



The Role of SMEs in Economic Development; Case Study of Malaysia

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Abstract

As a source of employment, economic dynamism, competition and innovation The contribution of SME's to the economic development of a country is significant. They are established in a wider geographical area than large companies, even in the rural areas. Therefore, they play a major role for improving income distribution. This article is an overview of Malaysia and the SMEs in the country and review importance of SMEs to growth and innovation of Malaysia.

Key Words

Small and Medium Enterprises (SMEs), Economic Development, Growth, and Leadership

I. INTRODUCTION

Malaysia is surrounded by Thailand to the North, Indonesia and Singapore to the south and Philippines to the east and is situated in the South East Asia. Divided in to 13 States and 3 Federal Territories, the country covers 127,320 Square Miles of Land. Country is separated in to two parts divided by the South China Sea. Eleven States and Two Federal Territories are located in Peninsular or

West Malaysia and Two States and One Federal Territory is situated in Labuan or East Malaysia. Located in the South East Peninsular Malaysia the Capital of the Country is Kuala Lumpur. Out Side the overcrowded metropolitan area of Kuala Lumpur a new capital city, Putrajaya is being developed as a new administrative center. The Strait of Malacca which is a Major sea route connecting the Far East to Asia, Europe and the Middle East increase the value of Malaysia's location as the country is situated along it.

Population of Malaysia is estimated around 28.3 Million. It Includes Bumiputera ('The Sons of the Soil'), who contain ethnic Malays and the native people of Peninsular Malaysia, Sarawak and Sabah, comprise 67.4% of the population, while Chinese are 24.6%, Indian 7.3% and others 0.7% (NSDC 2010).

Malaysia got independence in 1957 and after that its Economy transformed massively. The Attraction of foreign direct investments (Selvarajah and Meyer 2008) through the qualified and skilled labor, lead the country to a fast developing economy. Since the Independence the Economic Development presents three distinct phases (Thong, Yap et al. 1996). The first phase is the resource based economy was highly dependent on the export of Rubber and Tin in 1965-1970. focusing on Cocoa, Palm Oil and Timber with the growth of Agriculture the second phase was in 1970s. Noticed by and enhancement in the productivity of existing industries the third phase occurred in 1980s (Thong, Yap et al. 1996). The Above successes have been imitated in the GDP of the country over the years (Ariff and Nassir 1998). The GDP of the Country is contributed mainly by Service and the Agricultural Sector. The manufacturing industries contributed 44.6% to the country's GDP in 2008 while it had only contributed 13.9% in 1970 and 35.5% in 1997. In 2008 the contributions of the Service Sector and Agricultural Sector was estimated around 45.7% and 9.7% correspondingly. Only little was changed in the Service Sector contribution as 36.2% in 1970 and 45% in 1997. Similarly the Agricultural Sector contribution was reduced from 29% in 1970 to 12.2% in 1997 (Ariff and Nassir 1998). The Growth in the Service Sector developed Rubber and Tin Based Industries in to a more industrialized economy. Malaysia is Ranked 29th in the world under the GDP-PPP (GDP Purchasing Power Parity) and was assessed at US\$ 207, 400 Billion in 2009 (Economy 2012).

II. DEFINITION OF SMEs IN MALAYSIA

SMEs are defined differently from country to country. Based on the number of full time employees or the annual sales turnover and industry categories SMEs in Malaysia is defined. Apart from this based on the industry category an enterprise can also be defined as an SME. Based on the manufacturing categories the definitions of SMEs are as follows:

a) SMEs in Manufacturing, manufacturing-related services and agro-based industries are enterprises employing full-time staff not exceeding 150 or with annual sales turnover not exceeding RM25 million.

b) SMEs in Services, primary agriculture, and information and communications technology (ICT) sectors are enterprises with full-time employees not exceeding 50 or with annual sales turnover not exceeding RM5 million (NSDC 2015).

III. SMEs DEVELOPMENT IN MALAYSIA

A historical perspective on the economic development of the country is required to understand the Entrepreneurship in Malaysia. To segregate economic activity among the ethnic groups the British introduced a notable practice under their foreign rule of Malaya Before the independence in 1957 (Simpson 2005). Tin Mines and Rubber Plantations were major economic resources in that period. The labor 's number for these large scale industries were insufficient, so the British imported Indian Workers for the Rubber Industry and Chinese Workers for Tin Mines. Only Few Members of the Upper Class and the Royal Family were allowed to contribute in the government. The wholesaling and retailing which are activities supportive to the Rubber and Tin Industries were motivated to the favor of Indian and Chinese Groups. The economic conditions for most Malays got worse because of the segregated economic situation among these ethnic groups (Ariff and Nassir 1998; Ariff and Abubakar 2003).

