

# SMEs in Malaysia: History and Development

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Small and Medium sized enterprises (SMEs) have significantly contributed to the Malaysian economy since the early dependence phase, which relied on the agriculture sector as the main source of the nation's income until today's economy that depends on manufacturing and services sectors. SMEs play vital roles as the engine of growth through employment opportunities, major sources of technological and product innovation, and poverty reduction through providing employment to poor and low-income workers especially in poor regions and rural areas. Besides the functions of SMEs as an important tool for a competitive and efficient market, they also prove their significant contribution in stimulating Malaysia's economic expansion and fulfilling the socio-objectives. Despite their small size, the contribution of the Malaysian SMEs in enhancing the economic development and fulfilling the social needs of the nation indicates their important role in strengthening the country to face the resilient challenges in today's knowledge economy.



SMEs in Malaysia are defined according to the annual turnover or number of full-time employees. Starting from 2005, a formal definition of SMEs endorsed by NSDC is based on the annual turnover and number of full-time employees that have been used by ministries, agencies, financial institutions and regulators involved with SME development programmes.

Table 1 New definition of SMEs by sector and size of operation

Size/ Sector	Manufacturing	Services and other sectors
Micro	Sales turnover is less than RM300,000 or full-time employees are less than 5.	Sales turnover is less than RM300,000 or full-time employees are less than 5.
Small	Sales turnover from RM300,000 to less than RM15 million or full-time employees from 5 to less than 75.	Sales turnover from RM300,000 to less than RM3 million or full-time employees from 5 to less than 30.
Medium	Sales turnover from RM15 million to not exceeding RM50 million or full-time employees from 75 to not exceeding 200.	Sales turnover from RM3 million to not exceeding RM20 million or full-time employees from 30 to not exceeding 75.

Source: [www.smecorp.gov.my](http://www.smecorp.gov.my)

The Malaysian economy highly relied on rubber and tin as a commodity-based economy which contributed to 70% of total export income and 36% of total employment during the early dependence phase from 1957-1970. In the 1960s, the agriculture, manufacturing and services sectors became the main activities with the aim to increase the economic structure and at the same time focus on poverty alleviation, especially in rural areas. The First Malaysia Plan (1966-1970) was launched in 1965 with the objective to promote the welfare of all citizens, especially those with low income in rural areas (Economic Planning Unit 2013). The solution to problems related to SMEs such as insufficient funds and lack of access to commercial bank credit facilities also became the main agenda of this framework.

During the period 1970-1983, the high growth in the Malaysian economy indicates that the First Malaysia Plan (1966-1970) programmes succeeded. However, the unalleviated poverty and imbalance of wealth due to different levels of economic achievement among different ethnic groups forced the government to formulate the New Economic Policy (NEP) (1971-1990). Among the programmes introduced were providing farmers with better agricultural facilities, better social services such as health and education as well as the establishment of statutory bodies such as Majlis Amanah Rakyat (MARA) and Malaysian Agriculture Research and Development Institute (MARDI) as the government intermediaries. The increments in the economic growth rate of 9.3% from 1988-1990, the higher contribution of private sectors in the economic development compared to public sector in 1989, the rapid expansion of the manufacturing sector,

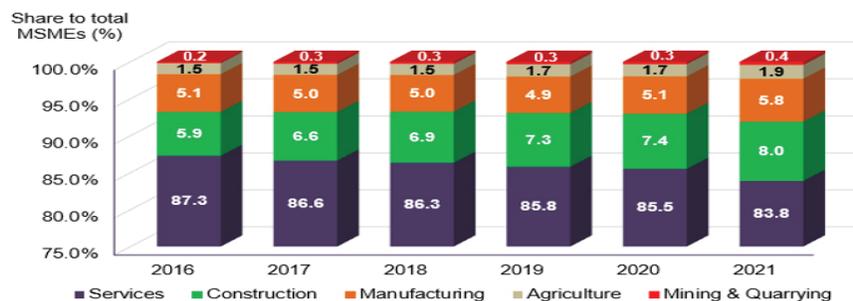
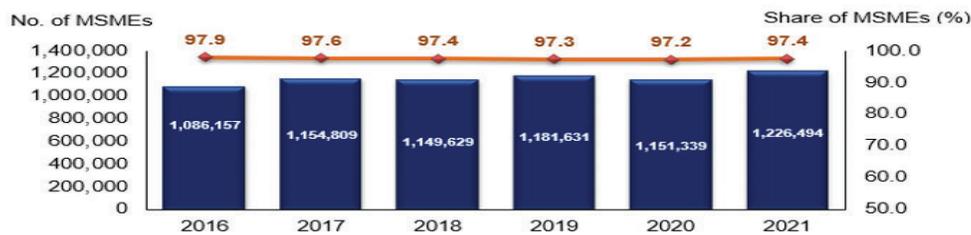
the lower rate of poverty and the large number of Bumiputera participation in all sectors indicated the big achievements of programmes formulated under NEP.

During this period, the Malaysian government provided various assistance for SMEs through strategies highlighted in the Second Malaysia Plan (1971-1975), Third Malaysia Plan (1976-1980), Fourth Malaysia Plan (1981-1985) and Fifth Malaysia Plan (1986-1990).

- The Second Malaysia Plan (1971-1975) - Strengthening the SME sector by developing Bumiputera entrepreneurship, enhancing the production and employment rate, reducing the wealth gap among the nation, and balancing the businesses and industrial activities.
- The Third Malaysia Plan (1976-1980) and the Fourth Malaysia Plan (1981-1985) became the platform for SMEs to serve as training and entrepreneurship development ground for better future of SMEs as part of major contributors to the nation’s economy.

The National SME Development Council (NSDC) was established in 2004 with the aim to promote the development of Malaysian SMEs through coordinated and comprehensive approach with the assistance of 15 ministries and four agencies. In June 2008, NSDC established a new agency named SME Corporation Malaysia (SMECORP) to perform roles in formulating policies and coordinating programmes for SMEs, acting as a centre for any information and advisory services related to SMEs, and conducting research on SMEs. The government then introduced the SME Masterplan (2012-2020) in 2010 as the recognition towards the contribution of SMEs in transforming the nation’s economy to a higher level of achievement. With the focused areas of innovation and technologies, human capital development, access to finance, access to market, legal and regulatory environment and infrastructure, the Masterplan was formulated to provide SMEs with comprehensive approaches and strategies to assist the country in achieving a high-income nation status by 2020.

To date, the number of establishments has increased by more than 140,000 firms as compared to a total of 1,086,157 SMEs in 2016 (DOSM, 2021). This indicates an average growth rate of 5.2% per annum during the six-year period.



Source: [www.smecorp.gov.my](http://www.smecorp.gov.my)