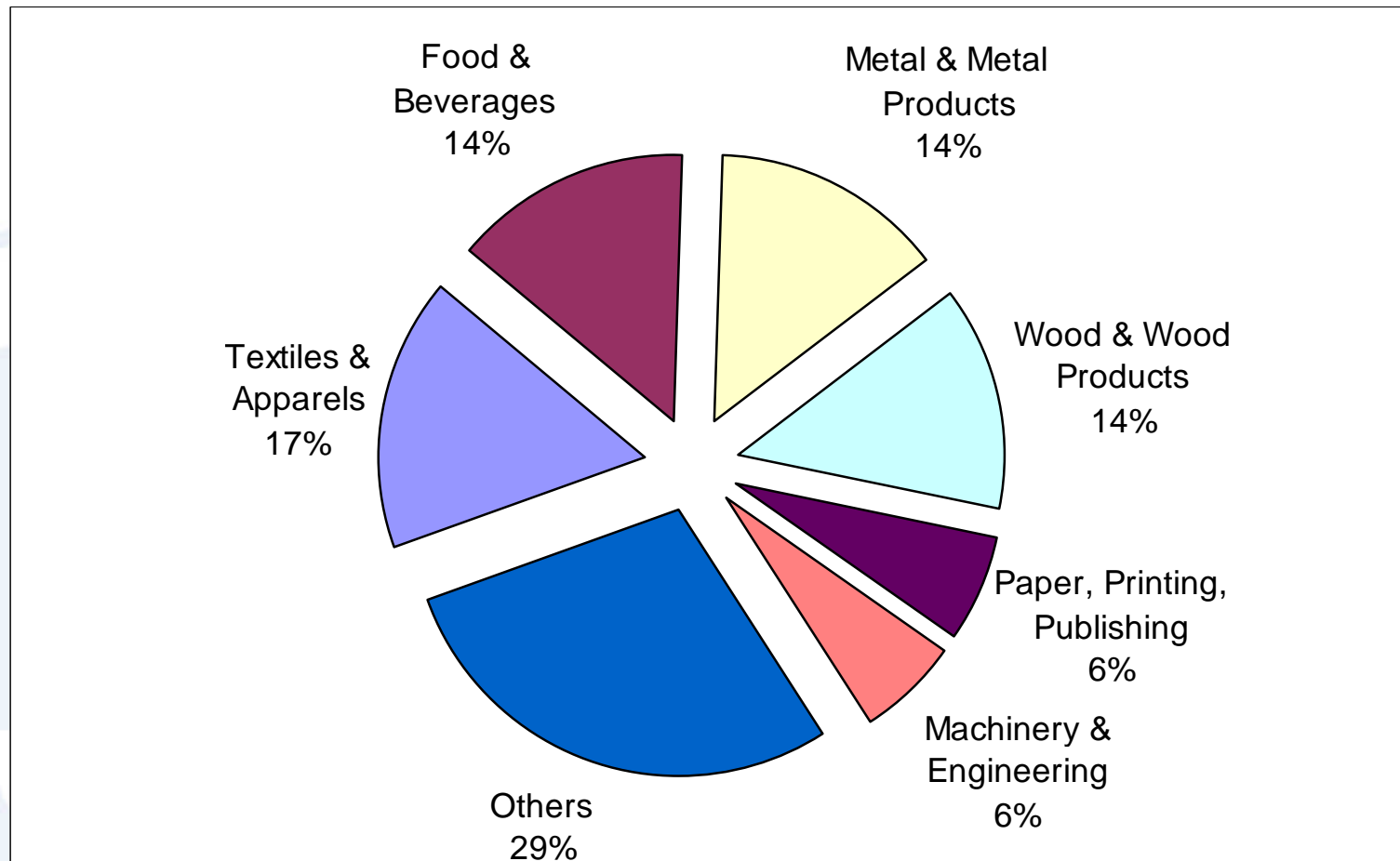
Source: Department of Statistics Census 2000



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## Sector Distribution (top 6 industry sectors)



Source: Department of Statistics Census 2000



## **Role of SMEs**

- **Enhance competitiveness through deepening and broadening industrial linkages and increasing productivity**
- **Dynamic and integral part of the country's industrial process**
- **Reduce import of intermediate and capital goods**



