

# SME Developments and Outlook

**S**MEs in Malaysia continued to expand at a faster pace than the overall economy, despite the challenging environment faced by them in 2016. SMEs recorded a real Gross Domestic Product (GDP) growth of 5.2% during the year, resulting in an increase in the SME contribution to 36.6% of the country's GDP. The SME GDP growth was reflected across all major economic sectors, mainly supported by strong tourism activity and domestic demand, led by both consumption and investment activities.

In 2017, given the strong growth performance of the Malaysian economy in the first half of 2017 at 5.7%, the economy is expected to expand by more than 4.8% in 2017, higher than the earlier official growth projection of between 4.3 - 4.8%. Similarly, SME GDP growth is also expected to record a much higher growth than the earlier growth projection of between 5.5 - 6.0%.

Given that the SMEs' performance is closely linked with domestic demand and tourism activity, the anticipated pick-up in private consumption activities and increase in tourism-related activities are expected to feature more robust growth performance of SMEs in 2017.



## DEVELOPMENTS OF SMEs IN ADVANCED AND EMERGING ECONOMIES

SMEs are key players in national economies, contributing to economic growth around the globe. The Asia-Pacific Economic Cooperation (APEC) reported that 97.0% of establishments and over 50.0% of employment in the workforce comprise of SMEs in its economies. Meanwhile, according to a report by the Organisation for Economic Co-operation and Development (OECD) titled 'Enhancing the Contributions of SMEs in a Global and Digitalised Economy', SMEs assume a key role in national economies around the world, generating employment, value added and contributing to innovation. Additionally, better access to global markets and knowledge networks can strengthen SMEs' contributions. As governments across the economies pursue inclusive growth, SMEs must be an integral part of the solution by adopting to latest Megatrends in the technological development and innovation. In addition, SMEs' participation in the global value chains (GVCs) can provide the opportunity to the public and private sectors in achieving economies of scale, expanding market share and increasing productivity.

The year 2017 is the first year APEC's Small and Medium Enterprises Working Group (SMEWG) implements the SMEWG Strategic Plan for 2017 - 2020. The plan is a roadmap to address critical issues pertaining to the growth of microenterprises and SMEs (MSMEs) in the APEC region which is entrepreneurship, innovation and the internet & digital economy; financing for business expansion and capability development; inclusive business ecosystem that supports SME growth; and market access for SMEs. Taking into account the current theme 'Creating New Dynamism, Fostering a Shared Future', APEC 2017 highlights that one of its key priorities is to strengthen MSMEs' competitiveness and innovation in the digital age. The objective is to continue its focus on facilitating the greater participation of SMEs in the global value chain, facilitating their business environment in the digital age; and promoting start-ups and innovative SMEs. This will imply concrete progress in increasing their innovation capacities and competitiveness, including intellectual property rights commercialisation, work towards guaranteeing access to financial means and capacity building, enhancing their participation in the internet and digital economy through electronic commerce, reducing the technological gap, strengthening ethical business practices to support MSMEs' growth and cross border trade. The ultimate objective is to progressively induce a shift into a more sustainable, eco-friendly and green production and supporting their internationalisation, including through ICT.

Through the implementation of the ASEAN Strategic Action Plan for SME Development 2016 - 2025 (SAPSMED 2016 - 2025), there are various projects being initiated, among others the 5<sup>th</sup> ASEAN-OECD Regional Policy Network (RPN) meeting on promoting productivity, technology and innovation; a technology transfer programme for SMEs; a basic survey on credit guarantee schemes; research studies on crowd funding and alternative financing. Under the 2017 ASEAN Chairmanship theme of 'inclusive, innovation-led growth' and recognising ASEAN MSMEs as drivers of inclusive growth, various initiatives such as inclusive business for women and youth entrepreneurship were created. These initiatives are designed to enhance the ecosystem for MSME development and to improve policy platforms to encourage MSMEs to internationalise and take advantage of opportunities created through the ASEAN Economic Community (AEC). Complementary to these initiatives were key deliverables on MSMEs for 2017 which include the production of a handbook for SMEs on accessing alternative sources of finance and a report for policy makers on facilitating equity crowd funding. Both initiatives aim to increase access to finance for MSMEs.



# PERFORMANCE OF SMEs IN MALAYSIA

## Overview: Growth Trends of SMEs during 2011 - 2016

Based on the newly released Economic Census 2016: Profile of Small and Medium Enterprises by the Department of Statistics, Malaysia (DOSM) (featured in Special Highlight on page 109), **SMEs in Malaysia** constituted **98.5%** of the total business establishments. Majority of the businesses were in services sector, mainly in wholesale & retail trade, followed by manufacturing, construction, agriculture and mining & quarrying.

**Table 2.1:** SME GDP by Key Economic Activity (constant 2010 prices)

	SME Contribution to GDP			SME GDP Growth
	2010 (% share)	2016 (% share)	Increase / decrease in share	CAGR <sup>1</sup> 2011-2016 (%)
<b>Overall<sup>2</sup></b>	<b>32.2</b>	<b>36.6</b>	<b>+4.4</b>	<b>6.5</b>
Agriculture	4.3	4.1	-0.2	2.2
Mining & Quarrying	0.05	0.2	+0.15	9.1
Manufacturing	7.2	7.9	+0.7	6.4
Construction	0.9	2.1	+1.2	10.2
Services	19.6	21.8	+2.2	7.0

<sup>1</sup>CAGR refers to compounded annual growth rate (underlying growth of 7.9% for 2014)

<sup>2</sup>Total value-added after taking into account import duties

Source: Department of Statistics, Malaysia

Since the establishment of the National SME Development Council (NSDC) in 2004, the outcome of definitive policies and holistic approach to SME development have shown results on the performance of SMEs whereby the SME GDP growth has consistently outperformed the growth of the overall GDP. For the growth period of **2011 - 2016**, the **average annual growth rate** of SMEs was **6.5%**, higher than the average growth of the overall economy of 5.1%. This has led to higher SME contribution to GDP from 32.2% in 2010 to **36.6% in 2016** (refer to Table 2.1).

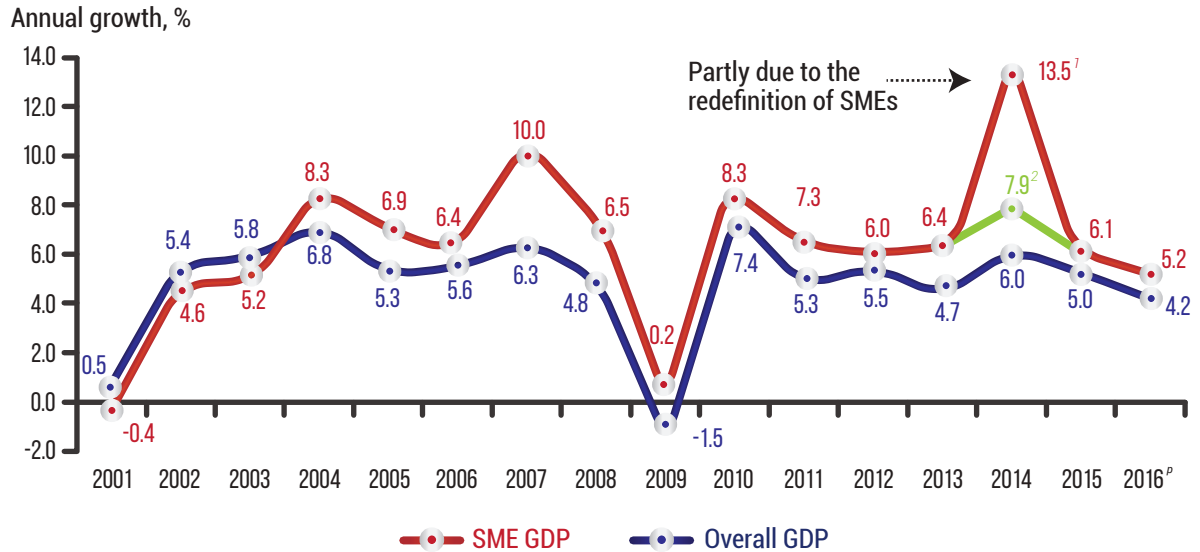
In terms of performance by key economic sectors, the increase in share of SMEs to GDP was largely contributed by the services sector and further supported by the construction sector. SME GDP growth in the construction and services sectors expanded at average annual rates of 10.2% and 7.0% respectively in the growth period of 2011 - 2016, much higher than the average overall SME GDP growth of 6.5%.



