

Numbers show SME's plight getting worse as days go by

SMEs currently contribute 33% of the Malaysian GDP and 60% of employment. Such an important sector needs more protection from the onslaught of economic forces

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While the dust is slowly settling down on Budget 2016, the plight and future of SMEs in the country seems all but forgotten and heading down a one-way spiral.

According to economist, Dr S Ramakrishnan, SME's seem to be bearing the brunt of a lack of understanding and appreciation of what is needed for a vibrant and buoyant SME sector.

"Budget 2016 did not take into account SMEs in the nation. This sector constitutes about 90% of the economy and economic activity of Malaysia. Ignoring a vital cog in the economics of the nation is sad," he added.

Rama, who is also senior lecturer in accounting and finance at a university added that "the RM100 increase in minimum wage, which seems small at first, is actually huge amount if you factor that many businesses employ more than 10 workers. This makes it RM1,000 increase in overhead costs in an already struggling sector."

Speaking to *MALAYSIA SME*, he said, "48% of Malaysian workers earn less than RM1,000 per month and 80% are earning below RM3,000. These groups are being squeezed from all sides and live from hand to mouth."

Rama, who has researched SMEs in the region for several years, added that wages of the lower income working group is stagnant and a mere RM100 increase in minimum wages raises an alarm in smaller labour intensive industries.

"With limited economic policies and the slowing global economy, the government has to ensure maximum returns for every dollar spent," said Rama.

Can SME's compete?

He also said that SMEs are complaining that the RM100 increase in minimum wages will increase costs in labour intensive industries.

"To instill confidence and to reinvigorate the slowing economy, authorities have to address the structural weaknesses in the system. Are budget allocations aimed at innovating and strengthening SMEs yielding the desired results?"

Rama said that while Budget 2016

has allocated about RM8.78 billion for Shariah compliant schemes, loans schemes, and Bumiputera development, little has been done for Indian and Chinese SMEs.

"While the government may be generous in its allocations, the question is how much of these funds are targeted at increasing productivity, entrepreneur excellence, innovations, automation and develop the basic infrastructures of SMEs to grow into MNCs?"

"Can the SMEs compete with MNCs under the TPPA multinational and trade agreements? These are the big questions that the multinational trade and investment agreement is set to recast the rules of global trade. Despite generous allocations, SMEs are lamenting that the budget 2016 falls short in long term approach to the growth of SMEs."

"SMEs in the trade pact region, are confronted with the favorable provisions of the TPPA that empowers and protects the investment of MNCs from developed countries," said Rama.

SMEs at a disadvantage?

Unfortunately, SMEs were not a party to the TPPA, unlike the MNCs. The results of any cost benefit studies on the impact on SMEs are not known publically. But the authorities have given assurances that SMEs will not be deprived or ignored by the TPPA.

Rama added that, all things being equal, MNC's have an unequal advantage over SMEs in the region.

"MNCs are armed with protective agreements and interstate dispute settlements (ISDS) in international arbitration tribunals that are presided by highly paid corporate lawyers, whose clients are the MNCs and they have an unfair advantage all the way."

"They have an unfair advantage over the SMEs. SMEs currently contribute 33% of the Malaysian GDP and 60% of employment. Such an important sector needs more protection from the onslaught of the powerful MNCs."

Rama feels that the supporters of the TPPA "are too enamored by the expected expansion of trade to be bothered about the down side risk of this ISDS and intellectual property clause that will directly affect SMEs."

He added, "MNCs steering and negotiating the TPPA, have tilted the provisions and clauses of the



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agreement to their advantage. To seal the deal, they have included the ISDS provisions, where the only winner will be the multinational corporations. MNCs will set the terms and conditions on trade, regulation, enforcement environment and labour."

An uphill task for SMEs?

To compete, SMEs face an uphill task and have to increase their la-

bour productivity, competitiveness and capacity to survive.

Informal sector

Dr Rama also said that the labour problem was further compounded by the fact that skilled Malaysians are driven away while cheap unskilled foreign workers are brought in by the droves.

"How do we improve our productivity when wages are suppressed and local workers are disorganised. Only 7% of workers are unionised and organised. The abundant supply of low cost foreign workers has hampered employers to automate and move upstream to higher value added activities. This upward movement needs upskilling, reskilling and increased productivity," he said.

"But we have trapped ourselves in this low wage stagnation with 6.5 million foreign workers and another 1.5 million more to come. Only 28% of our labour force is considered skilled compared to 50% in Singapore. The budget did not include any innovative strategy to upskill Malaysian workers and reduce foreign workers," added Rama.

Despite efforts to forestall the inevitable, Rama says the level of unemployment is set to increase in 2016.

"Malaysia urgently needs to increase productivity, innovation and R&D to remain competitive and attract more investments both domestic and foreign. The current net outflow of funds has to be stopped to shore up the ringgit."

"Besides, three million out of 14 million (21.5%) of the total employees in Malaysia are employed in the informal sector, where they earn low wages without any EPF or SOCSO. This sector has no social protection and is highly susceptible price increases and may have to work at more than one job."

Most informal workers are poor. They contribute to the overall economy and should have the same rights as formal workers to social protection and health services.

Perhaps it high time that the government create systems and institutional framework to draft social protection instruments and Malaysia needs to have a coherent national strategy to enhance productivity in the long term. **MSME**

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The 11th Malaysia plan has outlined a national productivity blueprint and narrated in detail how Malaysia plans to achieve high productivity.

But, according to Rama, the productivity enhancement key performance indicators (KPIs) and the regulatory reforms accelerations mentioned in 11th Malaysia plan were not included in any action plan in the budget.

He added that productivity enhancement is a mindset change. This mindset change needs a sustainable high level of motivation.

"Budget 2016 assigns this task to GLCs to achieve this target. We need clear goals, effective communication channels and high standards to achieve productivity," he said.

But, Rama felt that "labour productivity and upskilling are inevitable in order to improve the wages and welfare of Malaysian workers. Effort to improve human capital have not yielded the desired results yet."

"Malaysian employees' productivity is a lot lower than that in US,