## Concerns and Challenges to SMEs

- **Limited cash capital (USD1 million below)**
  - Would rather lease properties (agreement for 3 + 3 years) to reduce capital investments
- **Bureaucratic delays add to manufacturing costs for SMEs**
  - Too many government ministries/agencies for licences
  - One-stop agency for national and state local agencies
- **Market liberalisation and globalisation**
  - Increasing global competition resulting from trade liberalisation measures; AFTA, WTO, bilateral FTAs



## **Concerns and Challenges to SMEs**

- **Productivity and quality requirements**
  - Limited capacity to absorb new technologies in the manufacturing and management processes
- **Access to domestic and export markets**
  - Lack of exposure, knowledge and experience in accessing and expanding into new markets
- **Knowledge and technology acquisition**
  - Updated on developments in ICT, internet, e-commerce
- **Availability & access to financial facilities**
  - Not competent in managing finances and controlling costs. Banks not inclined to loan to SMEs



## **Concerns and Challenges to SMEs**

- **Availability & access to financial facilities**
  - Not competent in managing finances and controlling costs. Banks not inclined to loan to SMEs
- **Increasing cost of manufacturing is rendering manufacturing uncompetitive**
  - Find ways to lower their manufacturing cost - may need to find new products to manufacture, e.g. with locally available resources, which must have high tech and high value add to be competitive



## **Weaknesses of SMEs**

- **Lack of awareness of importance of Information and Communication (ICT) and its applications**
- **Complacency or remaining in “comfort zone” including overlooking need to maintain good business relationship with customers**
- **Minimal knowledge of modern management techniques - lack interest to acquire new knowledge and capabilities, including design**
- **Too domestic market-oriented and lack marketing skills to promote new products and expand into new markets**



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## Role of Industry Organisations ...FMM

**ISO9001:2000 Certified** *[since May 2000]*  
**...like the members that we represent**

### Vision Statement

**Making Malaysian Industries  
Globally Competitive**

### Quality Policy

**Total Commitment to  
Service Excellence and  
Quality**



MS ISO 9001:2000 REG. NO. AR1981



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## FMM...38 years at industry's side and helm

**Established July 2, 1968 - merger of**

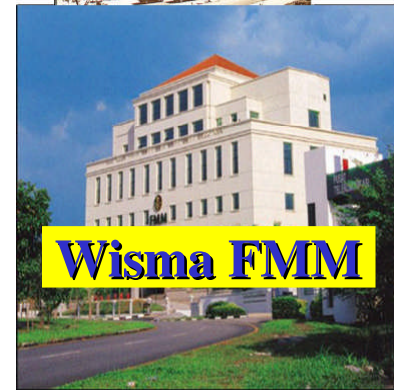
- National Chamber of Malayan Manufacturers
- Malayan Manufacturers' Association

	1968	As at September 2006
<b>Membership</b>	215 companies	2,240 companies & associations
<b>Branches</b>	HQ & 3 Branches	HQ, 7 Branches & 2 Representative Offices
<b>Representation in Government</b>	14 Committees	164 Committees 50 Standards Committee
<b>Working Committees</b>	4 – at HQ	19 – at HQ 7 – at each Branch
<b>Subsidiaries</b>	0	4
<b>Secretariat</b>	6 persons* (3 at executive level)	149 persons (70 at executive level)