## PERFORMANCE IN 2016

Despite the external and domestic challenges, SME GDP in Malaysia remained resilient and grew at a more moderate pace of **5.2%** in **2016** (2015: 6.1%), supported by domestic demand, tourism activity and supportive policies by the Government. The SME GDP continued to surpass the overall Malaysia GDP growth of 4.2% in 2016 (2015: 5.0%).

**Chart 2.1:** SME GDP and Overall GDP Growth (%)



<sup>1</sup>Growth based on 2014 New SME Definition versus 2013 Old SME Definition

<sup>2</sup>Growth based on 2014 New SME Definition versus 2013 New SME Definition

p: preliminary

Source: Department of Statistics, Malaysia and SME Corp. Malaysia



In 2016, all economic sectors of SMEs continued to expand with the exception of the agriculture sector as the sector showed a reversed trend due to lower SME production of oil palm and rubber. The non-key economic sectors of SMEs, namely mining & quarrying and construction were the high performing sectors among SMEs. Meanwhile, when compared between the overall economy and SMEs, the SME GDP growth was higher across all economic sectors except construction sector (refer to Table 2.2).

**Table 2.2:** SME GDP and Overall GDP Growth by Key Economic Activity (constant 2010 prices)

	Annual Growth, %		
	2015 SME GDP	2016 SME GDP	2016 Overall GDP
Agriculture	2.0	-1.7	-5.1
Mining & Quarrying	8.9	8.2	2.2
Manufacturing	6.0	4.8	4.4
Construction	7.6	6.8	7.4
Services	6.6	6.4	5.6
<b>Total</b>	<b>6.1</b>	<b>5.2</b>	<b>4.2</b>

Source: Department of Statistics, Malaysia

In terms of **sectoral contribution** to the SME GDP in 2016, the services sector was the largest contributor (59.6%) to total SME GDP, followed by manufacturing (21.6%), agriculture (11.2%), construction (5.8%) and mining & quarrying (0.4%). The SME GDP structure is somewhat similar to the overall GDP structure with the exception that contribution of SME GDP in mining & quarrying is small given the fact that SMEs in this sector accounted for only a small share of total establishments of SMEs (refer to Table 2.3).

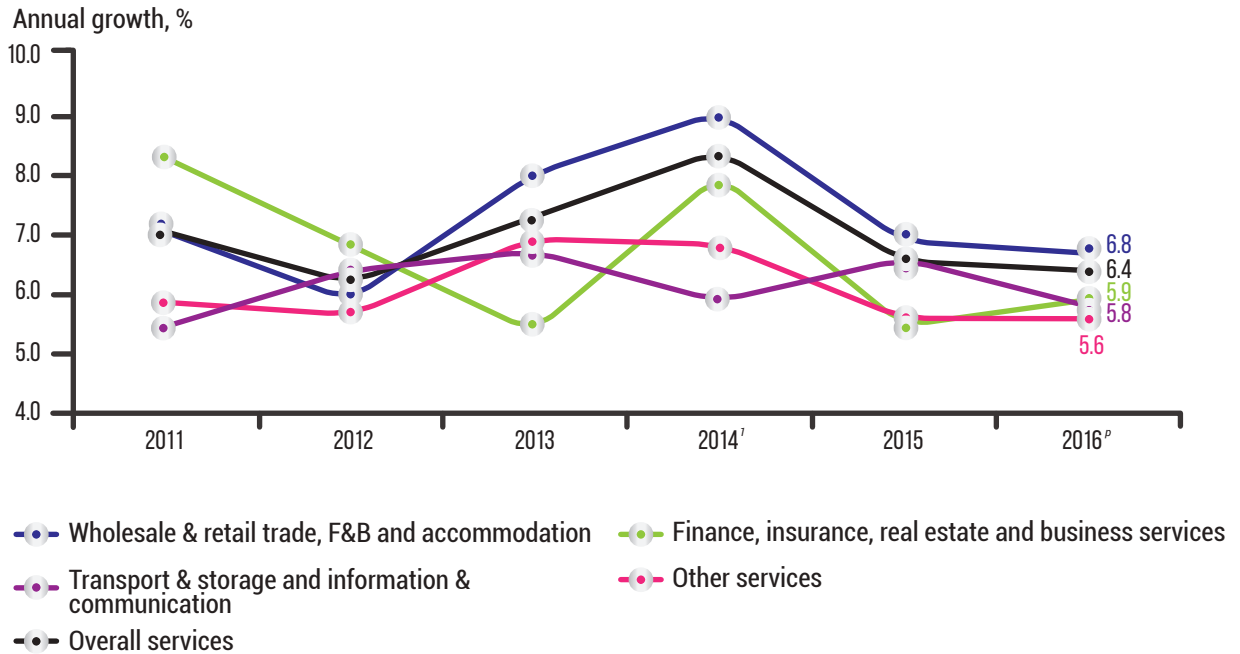
**Table 2.3:** SME GDP and Overall GDP Share by Key Economic Activity in 2016 (constant 2010 prices)

	2016 (Percentage Share to Total, %)	
	SME GDP	Overall GDP
Services	59.6	54.3
Manufacturing	21.6	23.0
Agriculture	11.2	8.1
Construction	5.8	4.5
Mining & Quarrying	0.4	8.8
Plus: import duties	1.4	1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Department of Statistics, Malaysia

