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A Study on the Importance of Export Assistance Programs: The case of Exporting Small and Medium Sized Enterprises of Malaysia

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Abstract

The empirical study presented in this report focused on government export incentives for small and medium-sized enterprises (SMEs) that involved in exporting. More specifically, the study attempted to examine the significance of exporting incentives to the exporting activities of the Malaysian SMEs. The data for the study was collected through the mail of 2000 questionnaires to the selected exporting SMEs. Two hundred firms responded by returning the questionnaires. Only 154 questionnaires were usable and used in the analyses. The findings of the study shows that the duties and sales tax exemption, the double deduction for promotion of exports, the double deduction of expenses for promotion of exports of services, the double deduction of expenses for promotion of Malaysian Brands (e.g.) and the tax exemptions on the value of increased exports are significant to the exporting products of Malaysian SMEs.

Keywords: Small and Medium Sized Enterprises, Export, Export Assistance Programs, Tax Exemption, Duties and Sales Tax.

Introduction

The small and medium enterprises have been playing a significant role in developing the economic activities of the world. Despite their pivotal role in the development process of the New Economic Policy (NEP) in Malaysia, Malaysian research involving SMEs appears to have been neglected (Hashim, 2000). At the present moment, although SMEs made up of more than 90 percent of the total manufacturing firms in Malaysian manufacturing sector, they managed to export about 20.8 percent of their total output in the sector. This amount contributed to only about 10.8 percent of the country's total exports of manufactured products. These figures suggest that majority of the SMEs in

Malaysia depend on selling in the domestic market, and that they are not exploiting the opportunities available in foreign markets.

In an effort to assist the SMEs in their exporting activities, the Malaysian government has introduced various exporting assistance programs. Over the years, the Malaysian government has introduced these export assistance programs to support and encourage more SMEs to export as well as to enable them to increase their share of the country's total exports. The present study initiated an attempt to examine the importance of the government export assistance programs to the exporting SMEs. In particular, the study attempted to examining the five government incentives programs under the coordination of Ministry of International Trade and Industries (MITI) such as :- To examine the importance of MITI duties and sales tax exemption , the importance of MITI double deduction for promotion of Exports, the importance of MITI double deduction of expenses for promotion of export of services, the importance of the double deduction of expenses for promotion of Malaysian Brands by MITI, the importance of MITI tax exemptions on the value of increased exports among the exporting SMEs

Literature Review

The definitions of SMEs varies by country, and is usually based on the number of employees or the value of assets, where the lower limit for small-scale enterprises is usually set at 5 to 10 workers and the limit at 50 to 100 workers. For the upper limit for "medium scale" enterprises is usually set between 100 and 250 employees (World Bank, 1997).

What are SMEs? SMEs are defined as enterprises with net assets or shareholders fund of between RM 500,000 to RM 2,500,000. (Malaysian Industrial Coordination Act 1975 Amendments 1986, the promotion of Investments Acts 1986, as noted by Bank Negara's Lending guidelines, Malaysia 1998 Yearbook). Based on the above definition, a firm with shareholders fund of less than RM 500,000 is considered as small, whereas a firm with shareholders funds of between RM 500,000 to RM 2,500,000 is considered as medium sized.

In addition, Ministry of International Trade and Industry (MITI) under its Small Scale Division define SMEs as enterprises with assets or shareholders funds of between the ranges of RM 500,000 to RM 2,500,000 with full time employees of five to one hundred Employees. However the Small and Medium Industries Development Plan (SMIDP) defines SMEs as a company with an annual sales turnover not exceeding RM 25,000,000 or full time employment of not exceeding 150. (SMIDP Report, 2003).

Malaysia experienced a continuous surplus of trade with its trade partners from 1998 to 2002. Table 1 shows a detailed outcome of trade activities that indicate the economic growth of Malaysia. However the threat of terrorism has resulted in economic changes from the impact of September 11 2001. The total exports for Malaysia decreased from RM 373,270,000 in 2000 to RM 334,420,000 in 2001. (External trade statistics, 2002).

Despite the September 11 tragedy, Malaysia continues to prosper and the Balance of Payments recorded a continuous surplus since 1998 to the end of 2001 (See Table 1).

The main export items of Malaysia are machineries and equipments (60.6%), manufactured goods (7.2%), chemicals (4.3%), animals, vegetables oils and fats (3.7), as is revealed by yearbook of statistics Malaysia, 2002). The major commodities are Palm oil, Crude petroleum and rubber.

Table 1. External Trade in Millions Ringgit Malaysia

	1998 RM '000	1999 RM '000	2000 RM '000	2001 RM '000
Total Export	286,563,000	321,560,000	373,270,000	334,420,000
Total Imports	228,124,000	248,477,000	311,459,000	280,691,000
Balance of Trade	58,439,000	73,083,000	61,811,000	53,729,000

Source: Yearbook of Statistics Malaysia 2002. Department of Statistics Malaysia.

