

Chapter 9

SMEs DEVELOPMENT POLICY ENVIRONMENT AND CHALLENGES IN SINGAPORE

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Abstract

The development of SMEs in the region is critical and vital as success in this collective and individual efforts will go a long way in reducing regional and domestic income gaps and in creating a balance of income and employment and securing a more sustainable human and social security in the midst of rapid economic growth in income and output. To achieve this, there is a need to improve SMEs' international competitiveness through SME promotion policies, finance system and tax system for SMEs. They can be sharpened in their ability to compete through improvement of competitiveness due to R&D, improvement of quality control, improvement of skill etc. SME promotion policies can also help to smoothen out non-availability of effective finance system for SMEs and facilitate their modernization process. This paper will examine the strategy and policy issues on SMEs in the East Asian context and utilize Singapore as an empirical by looking into general and regional policy issues.

Introduction

SMEs typically consist of: export-oriented industries like apparel, supporting industries like auto components and traditional cottage industries like handicrafts services. When domestic markets were protected by custom tariffs, governments could make SME promotion policies in considering domestic situations. However, after globalization started to progress and international production networks have been created, environments of SME changed dramatically. As export oriented units are facing severe competition in export markets, they are trying to reduce production and distribution costs and find new outlets.

While trade and investment liberalization and globalization are detrimental to the domestic growth of SMEs, there are counter policy measures which can be implemented to synergize, ameliorate the negative effects of globalisation and regionalization through a more dynamic, rapid and sustainable regional economic development. The development of SMEs in the region is critical and vital as success in this collective and individual efforts will go a long way in reducing regional and domestic income gaps and in creating a balance of income and employment and securing a more sustainable human and social security in the midst of rapid economic growth in income and output.

To achieve this, there is a need to improve SMEs' international competitiveness through SME promotion policies, finance system for SMEs and tax system for SMEs. SMEs can be sharpened in their ability to compete through improvement of competitiveness due to R&D, improvement of quality control, improvement of skill etc. SME promotion policies can also help to smoothen out non-availability of effective finance system for SMEs and facilitate their modernization process.

2. NEW CHALLENGES

Both the Japanese and Korean experiences suggest that a key ingredient in the development of a dense subcontracting network may be the pursuit of an industrial policy in which it is construed to play a significant role and in post-occupation Japan, MITI (now MTI) announced the state-led industry policy as a strategy for national industrial economic policy, with policy-making tools including governmental capital through semi-governmental banks, selective protectionism, and tax incentives. From then on, small business policy moved away from engaging in free market conditions through state help to plugging into subcontracting and efficiency/productivity increases.

Asian countries have promoted SMEs to progress industrialization since the 1980s. Even when factories are set up by foreign direct investment, if components are imported from foreign countries, the effects of these factories on GDP and employment creation are limited and growth of imports may be induced. It is necessary to promote supporting industries to expand backward effects. When domestic markets were

protected by custom tariffs, governments could make SME promotion policies considering domestic situations.

However, after globalization started to progress and international production networks have been created, environments of SME changed dramatically. As export oriented units are facing severe competition in export markets, they are trying to reduce production and distribution costs and find new outlets. While supporting industries may lose outlets because related big firms change procurement policy and import components, they can export easily. At present, the effects of SME promotion policy need to be reviewed. This paper will examine the strategy and policy issues on SMEs in the East Asian context and utilize Singapore as an empirical by looking into general and regional policy issues.

2.1 Major SME policy framework amongst East Asian economies.

The Asian financial and economic crisis of 1997 has promoted East and Southeast Asian economies to return to the basics and focus on SMEs to create jobs for millions of unemployed victims of the crisis and widen opportunities for entrepreneurs to capitalize on the recovery which had to go through another period of economic upheaval in the 2001 global slowdown caused by SARS and the 911 attacks. This almost Pan-East Asian policy focus has been re-invigorated aid for the SME sector which benefited from Japan's leadership in providing financial resources through the Miyazawa Initiative.