\* No Secretariat at Branch level yet



**4<sup>th</sup> Floor**

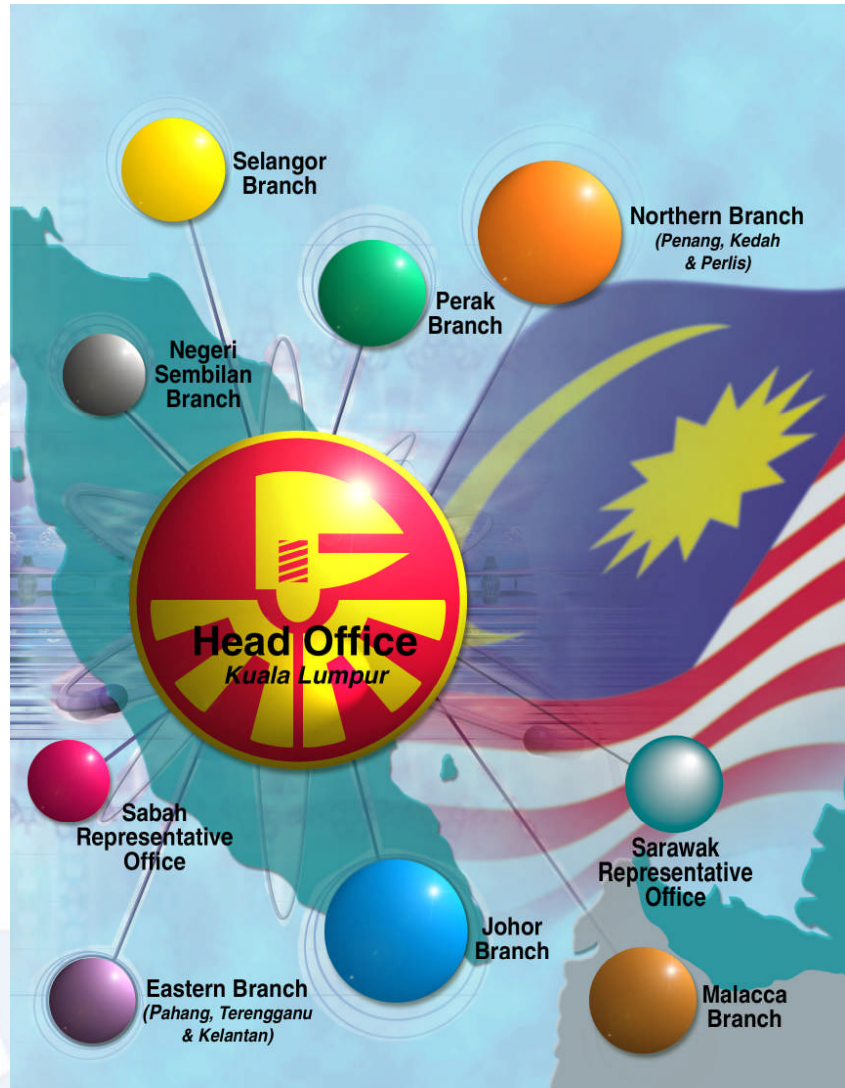


**Wisma FMM**



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### FMM Network - pan-Malaysian

- Northern - *Penang, Kedah, Perlis*
- Perak
- Selangor
- Negeri Sembilan
- Malacca
- Johor
- Eastern - *Pahang, Trengganu, Kelantan*
- Sabah Representative Office
- Sarawak Representative Office

### Membership mainly in:

- Electrical & electronics [19.8%]
- Chemicals & petroleum [16.9%]
- Food, beverage & tobacco [15.5%]
- **Managing over 25 industry groups**

**60% SMIs, 40% Large companies**



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# FMM & Malaysia Incorporated

- **Government & private sector partnership in development**
  - Close consultation & support
  - Government share in corporate revenue – 28%
- **FMM's objectives in shaping policies**
  - Enhance business competitiveness
  - Reduce cost of doing business
  - Champion pro-business environment
- **FMM's 4Cs on policies**
  - Consistency, Credibility, Clarity, Certainty
- **Represented on 164 Government Committees**
  - **Economic planning, grants, accreditation, legal review**
    - Example: equity liberalisation, SME financial assistance (ITAF), one-stop agency, SMI Development Action Plan, Industry awards
  - **Governing Boards of statutory bodies**
    - Example: MIDA, MATRADE, SMIDEC, NPC, EPF, SOCCSO, HRDC, NEAC etc
  - **Industrial Master Plans (IMP)**
    - **First IMP 1986; Second IMP 1996; Third IMP 2006 – 2020**
      - Industrial Planning Committee [Chaired by Minister; FMM represented by President]
      - Steering Committee [Chaired by MITI Secretary General; FMM represented by Vice Presidents]
      - Technical Resource Groups (TRGs) - FMM represented on all 9 TRGs





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## FMM ... at International Level