The commitment of government to development of SMEs was presented by the introduction of the New Economic Policy (NEP) in 1971 (Saad 2012; Aman, Tahir et al. 2011). According to Jamak, Salleh et al. (2012) the importance was given on civilizing Bumiputera Ownership effectively and contribution in high income jobs, limiting the income among the ethnic groups in correspondingly and excluding poverty among citizens. With the National Development Policy (NDP) in 1992 the NEP was replaced. As said by Athukorala and Menon (1999) the NDP consideration was to reparation ethnic difference in obvious ways through various enterprises including the development of entrepreneurship, managerial expertise and skills in the Bumiputera community.

The Ministry of Entrepreneur Development was established in 1995 because of the government's interest of initiatives relating to entrepreneurs and entrepreneurship development. (Othman, Sulaiman et al. 2008). To manage the entrepreneurial activities in the country and for the development of Bumiputera Entrepreneurs the ministry is the main agency. As declared by Ariff and Abubakar (2003) the importance given by the government for the entrepreneur's development and to the contribution of SMEs to the Economic Development of the country is shown by this. The Malaysian government's commitment became strong and directed through the Malaysian Industrial Master Plans. Simply the Industrial Master Plan 2 (IMP2) for the period 2000 to 2005. After that it continued with IMP 3 for 2006 to 2020 (Jamak, Salleh et al. 2012). As said by Arham (2014) Malaysian Government introduced various policies and strategies to develop the manufacturing sector crossways the entire value chain and group based industrial developments under these plans. The Plans provided a new approach to the development of and industrial base and new opportunities for the development of SMEs.

The Economic Growth in Malaysia was contributed by SME's cannot be denied (Chelliah, Sulaiman et al. 2010; Hashim 2007; Othman, Sulaiman et al. 2008). Apart from given that job opportunities, SMEs contributes to the development of big and multinational corporations (Aman, Tahir et al. 2011). Figure 1 demonstrates the overall contribution of SMEs to the Malaysian economy from 2015 to 2020. In 2020, SMEs signified about 97.3% of total business

establishments and contributed 33.1% of the country's GDP. SMEs delivered 59.5% of total employment and contributed 28.4% to the exports of the country in 2010 (NSDC 2015). One aim of the Eleventh Malaysian Plan (11MP) for the period 2015 to 2020 is to organize and equip SMEs in the country with the required capability and capacity to meet the challenges of an increasingly competitive business environment (Planning 2015).

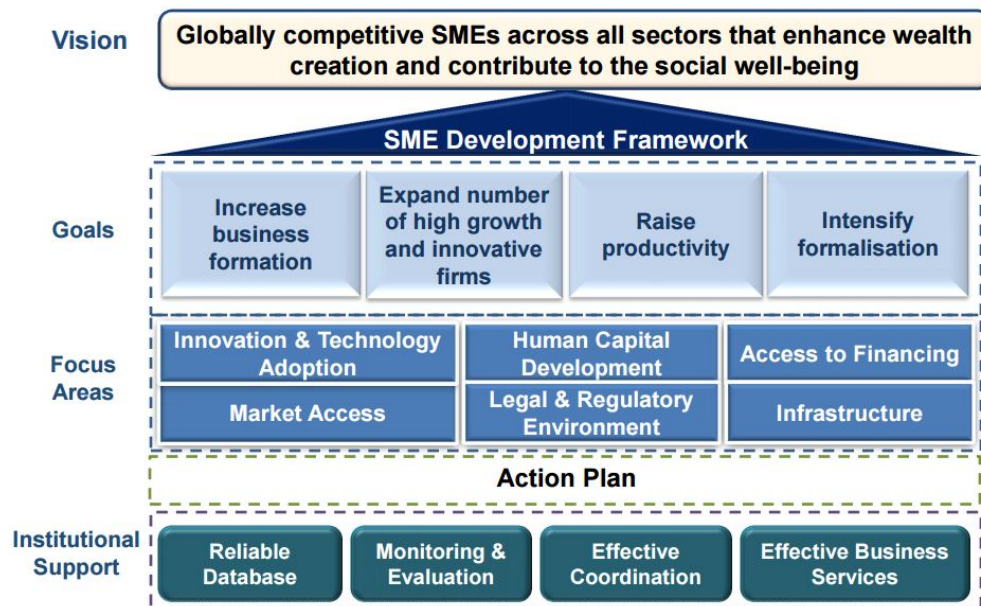


FIGURE 1: SMEs DEVELOPMENT FRAMEWORK

SOURCE: SMEs CORP MALAYSIA (2015)