Along with the funding provided by the New Miyazawa Initiative, the regional external environment has also grown favorable for incubating SMEs in the region. A larger proportion of global output is now exported with the ratio of world exports - even during the global economic slowdown of 2001, the value of world trade (exports) reached US\$ 12.7 (US\$ 6.2) trillion.¹ Within Southeast Asia, intra-ASEAN trade has also grown faster than ASEAN's total trade and the proportion of goods destined for trade within ASEAN is much higher than before the progressive and accelerated tariff reduction arrangements, starting in 1993, under the ASEAN Free Trade Area (AFTA) and, in addition, most wealth-creating assets such as finance and technologies can now be packaged, located and relocated with relative ease within and across economies and regions.²

There are greater opportunities for inter-firm linkages for enhanced efficiency, technological innovation, and competitiveness as a collective; especially in the growth complex systems of cross-border production and international supply chains for SME involvement. One way of strengthening inter-firm linkages is through clustering where members in better position within the cluster may extend their resources to help others within the cluster that are languishing, the interlocking mechanism then provides a form of security for the collective and this may promote the survival of the cluster as a whole. The cooperation between cluster members solidifies the common will to overcome problems.

The most dramatic type of small-small cooperation is represented by the clusters of firms which interact with each other in a number of mutually productive ways and geographic clustering tends to occur both in (i) craft industries, usually grouped in small towns or confined segments of larger cities, and (ii) in higher technology sectors like electronics, metal-working, computers and software, biotechnologies, etc, more frequently found in larger urban centers and, in developing countries the first category is the dominant one; sometimes the cooperating firms are few, say 5-15 members or so, and hence unlikely to place their stamp on the locality as do larger groups.³

Large gains in collective efficiency and flexibility through participation (whether or not at arm's length) in clusters of firms, or in networks of inter-linkages backward with suppliers, laterally with other producers and providers, and forward with users and consumers.⁴ Subcontracting and outsourcing relationships include processing functions and manufacturing activities and high value services, and these may include comprehensive equipment production, one stop manufacturing and research functions to originate creative and innovative products.

Firms interact with each other through market mechanism but are also intertwined in relationships through informal agreements, networking and collective projects and agreements and these aspects are promoted when they are in close proximity to each other in clusters where informal exposure are crucial. Clusters can also promote market forces since cooperation ensures that like-minded firms producing similar products can work together to do the same thing while competition which also exists in the clusters ensures competitiveness and efficiency by inciting firms to re-

evaluate their relative strengths when churning out same or similar products. The latter is a form of checking system on inefficient or overproduction.

Horizontal cooperation among SMEs contributes to "collective efficiency" the competitive advantage derived from local external economies and joint action.⁵ The advantage of collaboration among SMEs is the augmentation of economies of scale in distribution and sales, purchasing power, investments in facilities/equipment and in lobbying the government sector. It can also benefit from information flow and sharing as well as specialization and division of labor for collective efficiency.

Better information systems are important to SMEs since strategic information can be costly and access to such data can be hampered when small firms cannot afford it and this places them at a disadvantage in competing or complementing with big firms which enjoy the economy of scale in purchasing such data. Information can lead to opportunities in participation of trade events, government/state SME programs and other institutional participation and affiliation. SMEs themselves need not only technical and marketing information of the sort which must be provided by more specialized institutions, but also more general macroeconomic information on what is happening in the country, in world markets, in the financial sector, and in the composition of output and demand at home and abroad. While general informational satisfy some preview of technical information needs, they may not package it in a form that is directly usable and digestible by SMEs.

Finally, inter-firm cooperation are important in the context of state and public policy whereby opportunities can be spotted by state economic bureaucracies to give promising SMEs a little boost in terms of support so that they can take off and lead to a situation where there is cumulative expansion of such economic activities, as in the case of successful East Asian economies like Korea and Japan where SMEs have been propelled from a humble beginning to being a crucial part of the overall economy.