Table 2, shows the direction of the trade in term of volume of export in RM and the destined countries.

Table 2. Direction of Trade by country, 2001

Name of Countries	Percentage of Total Export for Each Country (%)
United States Of America	20.2
Singapore	16.9
European Union Countries	13.6
Japan	13.3
Other ASEAN Countries	8.2
Hong Kong	4.6
Other Countries	23.1

Source: Yearbook of Statistics Malaysia 2002. Department of Statistics Malaysia.

Based on the Census of Establishment and Enterprise for agriculture, manufacturing and services sector which was conducted in 2005, there are 349,617 establishments identified. (Economic report, 2005). Out of this 346,211 or 99% of the respondents are SMEs which includes micro enterprise. Out of the total SMEs identified 81% are microenterprises operating with less than 5 full time employees, while 17% and 2% are small and medium enterprises respectively which. In term of the total numbers of workforce employed 55% were employed by SMEs. In term of output from the establishments identified SMEs contributed about 38% (Economic Report 2005).

Research Methodology

Sampling Frame and Procedure

This study is confined to selected small and medium-sized enterprises (SMEs) in the Malaysian manufacturing sector. In this study, a small and medium-sized enterprise (SME) is defined as a manufacturing firm with an annual turnover of less than RM25 million and as one which is actively managed by its owner/s. Based on this definition, 2000 SMEs were identified from the 2004 MATRADE listings of exporters.

The data for this study was collected by mail survey. Two thousands structured questionnaires were mailed to the top management of the 2000 firms selected. Out of the total number of 2000 questionnaires sent, 154 were fully completed and are usable.

Questionnaires

The structured questionnaire adopted in this study consists of four sections. The first and second sections of the questionnaire which consisted of 17 items were used to obtain the general information concerning the background of the respondents (6 items) and the firms' characteristics (11 items). The questions in sections C, of the questionnaire were designed to capture the respondents' perceptions on the export incentives provided by the Ministry of International Trade and Industries (MITI). In Section D the questionnaire focused on SMEs exporting activities.

Data Analysis

In the present study, descriptive statistics were employed to analyze the data collected from the 154 responding SMEs. Percentages and frequencies were used to analyze the responses collected from the respondents.

Findings

Profile of Respondents

46% of the respondents CEO, manager or owner. While the remaining 53.9% are either manager but not owner or owner but not manager and others. Majority of the respondents are Chinese which comprises 57.1 %. Whereas the remaining of 26.8% are Malays and 13% are Indian. 74.7% of the respondents have more than 4 years experience in the business. While the remaining of 25.3 percents have either 3 years or even lesser experience. 61.6% of the respondents owned at least one business. While 38.3% never owned a business.

In regard to characteristics of sample firms by ownership 73.4% of the respondents company are originally private joint ventures, while the remaining of 26.6 percents are either joint venture, state owned, foreign owned, formerly state owned or subsidiaries of state owned companies. As for the percentage of sales for the business in 2003 which indicates that more than 59% of the respondents' sales are above 10 millions per year, while the remaining 41% are RM5 million and below. Characteristics of sample firms by exports reveal that 32.5% of the respondents export more than 40% of their total sales of the products. While 19.5% export between 21-30% of their products, 18.2% exports between 11-20% and 16.9% exports between 1-10 percents from their total sales.

The Importance of Five Government Incentives

Table 3 illustrates the importance of duties and sales tax exemption by MITI. It shows that the 61% of the respondent company feel that the duties and sales tax exemption by MITI is helpful. While 21% are not sure of it and the remaining of 17.8% feel that it is not helpful.

Table 3. Duties and Sales Tax exemption by MITI

	Observed N	Percentage
very helpful	39	25
Helpful	55	36
not sure	32	21
not so helpful	9	5.8
not helpful at all	19	12
Total	154	100

Source: Field study

Table 4 illustrates the importance of double deduction for promotion of export, which shows that 74% of the respondent company feels that the double deduction for promotion of export is helpful. While the remaining of 26% are either not sure or not helpful.

Table 4. Double deduction for promotion of export

	Frequency	Percentage
Very helpful	52	34
Helpful	62	40
Not sure	30	19.5
Not so helpful	3	1.9
Not helpful	7	4.5
Total	154	100

Source: Field Study

Table 5. Double deduction for promotion of export of services by MITI

	Observed N	Percentage
Very helpful	64	41.5
Helpful	45	29.2
Not Sure	37	24.0
Not so helpful	4	2.6
Not helpful at all	4	2.6
Total	154	100

Source: Field Study

Table 5 illustrates the importance of the Double deduction for promotion of export of services by MITI. It shows that the 70.7% of the respondent company feel that the double deduction for promotion of export of services is helpful. While 24% are not sure of it and the remaining of 5.2% feel that it is not helpful.