## SME Value-added in the Services Sector

**Chart 2.2:** SME Value-added Growth of Sub-sectors in the Services Sector (%)

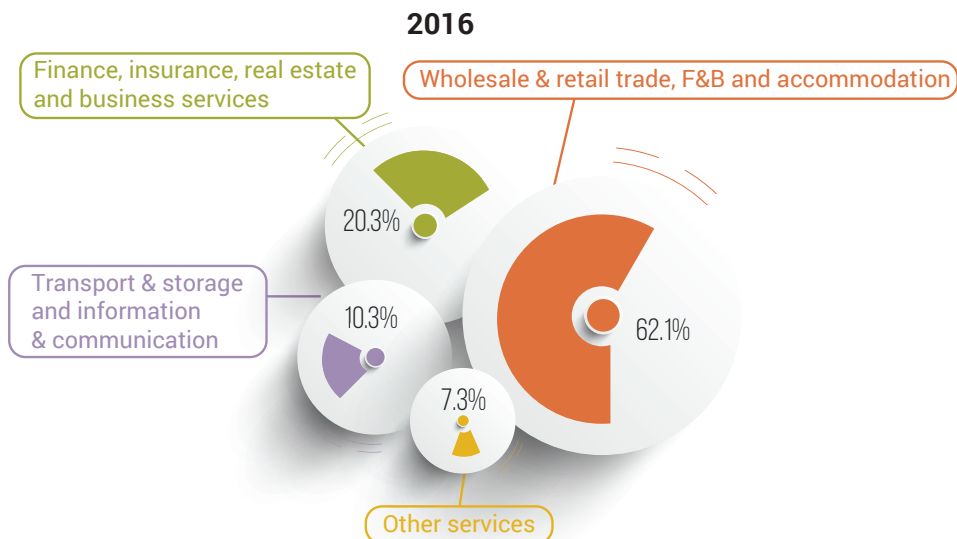


<sup>1</sup>Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

p: preliminary

Source: Department of Statistics, Malaysia

**Chart 2.3:** Components of Value-added of SMEs in the Services Sector (%)

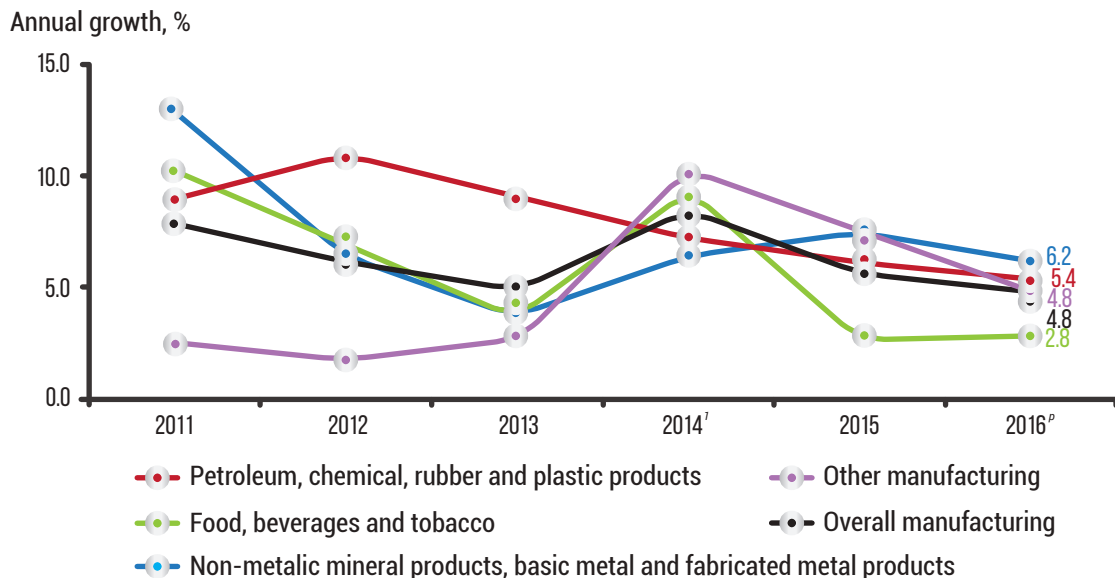


Source: Department of Statistics, Malaysia

Value-added of SMEs in the **services sector** recorded a growth of 6.4% in 2016 (2015: 6.6%), supported by expansion across all sub-sectors. The wholesale & retail trade, food & beverages and accommodation sub-sector which accounted for 62.1% of SME value-added in the services sector grew at the fastest pace of 6.8%. Growth was supported by continued wage and employment growth as well as a recovery in foreign tourist arrivals and spending. The finance, insurance, real estate and business services sub-sector expanded by 5.9%, slightly higher than 5.5% in 2015, mainly driven by the business services sub-sector provided by SMEs. Meanwhile, the moderate growth of information & communication segment, particularly in the ICT activities has contributed to the slower growth of the transport & storage and information & communication services sub-sector.

## SME Value-added in the Manufacturing Sector

**Chart 2.4:** SME Value-added Growth of Sub-sectors in the Manufacturing Sector (%)



<sup>1</sup>Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

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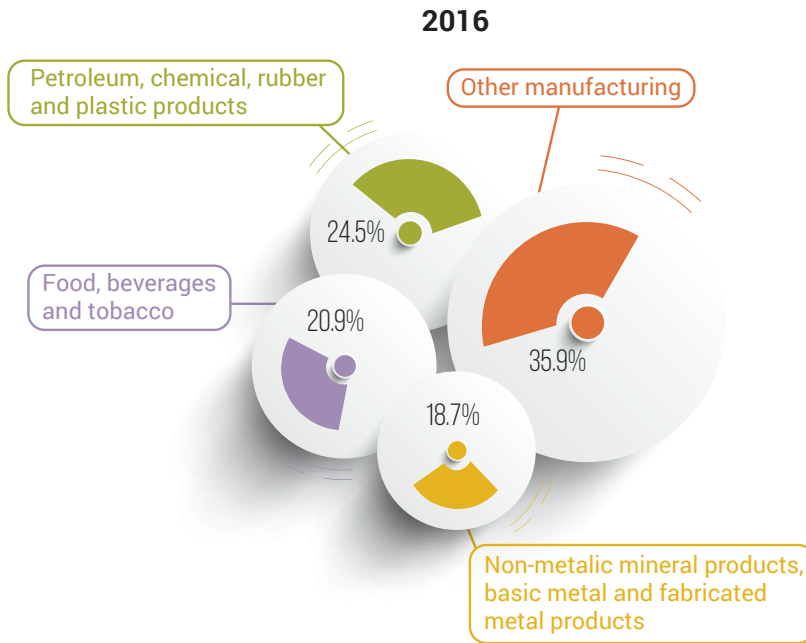
Source: Department of Statistics, Malaysia

In 2016, the SME value-added in the **manufacturing sector** expanded by 4.8% (2015: 6.0%), supported mainly by non-metallic mineral products, basic metal and fabricated metal products sub-sector, benefiting from the strong consumption and construction-related activities in the domestic economy. The higher production of resource-based industries such as petroleum, chemical, rubber and plastic products which accounted for 24.5% of total value-added of SME



manufacturing sector also contributed to the growth of SME value-added in the manufacturing sector during the year following the recovery in global demand.

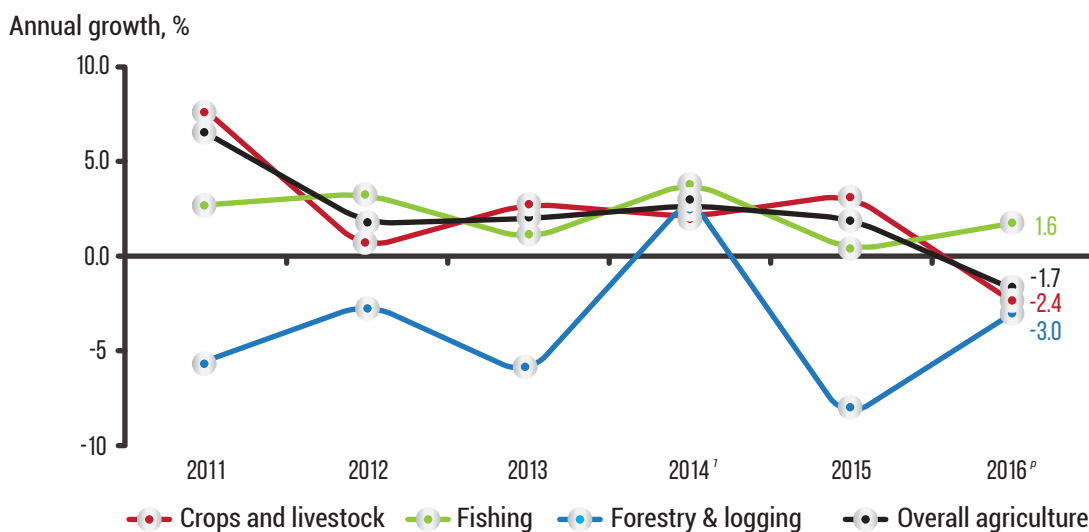
**Chart 2.5:** Components of Value-added of SMEs in the Manufacturing Sector (%)



Source: Department of Statistics, Malaysia

### SME Value-added in the Agriculture Sector

**Chart 2.6:** SME Value-added Growth of Sub-sectors in the Agriculture Sector (%)



<sup>1</sup>Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

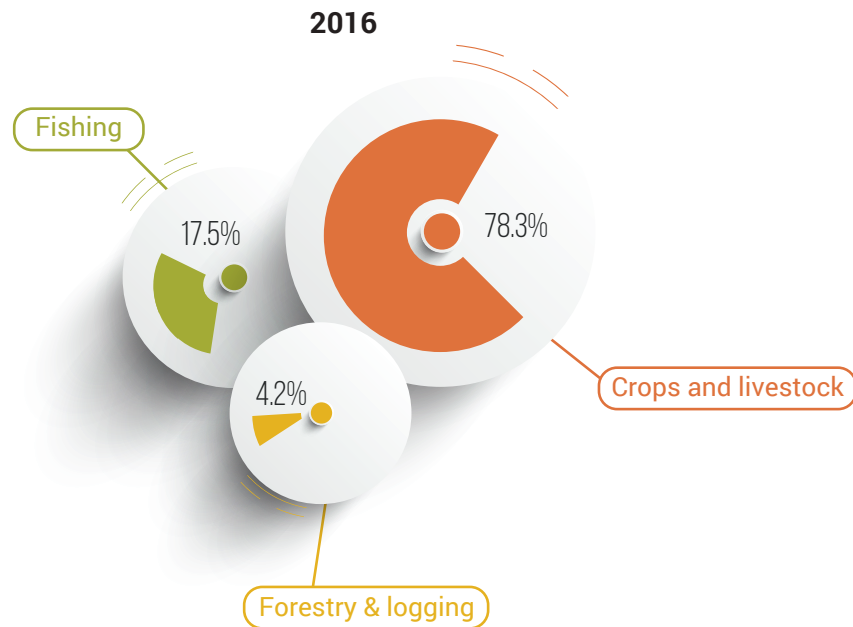
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Source: Department of Statistics, Malaysia



Growth of SME value-added in the **agriculture sector** contracted by 1.7% in 2016 (2015: 2.0%) attributable mainly to the decline in crude palm oil production by SMEs in the sector as yields were affected by the El Niño weather phenomenon. This is reflected in the negative growth of crops and livestock sub-sector by 2.4% during the year which contributed 78.3% to the value-added of SMEs in the agriculture sector. Forestry & logging activities continued to record a decline in value-added growth in 2016. In contrast, SME value-added of fishing sub-sector (17.5% of total value-added of SME agriculture sector) grew by 1.6%, supported by marine fishing activities.