2.2 Strategy of Governmental Support for SME Growth.

The approach followed by the most successful East Asian economies is state-led industrial support to induce external industrial investment either to specific strategic sectors or to the national economy as a whole and this is coordinated with state policy and macroeconomic assistance and financial help to SMEs. Another approach involves

basic state help to SMEs in items such as industrial park allocation and infrastructure, credits and loans, technological help and state projects/contracts.

In general, however, SMEs will have to be nurtured for growth and proliferation so that it can gain a certain scale of economy and cumulative critical mass across a wide range of industries to empower and augment the dynamism of entrepreneurial pulses and energy to uplift the economy as a whole. Governmental support must target carefully strategic SME industries for nurturing due to the limitations of state budget and the global trend of governmental deregulation of former state industries and their asset divestment. Resources are limited and the state has to make the best use of it for SME empowerment. In this sense, firms and sectors that contribute strategically to the overall growth of the economy should draw greater help from the state if they are performing optimally and are lean and efficient.

The characteristics of these firms may include the following: first, such firms are likely to be very much fewer in number and so policy intervention would have a better chance of success as it would be more focused and manageable both administratively and financially; second, they will be more receptive to an efficiency-oriented and time-bound approach in policy support and facilitation and this approach is similar to the provision of fishing rods and related fishing skills to SMEs; it is thus different from the distribution of the fish itself to the target beneficiaries as has often been the case; third, they are also better placed for self-diagnosis and self-improvement after the initial provision of assistance and facilitation while partial cost recovery in cash and in kind, plus resource pooling, are comparatively more feasible among these target firms.⁶

Several types of support for inter-firm cooperation involving SMEs are solid candidates for best practice status, including (i) support for local and international fairs; subsidies to foreign buyers to visit fairs; subsidies to foreign buyers to visit fairs, producers' groups etc.; (ii) support for relevant business associations, sometimes umbrella SME associations, sometimes industry-specific ones, often local ones; (iii) practically oriented support for large-small linkages (iv) SME network support programmes; (v) support for education and training institutions and other types of infrastructure which could contribute to potential or actual groups of SMEs (vi) encouragement of SME suppliers through public sector purchasing (vii) subcontracting exchanges' though it is not clear whether they will often have a large payoff, their

modest costs makes them a logical component; (viii) collection and organization of information on the important SME sectors, relationships among firms, the leaders in each sector and region; serious monitoring of the programmes which are put into place.⁷

As far as possible, support from the public sector for SMEs should be given on a group or cluster bases so that the sector can benefit as a whole and the group/cluster can capitalize on the resource usage and build on intra-sector or inter-firm links. Such support should be short-lived, project-based or short-term to avoid overdependence on state help by such SMEs and also to avoid creating a government agency or budget allocation that is open-ended. Evaluation along the way is crucial to determine if and when the help should stop or be sustained if such help prove to be successful.

2.3 Strategy of Benchmarking.

The most dynamic SMEs are typically those that target the functions they perform for the market demand or for large firms and depend on market forces to provide products and services that they need for their overall operations. Good sources of information and precise data are therefore required for precision in targeting the outcome of SME development and to sieve out the top performers in strategic sectors. Good evaluation based on hard data and information is also needed for a precise evaluation of various SMEs' individual or group strong areas and weaknesses in capacity building and overall economic development as well as contribute to the national economy.

Evaluation of SME performance is necessary to track changes within SMEs and to benchmark them against quantifiable markers to measure the progress of top SMEs and to determine how best if needed to enhance their delivery capabilities to large companies or to supply transboundary production networks. These benchmarks approximate to precise evaluation of the effectiveness of SMEs policies and if successful can be a model for serving the needs of SMEs further down in the hierarchy. Thus, the most crucial component is to ensure systematic benchmarking, good informational tracking systems and record-keeping.

