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INNOVATION DRIVING ECONOMIC GROWTH IN MALAYSIA AND INDONESIA

Aslizah Mohd Aris¹ and Roni Pazla²

¹Pusat Pengajian Biologi, UiTM Cawangan Negeri Sembilan, Kampus Kuala Pilah, Pekan Parit Tinggi, 72000 Kuala Pilah, Negeri Sembilan

²Department of Animal Nutrition and Feed Technology, Faculty of Animal Science, Universitas Andalas, Padang, West Sumatra, Indonesia

aslizah@uitm.edu.my

EDITOR: MUHAMMAD AIDIL IBRAHIM

Introduction

Malaysia and Indonesia are striving to secure their positions in the international market. Thus, innovation is no longer a luxury but a necessary element to support this agenda. Both countries are placing bets on innovation to ensure sustainable growth for businesses and communities.

However, the path is full of obstacles, especially in terms of financing capacity and talent scarcity. In this article, we explore how the two Southeast Asian giants are promoting innovation, encounter the obstacles that arise, and their perspective on their journey towards economic transformation.

Malaysia's advantage in fostering innovation

The creation of a knowledge-intensive economy requires two important complements: high-quality human capital and

modern infrastructures (Khazanah Research Institute, 2018). As Malaysia focuses on the knowledge-based economy, human capital plays a critical role in developing a pool of skilled labour. Indeed, the innovation and a knowledge-based economy depend on diversification, active research and development (R&D), motivated entrepreneurs, and economic complexity (Khazanah Research Institute, 2018).

To support this, the Malaysia Education Blueprint 2013-2025 (Preschool to Post-Secondary Education) was aimed at boosting economic competitiveness. This was done by nurturing globally competitive talent and fostering innovation through a transformative and future-ready education system (Ministry of Education, 2013). Even universities are changing, and reforms to ensure that the curricula are

aligned to the market demands of the global markets, which is crucial to drive their maintenance of competitiveness (Mohd Zain et al., 2017).

Currently, the Malaysian government offers a few initiatives, such as Sejati MADANI, Komuniti@UniMADANI, Dana Mudahcara MySTI, Corporate Innovation Accelerator Programme, NIMP 2030 Strategic Co-Investment Fund (CoSIF), and strengthening the Islamic Financial Innovation (Ministry of Finance Malaysia, 2024). This can be seen as their grassroots movements to foster the knowledge-based economy.

Strategically, by giving social grants to those who may lack resources, it could result in a locally based solution. In addition to encouraging local innovation, a few programs, such as Skim Pembiayaan Ekonomi Desa (SPED) and

Program Sokongan Pengukuhan Keusahawanan Luar Bandar (SPKPLB), also help to diminish the urban-rural divide, and nobody is left behind as the Malaysian economy continues its forward progress (Ministry of Rural and Regional Development).

As highlighted by Hilmi et al. (2011), innovation drive can be traced back to Small and Medium Enterprises (SMEs), which are known to be the backbone of the Malaysian economy. Innovativeness does correlate with organizational performance, and it can be used to develop targeted programs aimed at enhancing Malaysian SMEs (Hilmi et al., 2011).

In addition, knowledge management also played a crucial role in SME success, which helps the SMEs to compete in a dynamic market (Rahim et al., 2017). Thus, it is recommended for the SMEs to design and implement cultures that are able to nurture innovativeness to grasp its benefits. Yet, the ambitions of Malaysia are not limited to this.

The nation is also using public-private partnerships as a way of boosting sectors such as tourism and fintech. Innovation within the culture, arts, and tourism is merged into the My SITE framework, where, as a result, these sectors become sustainable even during crises (Francis et al., 2022).

Indonesia: Turning innovation potential into results

On the other side of the Strait, Indonesia has an equally dynamic system of innovation with its own set of difficult and complex issues. Indonesia has its own National Innovation System, which remains in its infancy, but aims to bring together academic, industrial, and governmental input to create a connected ecosystem (Aldianto et al., 2011).