**Chart 2.7:** Components of Value-added of SMEs in the Agriculture Sector (%)



Source: Department of Statistics, Malaysia

## SME Value-added in the Construction and Mining & Quarrying Sectors

SME value-added in the **construction sector** registered a moderate growth of 6.8% in 2016 (2015: 7.6%) driven mainly by the special trade sub-sector, which are mostly SMEs. The slower growth in residential buildings and the decline in non-residential buildings have moderated the overall performance of this sector.

As for **mining & quarrying sector**, SME value-added growth of this sector moderated to 8.2% in 2016 (2015: 8.9%), partly due to the weaker crude oil production during the year. Nevertheless, it was still higher than the overall GDP growth for the mining & quarrying sector of 2.2%. Half (50.0%) of the SME value-added in the mining & quarrying sector was contributed by the petroleum & natural gas sub-sector, followed by the stones, rocks & granite quarrying (38.5%) and mineral mining sub-sectors (11.5%).



**Chart 2.8:** SME Value-added Growth in the Construction and Mining & Quarrying Sectors (%)

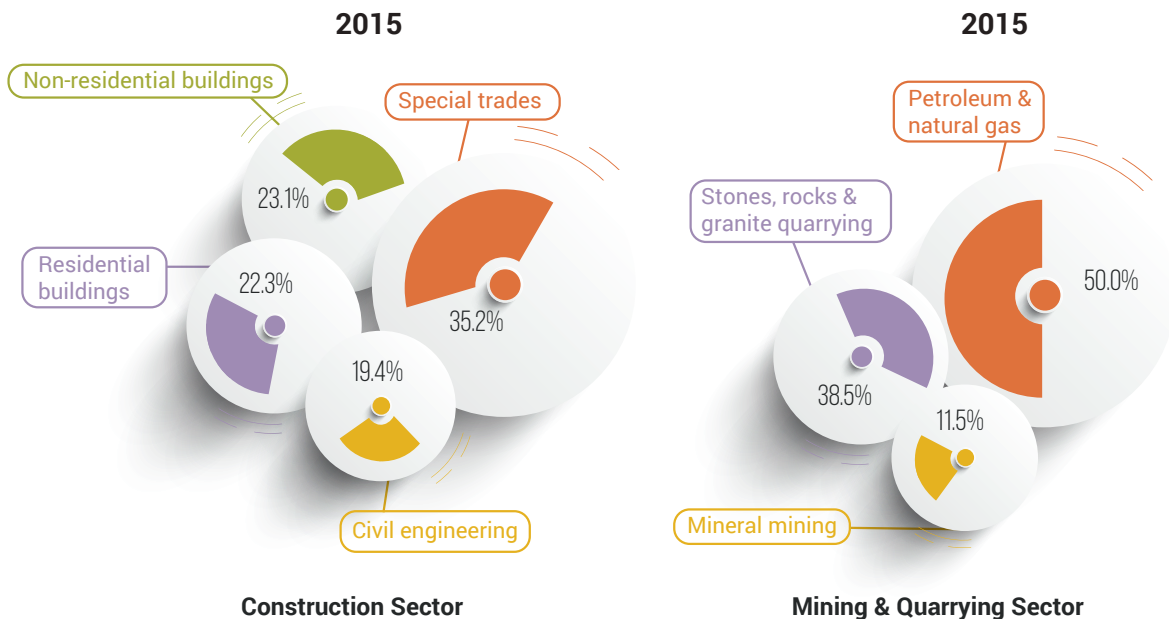


<sup>1</sup>Growth based on 2014 New SME Definition versus 2013 New SME Definition (redefinition effect has been eliminated)

p: preliminary

Source: Department of Statistics, Malaysia

**Chart 2.9:** Components of Value-added of SMEs in the Construction and Mining & Quarrying Sector (%)



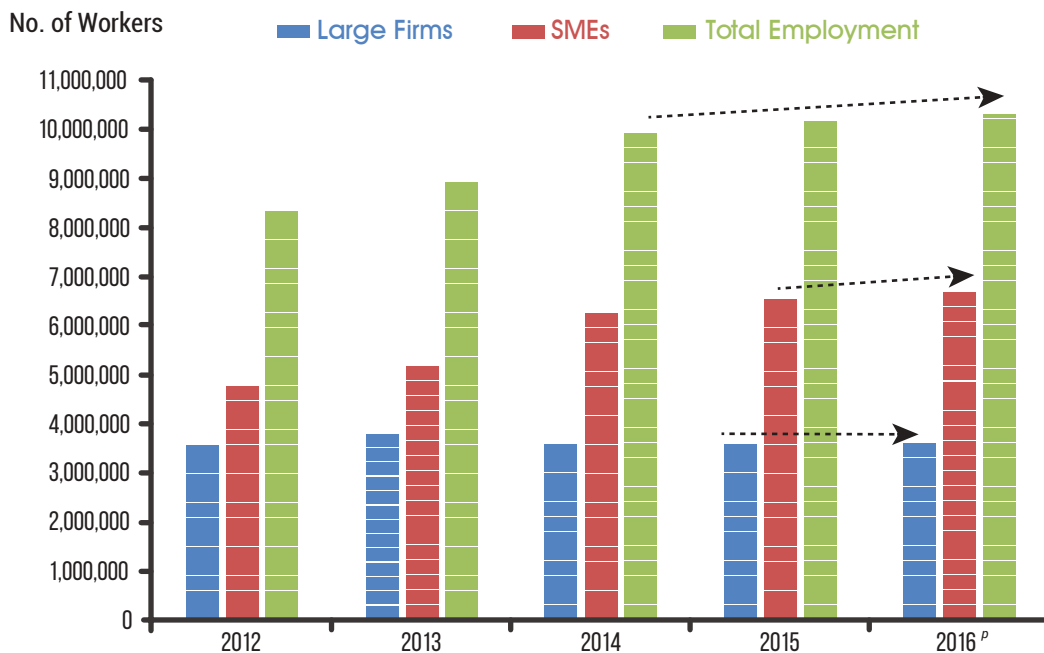
Source: Economic Census 2016, Profile of Small and Medium Enterprises, Department of Statistics, Malaysia

## Employment of SMEs

In 2016, employment of SMEs continued to expand with a growth of 2.1% (2015: 3.2%) to 6.7 million workers (refer to Chart 2.10 and Chart 2.11), resulting in the share of SME employment to total employment increased from 64.5% in 2015 to **65.3% in 2016** (refer to Chart 2.12) achieving the SME Masterplan target of 65.0% of SME employment to total employment by year 2020.

In terms of SME employment by economic sector, services sector recorded the highest contribution of SME employment with a percentage share of 63.0% followed by manufacturing (16.5%), construction (10.4%), agriculture (9.8%) and mining & quarrying (0.3%). In 2016, the positive growth of SME employment was supported by higher growth of SME employment in the services sector (2.7%) and mining & quarrying sector (7.0%). In the construction sector, both large firms and SMEs registered a decline in employment growth during the year, partly due to lower construction activities and higher foreign worker levy rates charged, effective on 18 March 2016.