2.4 Strategy of Enhancing SME Competitiveness.

The rationale behind the cooperative relationship between large and small firms in the process of subcontracting is fundamentally based on the idea that small firms may be able to carry out certain functions more efficiently and effectively than larger firms. This can be a buyer-supplier relationship or more strategic tie-ups in terms of integrated manufacturing process. While smaller firms can accomplish specific and niched functions better than their larger counterpart, to make their comparative advantage apparent, they will need the guidance and collaborative help of their large partners to overcome the limitations of small firms. Such help could be in the form of access to information, stipulations of requirements for quality control, access to credit, guaranteed demand, etc. Quality is the key element in such mutually-beneficial collaboration. As the global market becomes more competitive and SMEs are competing in greater numbers, it may be useful for larger firms or even state or local governments to help out in such a process with the ultimate goal of enhancing quality control and improve research as well as design and other technical capabilities.

SMEs can be trained and nudged to competitiveness through enhancement programs and constantly learn from the best in competition in order to excel. This paradigm shift in SME competition require a strategic shift in mindset since SMEs generally are oriented towards traditional relationships and patterns of collaboration which may not be conducive to global competition. To begin with, there is little room for compromise with quality, and compliance with quality management systems recognized worldwide is through certification under the International Organization for Standardization (ISO) 9000 series of standards, ISO 9001 and 9002 especially. The ISO certification is fast becoming an actual prerequisite for the development of optimal business practices through regular audits, infrastructural capacity-building and other work systems, product warranties etc that are expected as normative procedures by large firm clients of small firm subcontracting.

Specifications spelt out by large firms or the industry in general in dealing with SME subcontractors became de facto guidelines or procedures that are expected of SMEs as well as upcoming young small firms. These guidelines then evolve to become industrial standards or codes of conduct that become prerequisites and qualifications for SME participation in subcontracting cooperative relationships and to determine if a

particular SME is ready for integration into large processes or global manufacturing networks. ISO certification is but one example of such de facto guidelines.

2.5 Strategy of Tapping into the Information and Communication Technology (ICT) revolution.

The ICT revolution has boosted productivity, efficiency in the global economy and its proliferation is also responsible for being a pre-requisite for an increased attention on e-commerce. Developing East Asian economies can tap into the bustling ICT commercial sector and online trading which has exhibited exponential growth. Such effects have trickled down to the SME sector where online activities and ICT have become permanent catchphrases for the SME sector, increasingly so for those located in developing economies. SMEs who do not follow this global trend are in danger of being overwhelmed by it. SMEs often require technical assistance to overhaul their workplace and also meeting production demands, both in the domestic sectors and export sectors but now increasingly in the online sector. Experts may be needed in this area to empower such SMEs, and if the situation dictates, foreign ones may have to be hired.

Efforts may have to be strengthened to help nurture the SME sector and its domestic market for ICT development to build up the infrastructure for e-business, especially in contentious and complicated areas like intellectual property rights (IPRs), technical support through the availability of state assistance and other forms of incentives. The most important component within this is the capacity-building process where SME can be empowered to increase the quality of their products and services through efficient and effective adaptation of ICT technologies. Training and education of staff and management are crucial in this.

3. CASE STUDY OF SME DEVELOPMENT IN SINGAPORE

The SME community contributes 42% of Singapore's GDP, and employs more than half of Singapore's workforce and as a group, the top 500 SMEs here have increased total turnover by 30% to \$13.5 billion and almost doubled net profits to \$630 million over the past 5 years.⁸ Among the top 500 sales ranked SMEs, 53 companies (10.6%) have achieved a turnover of \$50 million or more and furthermore, 30 (6.0%) of these companies have average monthly turnover of above \$5 million per month, no small feat by most measure.⁹