- **International Chamber of Commerce**
  - **Managing ICC Malaysia Chapter**
- **International Trade Centre, World Trade Net**
  - **Focal point**
- **GS1 (Global Standards One)**
  - **Managing GS1 Malaysia**
- **WTO – private sector representative at Ministerial Conference**
  - **Doha (2001), Cancun (2003), Hong Kong (2005)**
- **Business Advisory Councils – acting as Secretariat to:**
  - **APEC Business Advisory Council [Malaysia Chapter], East Asia Business Council, Malaysia-Singapore Business Council, Co-chair 2002-2004 for AFTA-Closer Economic Relations Business Council**
- **ASEAN affiliations**
  - **Chambers of Commerce and Industry; ASEAN Industries Club – Oleochemicals, Chemical, Ceramics, Cosmetics, Packaging, Petrochemical**
- **International network with sister organisations - 24 MOUs**
  - **Australia, Belgium, Canada, China, Dubai, Germany, Hong Kong, Hungary, Italy, India, Ireland, Japan, New Zealand, Singapore, Spain, Switzerland, Taiwan, Thailand, UAE, UK, USA, Vietnam, Zimbabwe, Myanmar**



## **Role of FMM SMEs Committee**

- **Promote co-operation and interaction between FMM and SMEs**
- **Facilitate and assist SMEs to expand their role in the country's industrial development programme**



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## **FMM SMEs Initiatives**

- **Management of Industrial Parks**
  - Malaysia Incorporated Concept between private and public sector to resolve infrastructure problems at industrial parks
- **SMI Handbook**
  - Business companion for SMEs on policies, incentives, financial facilities, training facilities, human resources, R&D, etc.
- **Trade Missions (Outbound & Inbound)**
  - Helping SMEs to venture to overseas markets.



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## **FMM SMEs Initiatives**

- **Seminars, Talks, Briefings & Forums**
  - Help SMEs keep abreast with latest information on economic issues & government regulations as well as promote sharing of information among SMEs
- **Business Opportunities Networking**
  - These sessions provide effective means for interaction between buyers and sellers of goods and services
- **Good Universal Values**
  - Promoting good corporate governance by practising universal values & good work ethics



## FMM SMEs Initiatives

- **SMEs Website**
  - Currently developing the SME website as a sub-domain of FMM Net
- **SMI Brainstorming Session**
  - Focus was on ***“Promoting Domestic and Cross-Border Investments”*** in:
    - 1] Palm oil sector;
    - 2] Rubber sector;
    - 3] Wood based sector; and
    - 4] High tech & High Value Add Products and Services.



## **FMM SMEs Initiatives**

- **Promoting domestic & cross border investment through commercialisation of R&D**
  - MINT (MOU to promote 10 research findings to members); FRIM; MPOB; RRIM
- **SMEs Representation to Government**
  - A privilege and opportunity to be consulted on policies, incentives, regulations and procedures affecting SMEs.



## FMM SMEs Initiatives

- **JETRO-FMM-SMIDEC Expert Roving Programme**
  - Tripartite programme to bring Japanese experts to help Malaysian SMEs in '*plastic injection*' & '*mould and die*' sectors (supporting the E&E industry) to strengthen technical capabilities and improve quality.



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## **FMM Proposals to Help SMEs**

- **Continuous awareness programmes and activities especially on incentives and development trend**
- **Training programmes to help SMEs improve skills in management of finances, marketing, product and process improvements**
- **Networking groups for dynamic SMEs to learn from the experiences of their peers or companies**
- **Government machinery to be development oriented and more one-stop centres available at SMEs “doorstep”**



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## **FMM Proposals to Help SMEs**

- **Pro-active measures to promote Domestic and Cross Border Investment:**
  - **Identify sources where technology can be acquired.**
  - **Identify Malaysian entrepreneurs willing to seek business proposals for domestic investment.**
  - **Set up useful databases (e.g. Policies, incentives facilities for resource based investments; Import export statistics; List of importers/ manufacturers).**



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## FMM Proposals to Help SMEs

- **Pro-active measures to promote Domestic and Cross Border Investment:**
  - Information collection and dissemination centre of incoming trade missions offering high tech and high value add product and processes and seeking Malaysian business partners.
  - List of advisors/ consultants who can do feasibility studies, market surveys, etc. on potential high tech and high value add products/ services/ processes.
  - Identify public and private sector R&D institutions in Malaysia and overseas.
  - Visit overseas fairs, exhibitions, etc.



## FMM Proposals to Help SMEs

- Promoting the Spirit of Entrepreneurship:
  - What enables a real entrepreneur go to the top and make life 100%? ⇒ **Having the *Right Positive ATTITUDE***
  - Taking action; learning from the successes of others; acting positively; practising good values and work ethics.



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***THANK YOU***