**Chart 2.10:** Employment by Firm Size

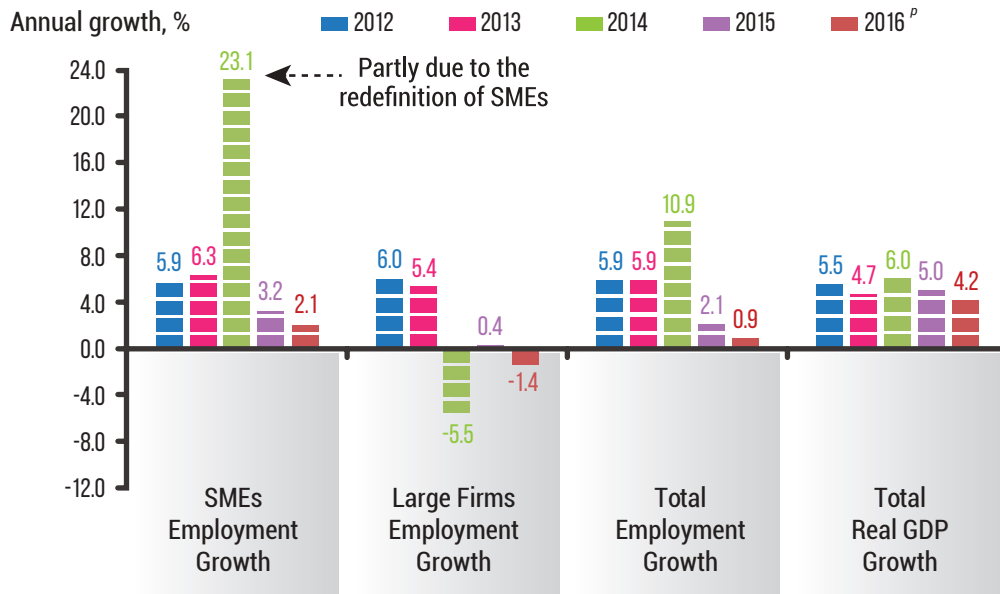


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Source: Department of Statistics, Malaysia



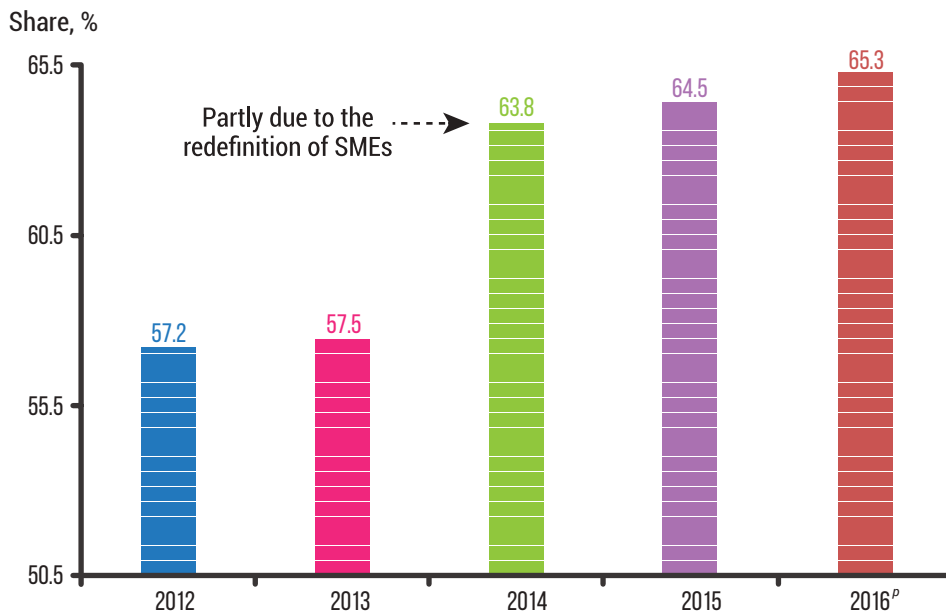
**Chart 2.11:** Employment Growth Performance by Firm Size (%)



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Source: Department of Statistics, Malaysia

**Chart 2.12:** Employment Share of SMEs to Total Employment (%)



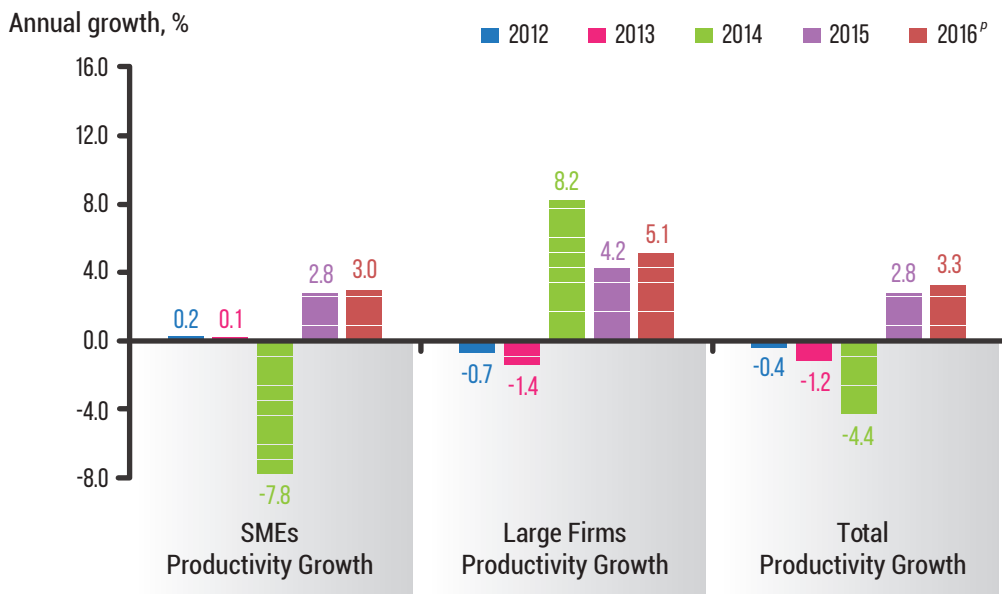
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Source: Department of Statistics, Malaysia

## Productivity of SMEs

Labour productivity of SMEs as measured by real value-added per worker has increased further from RM59,073 in 2015 to **RM60,844** in **2016**, with a growth of 3.0%. The slightly higher growth than the 2.8% recorded in 2015 was mainly due to the increased productivity growth of SMEs in the **services, manufacturing** and **construction** sectors (3.6%, 2.5% and 7.1%, respectively). In comparison with large firms, SME productivity was still lower. Large firms were 3.3 times more productive than the SMEs in 2016 given that the SMEs highly relied on labour input, particularly from the services sector. Thus, there is a need for SMEs to continue to shift towards process and product improvements, automation, mechanisation, innovation and digitalisation, including e-commerce activity to enhance productivity.

**Chart 2.13:** Productivity Growth by Firm Size (%)

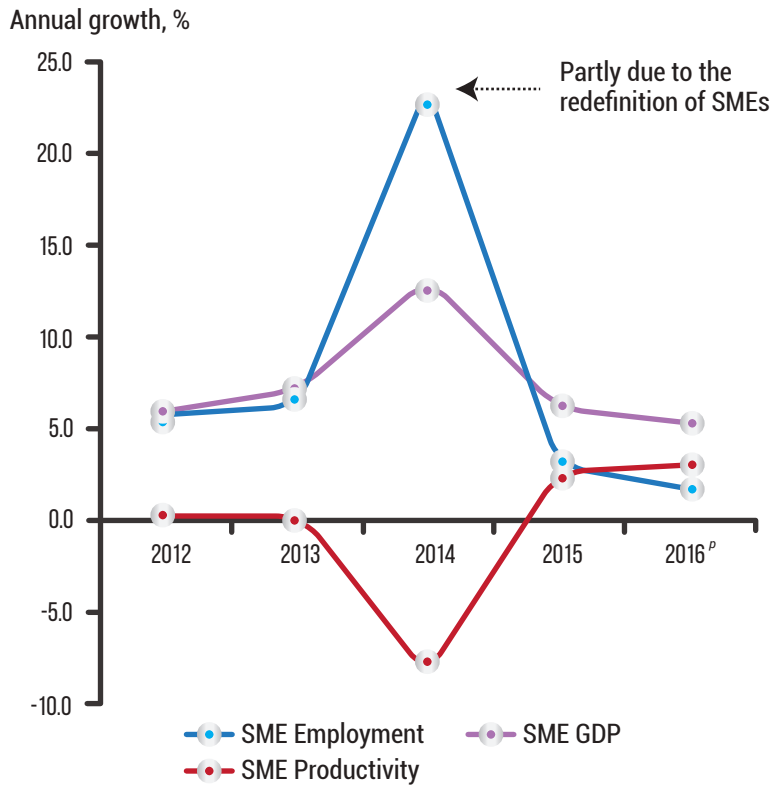


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Source: Department of Statistics, Malaysia