The highest increase comes from the Manufacturing and Wholesale sectors, where the average number of employees in these two sectors increased by 33% and by 56% respectively compared to 2006 and, in term of employment, the top 500 sales ranked SMEs currently employ a total of 24,294 employees, representing a 41% increase compared to those ranked in 2006.¹⁰ In their profit generating ability, SMEs in the Holdings, Finance and Property take the top three spots in terms of average profit margin and while the number of companies in these three sectors forms only a small percentage of the top SME500 ranking, they are able to generate an average net profit of \$1.3 million and Singapore SMEs have done fairly well; over the years, SMEs have increased value-added by SMEs by a cumulative 7.4% over the last five years and account for 46% of total value added in the Singapore economy with many developing their competitive strategies broadly based on the "3MK" key success factors – Money, Markets, Management and Know-how.¹¹

3.1 Money

Public policy is crucial in supplying technical training and help through courses and training for staff members and management of SMEs geared to raising technical knowledge and instilling the need to raise efficiency of small firms. Singapore is a global model in this. Singapore agency SPRING works closely with the Monetary Authority of Singapore or MAS and the financial services sector to catalyse financing programmes relevant to SMEs and launched the S\$3 billion Loan Insurance Scheme or

LIS 3 in early 2007. With insurance, financial institutions lending to SMEs will be protected against loan defaults and SPRING and IE Singapore co-share half the insurance premium and, each year, SPRING – through its partner network of 14 banks and financial institutions – also lends some \$600-700 million to more than 5,000 SMEs under the Local Enterprise Finance Scheme (LEFS) to finance their growth.¹²

3.2 Management and Know-how.

Some 87% of SMEs have expressed a need for training of staff, particularly in the areas of soft skills such as Leadership & Team Building, Marketing & Promotion and Business Planning and, in terms of management training for SMEs, the Singapore government through SPRING has launched the \$20 million Management Development Programme or MDP in April this year to equip SME CEOs and Senior Managers through courses, which are customised to SMEs' needs, offered by NUS, NTU and SMU.¹³ A National Retail Scholarships programme was also launched to groom future leaders for the retail sector and SPRING is also working with EDB and the industry association on a scholarship programme to attract talents into the Precision Engineering industry.

Given such strong characteristics of SMEs in Singapore, the Singapore government's strategy is to leverage on globalization by positioning Singapore as a Global SME and Entrepreneurship Hub to develop a pro-business environment where enterprises can succeed in 3 key areas: namely, Launch and develop their business operations seamlessly; Upgrade their capabilities and business innovation levels; and Expand their operations beyond Singapore.¹⁴

The primary agency to spearhead this initiative is SPRING Singapore. As the agency for enterprise development, SPRING Singapore aims to enhance the competitiveness of enterprises and help to nurture a pro-business environment, facilitate the growth of industries and enhance innovation and enterprise capabilities of small and medium enterprises for better access to markets and business opportunities. SPRING Singapore is also the national standards and conformance body to help lower technical barriers to trade, provide quality assurance for products and services and promote industry use of Singapore and international standards.

4. SME POLICIES IN SINGAPORE

4.1 Launch and Develop Business Operations Seamlessly.

Many SMEs face challenges in raising capital for growth. To improve access to financing for SMEs, the Government has established various schemes such as the 2005 SME Access Loan, a securitized loan scheme that has to-date generated \$100 million of loans for some 400 SMEs and, apart from lowering corporate income tax rate to 18% from Year of Assessment 2008, the Singapore government has increased the current partial tax exemption threshold for companies from \$100,000 to \$300,000 while start-ups can also continue to enjoy full tax exemption on the first \$100,000 of their chargeable income in the first 3 years of operation; as for online initiatives, the EnterpriseOne scheme comprises a web portal supported by telephone hotline and a network of Enterprise Development Centres (EDCs) which attracts about 37,000 unique visitors per month, and the EDCs assist about 900 SMEs per month.¹⁵

4.2 Upgrade SME's Capabilities and Levels of Business Innovation.

East Asia's SMEs beginning from the successful models of Japan enjoy strong state and bureaucratic systems which provide technical assistance through technology centers that are located over a wide geographical spread and have a variety of services. This model has been emulated by many countries through their Look East programs instituted in the 1980s and 1990s. Korea is one of them as it has also started a similar system with additional features of hiring important Japanese experts and other Western consultants if necessary.