After Establishing the National SME Development Council (NSDC) in 2004 the value of SMEs as the main resource for the development of the economy in the country was recognized. (Aris 2007; NSDC 2015). The establishment of NSDC was to strengthen the government's promise to promote the growth of SMEs in Malaysia. The NSDC is managed by the Prime Minister with Ministers and Heads of Key Government agencies involved in SME Development. Numerous creativities were introduced by NSDC through the SME Development Framework in the period of 2015-2020. It corresponding the policies and programs across more than 15 Ministries and 60 Agencies (NSDC 2015). The key creativities are:

- Approve a standard nationwide definition of SME
- Outline of an annual plan named the National SME Development Blueprint, later retitled the SME Integrated Plan Action (SMEIPA)
- To track the progress of SMEs, develop a comprehensive database

- Forecasts of macro-performance targets of SMEs for 2015
- Formation of a devoted agency for SMEs, realized through the transformation of the Small and Medium Industries Development Corporation (SMIDEC) into the SME Corporation Malaysia (SME Corp. Malaysia) as the central organizing agency to modernize, organize, monitor and assess all SME development creativities.

To Make Malaysia a high income advanced nation which is sustainable in 2020, the government presented a New Economic Model (NEM) in 2015 (Planning 2015). Domestic SMEs are an important factor of growth for Malaysia to achieve this development and high income nation. Uncheck the unexploited potential of SMEs and to convert them to become more competitive and strong in the demanding business environment is one of the main focuses of the New Economic Model (NSDC 2015).

In 2010 RM15.6 Billion (AUD 4.8Billion) was allocated to realize these objectives. The SME Corp Malaysia implemented a total of 267 plans with a financial commitment of RM6.9 Billion (AUD2.1 Billion). As it said in NSDC (2015), by Promoting Bumiputera Participation in the SME sector and promoting the development of knowledge based SMEs, the NME directed at enhancing the viability of SMEs across all sectors. To focus on building SME's capacity and capability, many programs and initiatives have also been organized.

IV. SMEs' PERFORMANCE

SMEs in Malaysia have been recognized as supporting sources of growth and establishing the substructure for the fast economic growth and development of the country. Their total Numbers, sizes and the different natures of their business was the main reason for it (Aris 2007). SMEs in Malaysia are mainly based in service sector according to the Department of Statistics in Malaysia (DOSM). It has 90 of all SMEs in the country with 97.3% (645,136) establishments of which are considered micro enterprises. Distributive Trade is the main business of the sector which includes wholesale and retail as well as hotels and restaurants (NSDC 2015).

The manufacturing sector represents 5.9% of all SMEs which are micro-enterprises. Textiles and Apparel, Metal Products and food and beverages are the three main subsectors which contribute 77% of the total output of SMEs together. The Agriculture Sector is 1% of SMEs and mostly involved in crop plantations, horticulture and fishing (NSDC 2015). The Development of Service sector occurred with the key businesses like distributive trade, real estate and business services, and finance and insurance businesses; on the other hand this growth is also linked to consumption activities which supported by strong domestic needs and tourism activities.

The key businesses for the development of manufacturing sector are resource based industries such as chemicals and plastic products, food and beverages, electrical and electronic (E&E) products, nonmetallic mineral and metal products. The growth of the manufacturing sector is significantly dependent on global needs and prices, particularly for E&E products, rubber and chemicals (NSDC 2015).

Figure 2 represents the GDP contribution by key economic activities of SMEs in Malaysia from 2015 to 2020. As exposed in Figure 3, manufacturing and the services are the industries that contribute most importantly to economic growth in Malaysia.