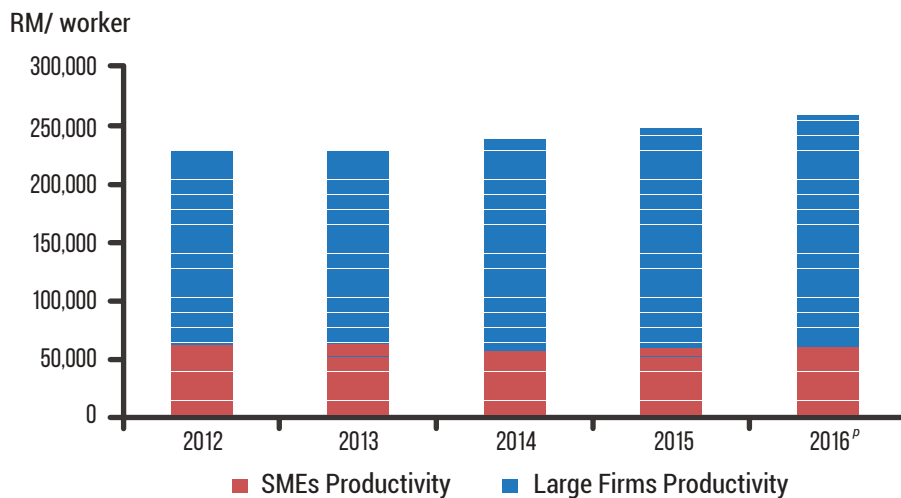
**Chart 2.14:** Growth of SME GDP, SME Employment and SME Productivity (%)



*p: preliminary*

Source: Department of Statistics, Malaysia

**Chart 2.15:** Productivity of Firms by Size



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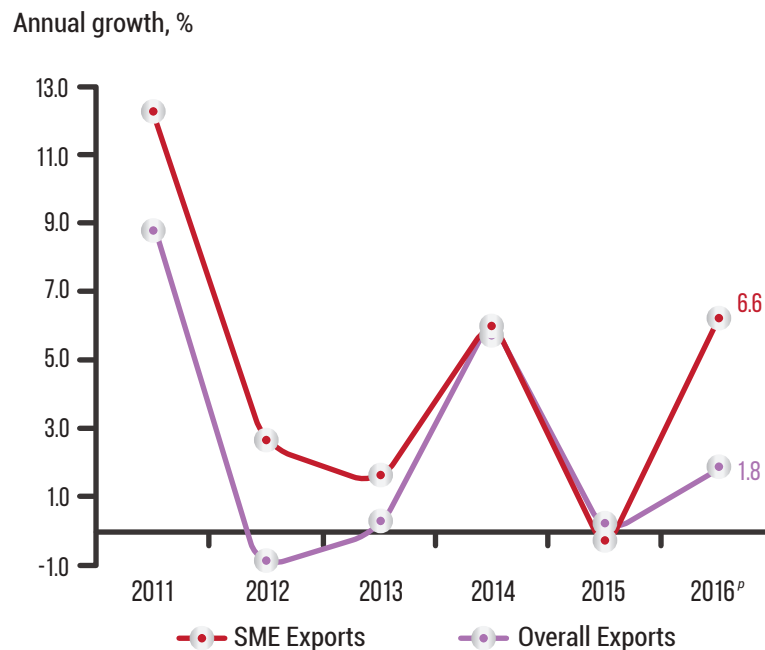
Source: Department of Statistics, Malaysia

## Exports of SMEs

Despite the challenging economic environment, exports of SMEs increased by 6.6% in 2016, rebounded from 0.1% decline in 2015 (refer to Chart 2.16). The strong performance of SME exports was underpinned by growth in the manufacturing (4.6%), services (7.8%) and agriculture (35.0%) sectors.

In terms of share, exports of SMEs contributed about **18.6%** to total exports in **2016** (2015: 17.7%), whereby 9.4 percentage points was from **services** sector while the remaining 9.2 percentage points was derived from **manufacturing** and **agriculture** sectors (refer to Chart 2.17). The exports of SMEs in services sector were mainly supported by a strong rebound in tourist arrivals and receipts. The tourist arrivals growth rebounded to 4.0% in 2016 as the country received 26.8 million tourists compared to 25.7 million tourists in 2015 (refer to Chart 2.18).

**Chart 2.16:** SME Exports Growth (%)

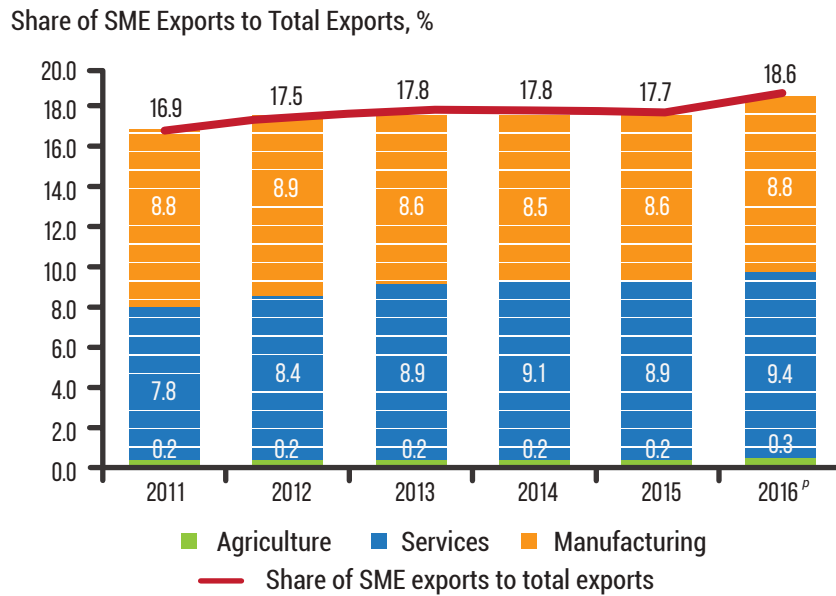


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Source: Department of Statistics, Malaysia



**Chart 2.17:** Share of SME Exports by Economic Sector (%)

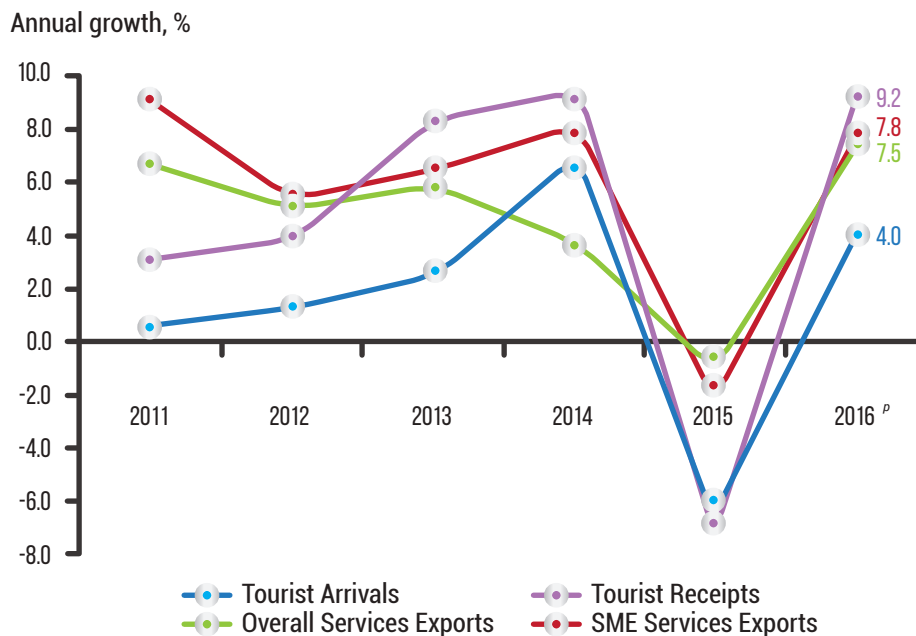


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*Note: Figures may not necessarily add up due to rounding*