Bureaucratic responsibility-sharing help to spread out the burden of SME assistance and capitalize on the varying comparative strengths and capabilities of each agency or technological centers. This is coordinated by a central governmental agency MITI (now MTI) which oversees how the system work and fine tune it according to national priorities. Being a city-state, Singapore does not face the same challenges in regional governments and can implement policies and technologies relatively faster and easier through central national agencies and this is helpful in getting SMEs to tap into

the strategies of enhancing competitiveness and utilization of technologies argued earlier in the paper.

A useful comparative case study of governmental support in SME development is found in South Korea. The development and augmentation of South Korea's subcontracting system allowed the SME sector to build its capabilities and expand their contributions to the national economy within a short period of time since the mid-1970s resulting in the sector's ability to shape the industrial sector and its contribution to spreading economic growth comparatively more evenly between large conglomerates and small firms. It also promoted inter-firm links which help to accumulate economic benefits for the SME sector as a whole.

The complex Korean subcontracting network was founded on a combination of cultural homogeneity, state policy and economic incentives to propagate inter-firm ties. Deliberate state policy is further augmented by social ties and traditional linkages and other forms of social relationships. While Singapore may not exhibit the same level of homogeneity in this respect, it shares similarities with Korean government policy and pressure in building up its SMEs.

Another difference between the Korean and Singaporean SME developmental experience is found in the transfer of production activities from large to smaller companies. The Korean model of SME development was boosted by state legislation in 1982 which targeted several priorities areas for promotion and staved off large firms from infringing into traditional sectors kept aside for SMEs and also promoted subcontracting work from the late 1980s to small firms. Unlike Korea, Singapore does not have many indigenous large manufacturing conglomerates and thus its strategy is to subcontract or serve the needs of global MNCs.

Singapore is also trying to achieve the same level of support that the Korean government provides for its SME firms but not through dividing work between large and small companies but through empowering local small enterprises so that they can compete more effectively with MNCs and large companies both within and outside Singapore. Under the Local Enterprise Association Development (LEAD) programme, the Government together with 14 industry associations have committed over \$65 million for industry capability development projects. Other recent initiatives are the \$35 million Capability Development Programme (CDP) that support SME-upgrading

projects in specific sectors; and the \$150 million Technology Innovation Programme (TIP) that aims to enhance the technology infrastructure support for product and process innovations in SMEs.¹⁶

Another aspect of innovation is Process Automation & Infocomm Technology. This ties in with the strategy of tapping into the IT revolution argued earlier in the essay. More than two-fifths (43%) of SMEs have automated only less than 25% of their processes and functions but there is a good 26% who have automated more than 50% of their processes and, in terms of Research & Development, SME investment in R&D is low with 73% having no spending in this area. Only 3% of SMEs spend greater than \$600,000 on R&D while, additionally, 50% of SMEs spend less than 1% of their annual turnover on R&D.¹⁷

Clustering as a strategy argued earlier in the essay is also implemented in Singapore. In August 2006, SPRING launched the \$150 million Technology Innovation Programme (TIP). SPRING's TIP co-funds technology innovation projects by SMEs and supports the set up of Centres of Innovation or COIs for industry clusters needing focused technology support and it also helps SMEs grow their businesses through the innovative use of infocomm technologies, for example: A food manufacturing SME can now leverage on the Food Innovation and Resource Centre (FIRC) at Singapore Polytechnic to develop innovative packaging or extend product shelf life. SPRING co-funds A*STAR's Get-Up (Growing Enterprises with Technology Upgrade) programme launched in 2003 to help SMEs acquire new technologies (Over the past three years, more than 130 A*STAR research scientists/engineers have been seconded to 100 companies under this initiative).¹⁸

4.3 Expanding into New Markets.

The experience of Taiwan and Hong Kong, and even more that of Korea, suggest that the value of an export push which heavily involves SMEs as, for example, Hong Kong and Taiwan's manufactured production activities and growth were based mostly on SMEs while Korea focused on large conglomerates called chaebols for export-oriented activities and economic growth, but in the mid 1970s, a movement began to encourage local SME growth and their integration into production networks of chaebols and other large firms to spur employment and economic development.