Table 6. Double deduction for promotion of Malaysian Brands by MITI

	Frequency	Percentage
Very helpful	62	40
Helpful	42	27
Not sure	30	20
Not so helpful	3	2
Not helpful	17	11
Total	154	100

Source: Field study

Table 6 illustrates the importance of double deduction for promotion of Malaysian Brands by MITI. It shows that 67% of the respondent company feels that the double deduction for promotion of Malaysian brand is helpful. While the remaining of 33 % are either not sure or not helpful.

Table 7. Tax exemptions on the value of increased exports by MITI

	Observed N	Percentage
Very helpful	59	38
Helpful	43	28
not sure	38	24
not so helpful	4	3
not helpful at all	10	6.5
Total	154	100

Source: Field Study

Table 7 illustrates the importance of Tax exemptions on the value of increased exports by MITI. It shows that the 66% of the respondent company feel that the tax exemption on the value of increased exports by MITI is helpful. While the remaining of 34% are either not sure or not helpful.

Discussion and Conclusion

The study focused to examine the importance of MITI programs among the exporting SMEs. More specifically the study attempted to examine the significance of the five government incentives offered by MITI to the exporting activities of the Malaysian SMEs. Among the objectives of the study were to examine the importance of MITI duties and sales tax exemption among the exporting SMEs, to examine the importance of MITI double deduction for promotion of Exports among exporting SMEs ,to investigate the importance of MITI double deduction of expenses for promotion of export of services among the exporting SMEs, to analyze the importance of the double deduction of expenses for promotion of Malaysian Brands by MITI among the exporting SMEs and to analyzed the importance of MITI tax exemptions on the value of increased exports among the exporting SMEs .

This study was a cross-sectional sample survey of exporting SMEs covering a variety of industries in Malaysia. The primary data for the study was gathered through mailed questionnaires to the senior management of 154 exporting SMEs that participated in the study. The data on each of the respondents was collected by means of structured questionnaires. The questionnaire consists of previously used instruments and the questions were designed to measure the items of interest to the study.

In general the results of the study shows that all the five MITI'S export assistance programs are important that is helpful to the exporting SMEs. The result also shows that these export incentives assists them to increase their export sales.

The Importance of MITI'S duties and sales tax exemption to the exporting SMEs

The results of the study show the importance of duties and sales tax exemption by MITI. It shows that the 61% of the respondent company feel that the duties and sales tax exemption by MITI is helpful. While 21% are not sure of it and the remaining of 17.8% feel that it is not helpful. These percentages suggests that majority of the responding firms perceived the importance of MITI'S duties and sales tax exemption to the exporting SMEs.

The importance of MITI'S double deduction for promotion of export

The result of the study shows the importance of double deduction for promotion of export, which shows that 74% of the respondent company feel that the double deduction for promotion of export is helpful. While the remaining of 26% are either not sure or not helpful. These percentages suggests that majority of the responding firms perceived the importance of MITI'S double deduction for promotion of export to the exporting SMEs.

The importance of MITI's double deduction for promotion of export of Services

The result shows the importance of the double deduction for promotion of export of services by MITI. It shows that the 70.7% of the respondent company feel that the double deduction for promotion of export is helpful. While 24% are not sure of it and the remaining of 5.2% feel that it is not helpful. These percentages suggests that majority of the responding firms perceived the importance of MITI'S double deduction for promotion of export to the exporting SMEs.

The importance of double deduction for promotion of Malaysian brands by MITI

The result of the study shows the importance of the double deduction for promotion of Malaysian Brands by MITI. It shows that 67% of the respondent company perceived that the double deduction for promotion of Malaysian brands is helpful. While the remaining of 33% are either not sure or not helpful. These percentages suggests that majority of the responding firms perceived the importance of MITI'S double deduction for promotion of Malaysian Brands to the exporting SMEs.

The Tax exemptions on the value of increased exports by MITI

The result shows the importance of tax exemptions on the value of increased exports by MITI. It shows that the 66% of the respondent company feel that the tax exemption on the value of increased exports by MITI is helpful. While the remaining of 34% are either not sure or not helpful. These percentages suggests that majority of the responding firms perceived the importance of MITI'S tax exemptions on the value of increased exports to the exporting SMEs.

The results from the study conclude that the exporting incentives provided by the Malaysian government through MITI are important to the exporting activities of the SMEs. More specifically the incentives that are significant to the exporting SMEs are the duties and sales tax exemption; the double deduction of expenses for promotion of Malaysian Brands; the double deduction of expenses for promotion of exports services; the double deduction of exports for promotion of Malaysian Brands; the tax exemptions on the value of increased exports which are helpful to the exporting activities of the SMEs.

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