*Source: Department of Statistics, Malaysia*

**Chart 2.18:** Growth of Tourist Arrivals, Tourist Receipts, Overall Services Exports and SME Services Exports (%)



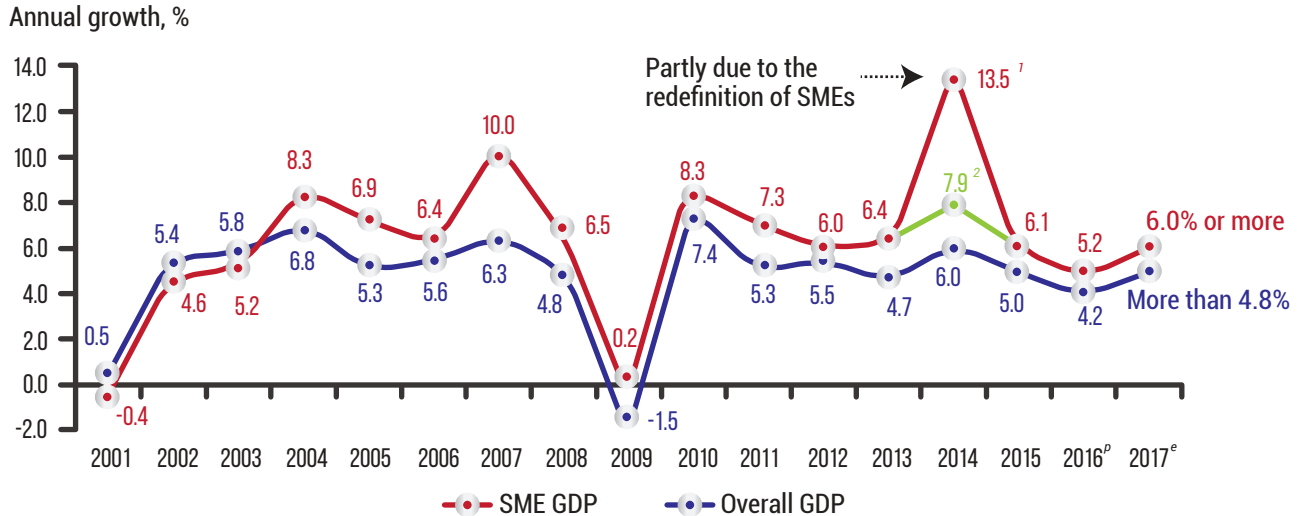
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*Source: Department of Statistics, Malaysia*



## Outlook for SMEs in 2017

**Chart 2.19:** Growth Projections of SME GDP and Overall GDP (%)



<sup>1</sup>Growth based on 2014 New SME Definition versus 2013 Old SME Definition

<sup>2</sup>Growth based on 2014 New SME Definition versus 2013 New SME Definition

p: preliminary, e: estimate

Source: Department of Statistics, Malaysia and SME Corp. Malaysia

Going forward, given the strong growth performance of the Malaysian economy in the first half of 2017 at 5.7%, the economy is expected to expand by more than 4.8% in 2017, higher than the earlier official growth projection of between 4.3 - 4.8% announced in March 2017 (refer to Chart 2.19).

On the outlook of SMEs performance, SME GDP growth is also expected to record a much higher growth in 2017 than the earlier growth projection of between **5.5 - 6.0%**, probably at the **upper limit of the range that is at 6.0% or more** (2016: 5.2%). Based on past performance, SME GDP growth is expected to record, on average, one percentage point higher than the overall GDP growth. The new SME GDP growth projection for 2017 will be revised once the new official Malaysia's economic growth estimate for 2017 is released during the Budget 2018 announcement.

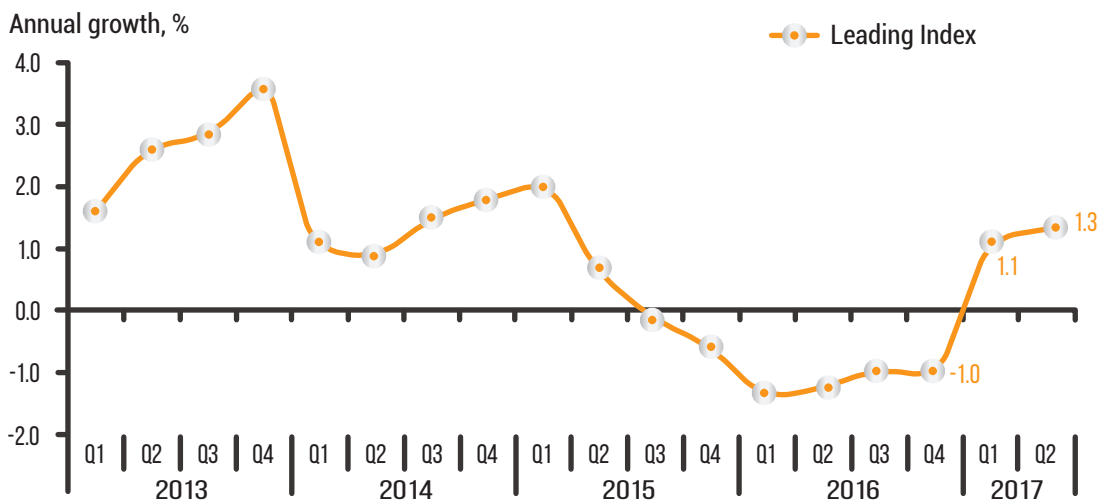
The higher expected growth will be supported by domestic demand and stronger-than-expected improvement in global growth benefiting exports. Given that the SMEs' performance is closely linked with domestic demand and tourism activity, the anticipated pick-up in private consumption activities and increase in tourism-related activities are expected to feature more robust growth performance of SMEs in 2017.

Meanwhile, DOSM's leading index, which is the leading economic indicator for the country's performance, registered a higher growth of 1.3% in the second quarter of 2017 compared to the same quarter a year ago indicating that the economic activity will continue to expand in the second half of 2017.



“ On the outlook of SMEs performance, SME GDP growth is also expected to record a much higher growth in 2017 than the earlier growth projection of between 5.5 - 6.0%, probably at the upper limit of the range that is at 6.0% or more (2016: 5.2%) ”

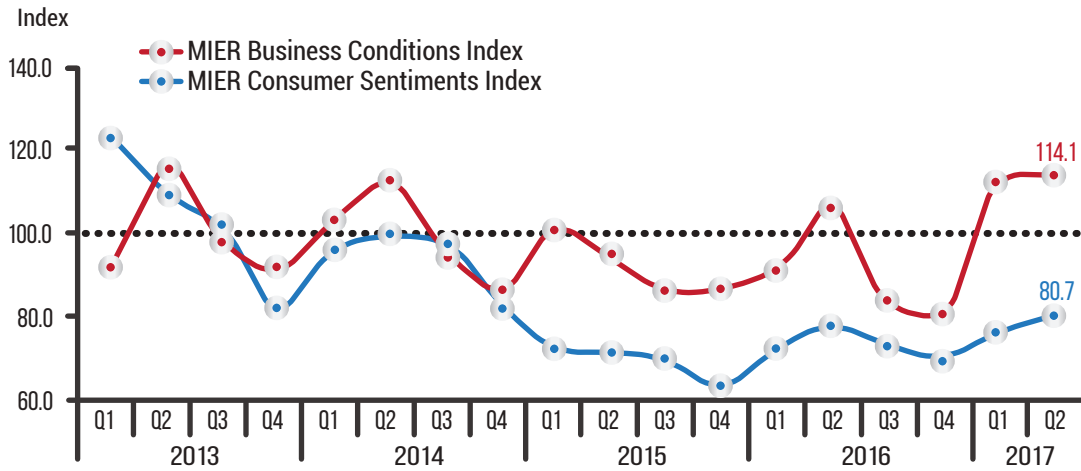
**Chart 2.20:** DOSM Leading Index (%)