Taiwan and HK which are often cited as successful economies with vibrant and bustling SME sectors tend to be export-focused and for them access to hinterlands and large economies are extremely important as are the quality of their goods and their timely development. Such priorities and needs put their firms under pressure for cooperation and collaboration which in turn attract the governments to link up with these firms for the optimal inter-linkage between and within SME sectors to boost the overall national economy.

In Singapore, the SME Development Survey 2005 conducted by DP Information Group shows that 36% of the SMEs have turnover of over \$10 million, with 18% of these companies making profit of more than \$1 million while 69% of the 1002 respondents have components of their revenue coming from overseas, making them part of the companies that is contributing to the 14% external trade growth in 2005 and, according to the 2006 SME Development Survey report by DP Information Group, the percentage of respondents who had revenues originating from outside Singapore fell from 69% in 2005, to 59% in 2006.¹⁹ There remains significant potential for SMEs to expand their businesses overseas. With India, for example, the Singapore government has in place a Comprehensive Economic Cooperation Agreement (CECA). Eubiq – a local manufacturer of plastic plugs and power supply systems – is a beneficiary of the agreement and, since December 2005, Eubiq has been exporting its products to India under CECA's preferential tariff rates and has seen its export sales to India increase by 15% from 2005-2006.²⁰

4.4 Training programs.

Government assistance and state policies are also important in the ability to provide access to technical and technological as well as management education through short courses and other training methodologies. There is a need for erecting a good track record which can convince other firms, especially large ones, for partnership and this may pose as a problem for some firms as they are traditionally not used to making accurate and precise or realistic cost estimates, or assessing and ensuring the quality and needs of being a subcontractor or dealing with others or even instituting effective training systems both on the job as well as classroom training. In Japan, the capacities of subcontracting was built up vertically with technicians and managers of larger firms

passing on skills to smaller firms where technical skills are less competent, sometimes this transfer of information may be facilitated by foreign expertise if necessary due to the exigency of the situation or the scenario whereby existing technical skills are lacking in a particular country.

In Singapore's case, the government steps in to provide this training. For example, in the area of understanding and opening access to overseas economies and market, the Singapore government provides training session as well as the necessary networking opportunities organized by IE or BuySingapore online to business-match Singapore SMEs with overseas buyers, suppliers, sellers or large firms. Currently, BuySingapore has attracted over 6 000 foreign companies to register at the portal and has generated more than 9 000 foreign trade leads and, among its range of programmes to meet key challenges, IE Singapore administers the International Business Fellowship Programme (IBF) which has set aside up to S\$10 million over the next 4 years to enable companies to train their employees in emerging markets allowing them to gain first-hand knowledge of the new business environment and has set up the iadvisory Portal, where SMEs can log on, and get access to advice from 180 international experts for all their overseas expansion needs, ranging from market setup to legal, tax and financial advice.²¹

Tax systems should also be retooled for SMEs so that they are not encumbered by bureaucratic red tape, corruption payments, tax burdens that would discourage small firms from working with them government and operate in a legal manner that complement the government's economic priorities.

There are also earlier information initiatives. Launched in 2003, IE Singapore's International Partners or iPartners Programme helps companies' competitiveness in overseas markets by overcoming limitations in size and service offerings by encouraging companies to band together to venture abroad and the current 29 iPartners consortiums supported under the iPartners programme comprise 150 companies and are expected to generate over S\$2.9 billion in combined overseas sales by 2011.²²