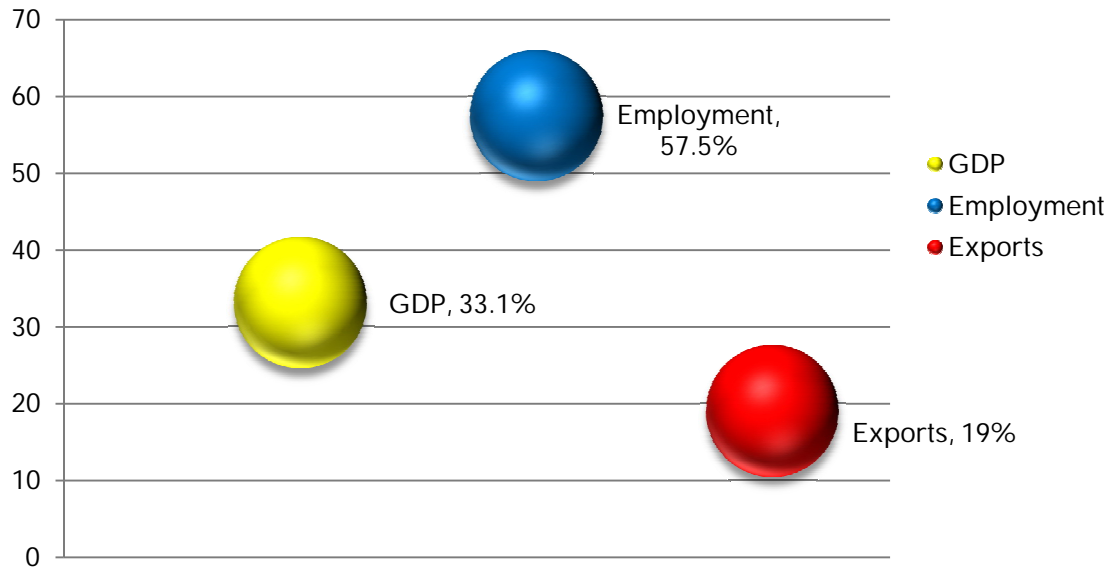


FIGURE 2: SMEs' CONTRIBUTION TO THE MALAYSIAN ECONOMY
SOURCE: SMEs CORP MALAYSIA (2015)

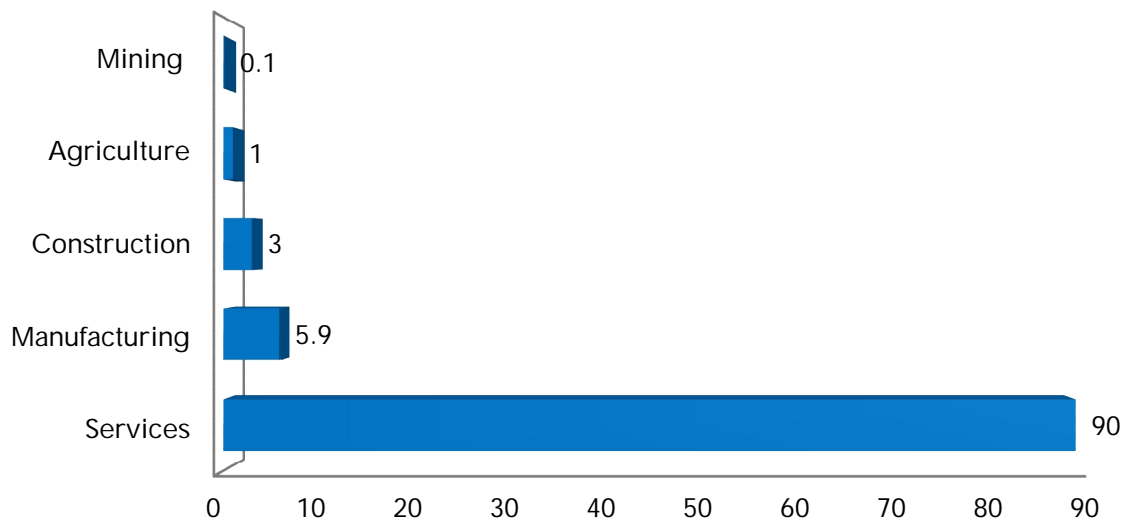


FIGURE 3: SMEs' CONTRIBUTION TO THE MALAYSIAN ECONOMY
SOURCE: SMEs CORP MALAYSIA (2015)

V. CONCLUSION

In sum up, nowadays small and medium enterprises (SMEs) play important roles in Malaysian economy. Research on SMEs in Malaysia has attracted an increase in attention due to the importance of SMEs in contributing to the economy. Essential resources and skills need to be dedicated and developed to improve the performance of SMEs in Malaysia, and then they will be competitive with developed or other developing countries. The Better performance of SMEs in Malaysia could be contributed by giving significance to SMEs as resources and abilities. A focus on the manufacturing and service sectors, which contribute significantly to the overall performance of SMEs, could perhaps provide general findings for SME development in Malaysia.

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