Source: Department of Statistics, Malaysia

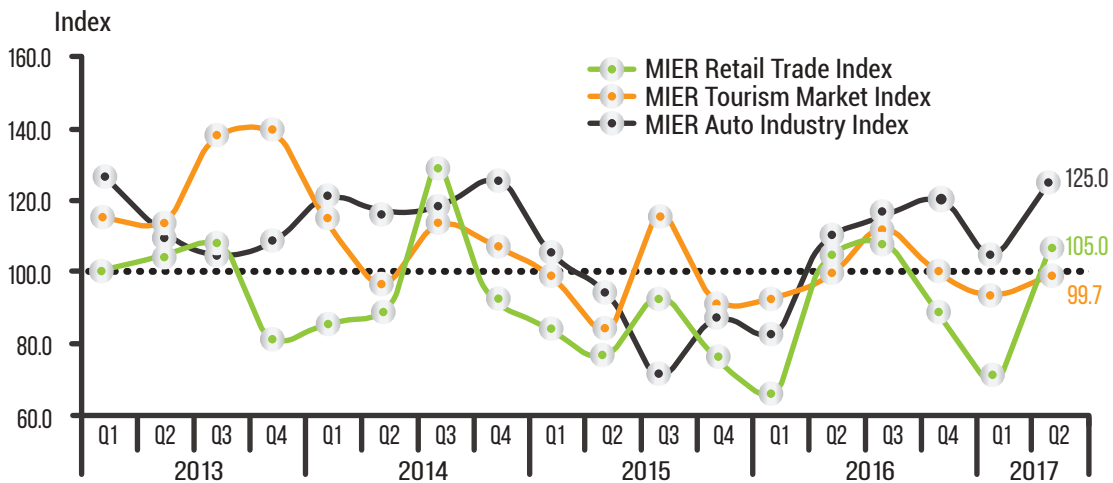
According to Malaysian Institute of Economic Research (MIER) 2Q 2017 Survey, business confidence levels including SMEs were also trending upward as **Business Conditions Index (BCI)** continued to rise to 114.1 in second quarter of 2017. Other MIER's indices such as **Retail Trade Index** and **Auto Industry Index** also revealed that businesses are upbeat and expect better market as well as economic conditions in 2017 as the indices were above the level of 100-point threshold of optimism (refer to Chart 2.21 and Chart 2.22).

**Chart 2.21:** MIER Indices: Business Conditions Index and Consumer Sentiments Index



Source: Malaysian Institute of Economic Research

**Chart 2.22:** MIER Indices: Retail Trade Index, Tourism Market Index and Auto Industry Index



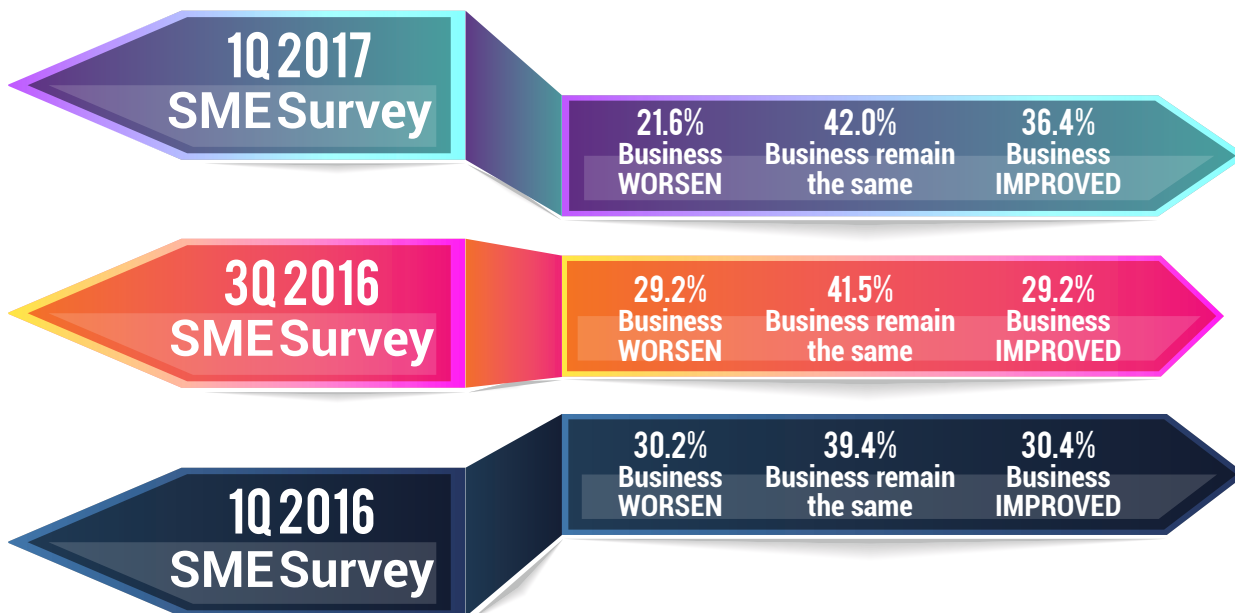
Source: Malaysian Institute of Economic Research

Similarly, findings from the First Quarter 2017 (1Q 2017) SME Survey conducted by SME Corp. Malaysia with a sample size of 2,236 SMEs also indicated that SMEs had experienced better business performance in 1Q 2017. Comparing the latest 1Q 2017 survey findings to the survey in the third quarter of 2016 (3Q 2016), more respondents experienced higher sales and profits. In the 1Q 2017, about 48.8% of the respondents experienced higher sales turnover (3Q 2016: 43.8%) while about 41.4% earned higher profits (3Q 2016: 33.4%). More respondents also able to increase the selling price of their products and services in the 1Q 2017 (43.7%) compared to the previous survey done in 3Q 2016 (29.6%).

**Table 2.4:** 1Q 2017 SME Survey Findings on Business Performance vs 3Q 2016

Indicators	Percentage share of total respondents, %					
	Decreased		Same		Increased	
	1Q 2017	3Q 2016	1Q 2017	3Q 2016	1Q 2017	3Q 2016
Sales Turnover	27.0	27.8	24.2	28.4	48.8	43.8
Pre-tax Profit	26.0	26.8	32.6	39.9	41.4	33.4
Exports Sales	17.2	18.8	48.1	52.7	34.7	28.5
Domestic Sales	25.7	26.7	28.2	33.0	46.1	40.4
Average Selling Price	16.7	13.8	39.6	56.6	43.7	29.6
Production (manufacturing & agriculture)	8.8	8.8	68.9	67.4	22.3	23.8

Note: The business performance of SMEs in 1Q 2017 is compared against the one in 4Q 2016, while the business performance of SMEs in 3Q 2016 is compared against the one in 2Q 2016

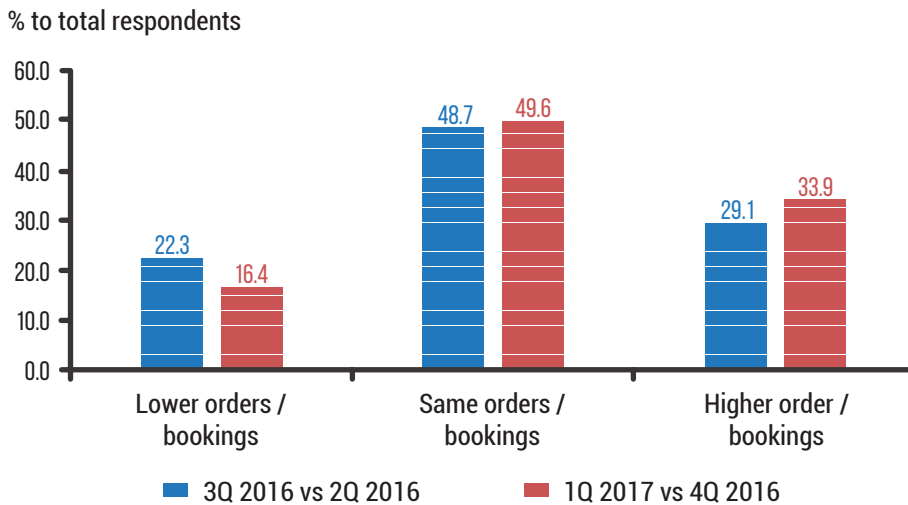
**Chart 2.23:** Near-term Business Outlook

Source: SME Corp. Malaysia Quarterly Surveys

On the short-term outlook, more respondents are optimistic that their business are going to perform better (refer to Chart 2.23). About 36.4% are expecting their business to improve, as compared to 29.2% recorded in the 3Q 2016. More respondents (33.9%) also indicated higher orders or bookings received during the quarter (refer to Chart 2.24).

The improved short-term outlook were particularly among microenterprises and SMEs in the manufacturing sector. Among the key factors contributing to the improved business outlook cited by the respondents were positive consumer confidence and business sentiment as well as higher consumer spending. Meanwhile, findings also showed a slight decline in number of respondents citing worsened outlook, from 29.2% in the previous 3Q 2016 SME Survey to a much lower 21.6% recorded in the 1Q 2017.

**Chart 2.24:** 1Q 2017 SME Survey Finding on New Orders / Bookings of Products and Services



Source: SME Corp. Malaysia Quarterly Surveys