However, the major roadblocks are that the labour market efficiency and failure to be technologically ready have hampered Indonesia in making a shift to an innovation-based economic system (Sutopo et al., 2015). The Indonesian innovation story is derived based on SMEs, contributing to more than 60 percent of the Indonesian GDP.

Thus, exploitation of knowledge and interactive processes are becoming crucial to keep these businesses competitive (Permana et al., 2023). In Indonesia, policies to support eco-innovation through the government, including higher environmental standards and financial incentives for sustainable solutions, are gaining more attention (Achmad et al., 2023).

Nevertheless, the contribution of the private sector cannot be exaggerated. Currently, Indonesia is encouraging more interaction between enterprises and research facilities as the country has lower levels of privately financed research and development than comparable nations (Yusoff, 2021).

The start-up boom in Indonesia presents a display of innovation that can be potentially harmful due to excessive focus on hype instead of actual values. The venture capitalists have gained profits, even in the failures of start-ups. This led to a loss among employees and firms (Tambun, 2025). He also highlighted the cases of MarinaTech, which shows that overvaluation conceals financial imbalance.

Therefore, as a lesson for both countries, the key to sustainable growth is the balance of financing with actual innovation, transparency, and a long-term perspective. This not only serves the good of all stakeholders, but also benefits the investors.

**‘Exploitation of knowledge and interactive processes are becoming crucial to keep these businesses competitive’
(Permana et al., 2023)**

Entrepreneurs navigating challenges and success

Innovation has its benefits as well as drawbacks for entrepreneurs in the two countries. It opens a gateway to economic empowerment, but the obstacles are overwhelming. Availability of finance is also a big challenge.

In Malaysia, the women founders of mumpreneurs (also known as entrepreneurs who combine both family lives and businesses) suffer due to inadequate financial support and the presence of social prejudices against their work and families (Mohd Noor & Omar, 2024). Besides, in more rural parts of Indonesia, young entrepreneurs typically do not have the capital to invest in new technologies (Rajiani et al., 2023).

The shortage of skills contributes to this further. A study by Firdaus et al (2009) described the current issues facing Malaysian entrepreneurs as including a low level of technology, a lack of innovation through R&D, low working capital, and of highly domestic orientation. Indonesia also experiences skill shortages and a sharp digital divide, as SMEs in isolated regions have a hard time gaining it purposes to this kind of knowledge (Said & Soi, 2025).

The other challenge is market accessibility. The major barriers reported by Bumiputera entrepreneurs in

Malaysia are supplier discrimination and low support of communities (Firdaus et al., 2009). In Indonesia, there is a lack of start-up culture and little red tape in regulating growth has been observed (The Straits Times, 2023).

Nonetheless, despite these setbacks, there are success stories. The e-commerce marketplaces, such as Tokopedia, are attracting more and more Indonesian SMEs to enter international markets, whereas Malaysian tech start-ups are becoming famous with their AI-powered solutions (Tech in Asia, 2023).

Lessons and the way forward

The experiences of Malaysia and Indonesia have been successful in terms of innovation and can be used as an example of the developing world. In the case of Malaysia, the theme should be an improvement of the education systems and promotion of inclusive policies that empower women and rural entrepreneurs.

The programs such as Sejati MADANI and Komuniti@UniMADANI are illustrative of how precisely designed social grants can help the community and further boost the local economy (Ministry of Rural and Regional Development).

In the case of Indonesia, they must focus on improving their infrastructure, and their regulation needs to be more transparent to get foreign investment.

The cooperation between the two countries might also pay off. In such a manner, the experience in Islamic fintech that Malaysia may provide could facilitate the streamlining of the Indonesian Sharia-compliant financial services (Fahamsyah et al., 2025). Likewise, the booming Indonesian digital economy also offers great prospects to Malaysian companies to have a wider presence in the region. As the two countries encounter the complex world of innovation, it has been made clear that the stakes have never been greater. Malaysia and Indonesia can restructure their economies with the proper policies, collaboration, and perseverance, and lead the way in the world. As a conclusion, using innovation and addressing its key challenges, Malaysia and Indonesia will be able to transform their economies and play as main contributors in sustainable growth.

References

