

# The Belt & Road Initiative: A Study from Malaysian SMEs' Perspective

Chin Mui-Yin <sup>1\*</sup>, Theresa Ho-Char-Fei <sup>2</sup>, Teo Poh-Chuin <sup>3</sup>,  
Chong Chu-Le <sup>4</sup>, and Wai Chew-Keong <sup>5</sup>

*Faculty of Accountancy, Finance and Business, Tunku Abdul Rahman University College, Malaysia <sup>1</sup>,*

*Azman Hashim International Business School, University Technology Malaysia, Malaysia<sup>2</sup>,*

*Azman Hashim International Business School, University Technology Malaysia, Malaysia<sup>3</sup>*

*\*Corresponding author. Email: chinmy@tarc.edu.my<sup>1</sup>, hctheresa@utm.my<sup>2</sup>, pohchuin@gmail.com<sup>3</sup>*

## ABSTRACT

The Belt & Road Initiative that was introduced by President Xi Jinping has received numerous attentions from the governments, business organizations and individuals from different countries. However, even though it is believed that Chinese companies will be the big winners from the Belt & Road Initiative, but non-Chinese companies are also increasingly seeing themselves benefiting from this Initiative. In order for Malaysia to gain benefits from BRI, it is important to explore the readiness of local SMEs to play an active role in this initiative. Hence, this study aimed to explore the perception of local Small and Medium Enterprises (SMEs) on the associated opportunities brought by the Belt & Road Initiative. The data collection method was an in-depth interview, in which SMEs in both manufacturing and service industries were interviewed. The interview results indicated that some Malaysian SMEs found that BRI imposes numerous challenges towards their business. Based on the results, the expansion of Chinese firms to Malaysia will increase market competition in some industries. However, this research findings revealed that local SMEs showed positive attitude towards this initiative, and they generally believe that this initiative will bring huge opportunities and abundant benefits to Malaysia at the country, organizational and individual levels.

**Keywords:** *Belt & Road Initiative (BRI), Malaysian Small and Medium Enterprises (SMEs), Perceptions, Opportunities, Challenges.*

## 1. INTRODUCTION

President Xi Jinping's the Belt & Road Initiative is deemed as a key element of China's 21st century diplomacy, clarity of vision, powerful means and combining movement, which has subsequently created a strong impact on global business and international relations [Benjamin & Viktor, 2017]. Malaysia's early embrace of China's Belt & Road Initiative has led to a flood of Chinese investments in the country boosting the Southeast Asian nation's economy [Xin, 2017]. It is an initiative that focuses on the connectivity and cooperation between China and the rest of the Eurasian countries including Malaysia. Nevertheless, it is generally believed that Chinese companies will be the big winners from the Belt & Road Initiative, but non-Chinese companies are also increasingly seeing themselves benefiting from this initiative. Hence, this study has been carried out to explore the perception of local Small and Medium Enterprises (SMEs) on the associated opportunities brought by the Belt & Road Initiative in Malaysia context.

## 2. LITERATURE REVIEW

### 2.1 Belt & Road Initiative

One Belt, One Road which name changed to the 'Belt & Road' Initiative (BRI) in 2016 was introduced by Xi Jinping, the China's president who announced the two major initiatives, which were the land-based 'Silk Route Economic Belt (SREB)' and the ocean going 'Maritime Silk Road' in 2013 [Leer & Yau 2016; Lehmann *et al.*, 2016]. Figure 1 illustrates the Silk Route Economic Belt and the Maritime Silk Road under the Belt & Road Initiative.



Source: The World Bank (2019)

**Fig. 1.** Silk Road and Maritime Silk Road of the Belt & Road Initiative.

The Belt & Road Initiative (BRI) is deemed to be one of the biggest stories in Asian business, in which an economic and diplomatic programme that could transform global trade [McKinsey, 2017]. From the economic and trade point of view, this initiative with a potential economic size of US\$21 trillion, which covers 30% of the world’s total land area and 64% of the global population, will give Malaysia a tremendous advantage in growing global competitive market [The Star, 2017]. More than 60 countries around the world are now looking to benefit from this initiative, including Malaysia that aims to continue the journey to become a high-income nation [The Star, 2017].

### **2.2 BRI in Malaysia Context**

Malaysia is the first Southeast Asian country that established diplomatic relations with China (Selat, 1987). Malaysia shows its strong dedication in further embracing the opportunities associated with the Belt & Road Initiative, through the establishment of Belt & Road Initiative National Secretariat (BRINS) Malaysia in 2017 by the Ministry of International Trade and Industry, with the objectives to coordinate, monitor and facilitate the Belt & Road projects in Malaysia. Since the implementation of the Belt & Road Initiative, Malaysia and China have been reaping the early benefits of economic investment and have pledged to build a stronger all-round strategic partnership in areas including trade, finance, military defence, port development, as well as supply chain and logistics [Teo, 2019].