5. CONCLUDING REMARKS: CHALLENGES FOR SMEs.

Based on 2007 SMEs survey done by DP organization, the most challenging issues facing Singapore SMEs are increasing operating costs, competition both in domestic and external markets, shortage of qualified manpower and technology upgrading to expand to external market and the 2007 SME Development Survey (SMEDS) conducted by Singapore's leading credit and business information provider, DP Information Group reported a record number (1,206) of respondents to the annual survey that reaches out to 10,000 Singapore small and medium enterprises (SMEs); both at home and abroad, SMEs cited their biggest concern to be competition, with 58% of respondents indicated that it is a major restraint on their ability to grow – up from 45% in 2006.²³

The fastest growing concern among SMEs is rising operational costs, nominated by 53% of SMEs compared to just 34% last year and, when asked what was causing these costs pressures, SMEs cited labour costs (61%), the cost of materials (55%) and rental (37%) as the three largest contributors to the rising cost of doing business but, despite rising costs and increased competition Singapore's SMEs are still capable of making money. 2007's survey has a record 27% of SMEs enjoying accelerated annual growth of 10% or more, compared to 20% last year, and just 13% five years ago and there are fewer loss making companies compared to last year (21% in 2007, 23% in 2006) and, furthermore, there was an increase in SMEs generating more than \$5 million in profit (6% in 2007, 4% in 2006).²⁴

With rising costs as the fastest growing concern, it is not surprising that achieving cost efficiency and productivity is the most popular business strategy for SMEs with the number of SMEs adopting this approach doubling since 2006, from 22% in 2006 to 43% in 2007 and the next most popular business strategy, entering New Overseas Markets, is the choice of 21% of SMEs and there are two components to capturing overseas markets. First, Customer Service as a means of driving growth is the choice of 9% of companies and, second, 3% of companies nominated Branding as their growth strategy.²⁵

70% of SMEs are doing business outside of Singapore, compared to 59% in 2006; the majority of them have been doing so for more than 3 years and the top 2 countries that are experiencing the highest year-on-year change in presence are Vietnam (73%) and the Philippines (64%), in comparison to 2006. Vietnam (36%) and India (28%) are the most nominated target markets for expansion in the coming 12 months from Mid 2007 onwards but while SMEs credited their overseas success to Having the Right Overseas Partners (61%), Overseas Market Knowledge (57%), and Being Adaptive to Local Business Practices (56%), most have also expressed concerns with regards to Strong Overseas Competition (58%) and Manpower (50%). SME Pay Comparable to Market Average.²⁶

NOTES

¹ Wattanaputtipaisan, Thitapha, "Promoting SME Development: Some Issues and Suggestions For Policy Consideration" in the Bulletin on Asia Pacific Perspectives 2002/03, p. 58.

² Wattanaputtipaisan, Thitapha, "Promoting SME Development: Some Issues and Suggestions For Policy Consideration" in the Bulletin on Asia Pacific Perspectives 2002/03, p. 58.

³ Berry, Albert, SME Competitiveness: The Power of Networking and Subcontracting [Washington DC, Jan 1997 - No. IFM -105], p. 11.

⁴ Wattanaputtipaisan, Thitapha, "Promoting SME Development: Some Issues and Suggestions For Policy Consideration" in the Bulletin on Asia Pacific Perspectives 2002/03, p. 60

⁵ Berry, Albert, SME Competitiveness: The Power of Networking and Subcontracting [Washington DC, Jan 1997 - No. IFM -105], p. 8.

⁶ Wattanaputtipaisan, Thitapha, "Promoting SME Development: Some Issues and Suggestions For Policy Consideration" in the Bulletin on Asia Pacific Perspectives 2002/03, p. 62.

⁷ Berry, Albert, SME Competitiveness: The Power of Networking and Subcontracting [Washington DC, Jan 1997 - No. IFM -105], p. 3.

⁸ Lim, Hwee Hua, "Opening Remarks By Mrs Lim Hwee Hua, Minister Of State For Finance And Transport At The 3rd SME Credit Bureau Conference, 13 APRIL 2007" dated 13 April 2007 in the Ministry of Finance website [downloaded on 1 Dec 2007], available at http://app.mof.gov.sg/news_speeches/speechdetails.asp?speechid=192

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