### **2.3 Malaysian SMEs in Review**

The role play of local SMEs in this initiative is very crucial for future development of the nation. In order for Malaysia to gain benefits from the Belt & Road Initiative, it is important to explore the readiness of local SMEs to play an active role in it. It is crucial to study on SMEs in Malaysia, because SMEs accounted for 97.3% or 645,136 of total business establishment in 2010 [SME Corporation Malaysia, 2017]. Majority of them were concentrated in the services sector with 90% or 580,985 establishments and followed by 6% (or 37,861 establishments) in the manufacturing sector.

Based on the above explanation, this study aimed to examine the Malaysian SMEs’ perception towards the Belt & Road Initiative by interviewing Malaysian SMEs from both service and manufacturing sectors. Hence, this study aimed to provide insights on the perception among local SMEs towards this initiative. Appropriate recommendations will be provided to the government of Malaysia and China to enhance the cooperation between both countries based on the research findings.

## **3. METHODOLOGY**

A quantitative study has been carried out in different states of Malaysia. The unit of analysis of this study was Malaysian SMEs in both manufacturing and service industries. The sampling method was purposive sampling. This study targeted 20 SMEs. The data collection method was interview, in which a list of interview questions had been designed and developed to capture the responses from respondents in order to address research objectives of this study. Before respondents were interviewed, they were briefed by the research team about the objectives of this study. They were also being assured that all data will be kept private and confidential, and only be used to serve the purpose of this research.

## **4 EMPIRICAL RESULTS**

The research findings revealed that local SMEs showed positive attitude towards this initiative, and they generally believed that this initiative will bring huge opportunities and numerous benefits to Malaysia at three levels, namely country, organizational and individual levels. Local SMEs believed that Belt & Road Initiative will bring overall improvement to the infrastructure and facility development in Malaysia, and they could even foresee that this will eventually improve the living quality of local people and bring a greater business environment for both local SMEs and Chinese firms.

The coverage of Belt & Road Initiative is huge and provides abundant business opportunities to the participating countries. With more foreign investment flowing into the market, this will improve the domestic economy by bringing in greater business opportunities and create more job employment. It will drive domestic SMEs towards international markets, such as metal-working trade, tourism, agriculture, education, healthcare and retailing. Apart from that, the Belt & Road Initiative will bring up the local logistics and supply chain industry to a higher level, which indirectly makes us more competitive at the international and local level. This initiative will also indirectly encourage the knowledge and technology transfer, which allows us to learn from Chinese partners. Some Chinese organizations are much more advance and are leading the global trend. This is due to the keen competition in their home and markets as well as sophisticated customers, hence they have to differentiate themselves from competitors by providing greater service experience to customers.

Not only the increasing number of Chinese tourists coming to our country, but also there are Chinese firms seeking business opportunities in Malaysia, either to establish their own business subsidiary or to seek for local business partners. Local and Chinese customers are also exposed to wider new product choices, which are particularly in terms of food and beverages and retail industries. This will promote the interactions among people from both countries, and we can understand each other better. Hence, the Belt & Road Initiative also encourage the interaction and integration of culture from both countries.

In terms on the perceived challenges part, the interview results indicated that some Malaysian SMEs found that BRI imposes numerous challenges towards their business. Based on the results, the expansion of Chinese firms to Malaysia will increase the market competition in some industries. For instance, the respondents worried that food and beverage brands from China will venture into domestic industry, which will subsequently increase the market competition in the industry. Respondents also commented that the competitive market will reduce the profit margin of local SMEs as they are not only competing with the local firms but also with the multinational companies from China.

Besides, the respondents from manufacturing industry feared that they will be forced to shut down as Chinese products are cheaper and can provide better service than that of the local manufacturers. In addition, respondents informed that they might lose their comparative advantages to China-owned firms by sharing their knowledge and skills if those firms are not keen to seek for long-run partnership. However, the respondents agreed that they will be able to overcome the challenges and transform the threat into opportunities, if they have proper way forward plan. For instance, the respondents informed that they can focus on industries in which Malaysia has the comparative advantage, such as tourism. Furthermore, the respondents also suggested that Malaysian SMEs can tap into China-owned multinational company in order to explore the international market.

## 5. CONCLUSIONS

As a conclusion, BRI will bring benefits more than harms to Malaysians SMEs if they can overcome the challenges and are willing to transform in line with the current economic development. In light of this, as per SME Annual Report 2017/2018, Malaysian government should continuously promote innovation culture among SMEs and further enhance the digitalization of SMEs, such as providing one platform, i.e. Technology Commercialization Platform to guide the SMEs from proof of concept to commercialization via one platform. In addition, Malaysian government should also provide more solid platforms for SMEs to anchor on internet economy via Digital Free Trade Zone (DFTZ) to enable local SMEs to export their goods with a priority for e-commerce. In a nutshell, both governments from China and Malaysia are advised to carefully handle the perceptions of local SMEs in order to enhance their participation.

## ACKNOWLEDGMENTS

The research was supported by internal grant funded by Tunku Abdul Rahman University College (UC/I/G2019-00036).

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