


Chapter 2

Performance of MSMEs in Malaysia





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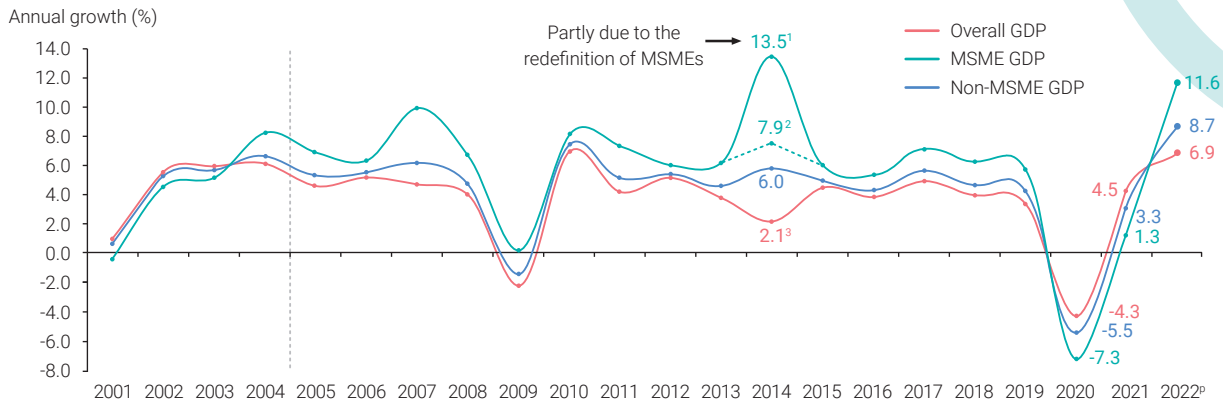
Performance of MSMEs in Malaysia

With the robust growth of the Malaysian economy in 2022, MSMEs also experienced promising performance during the year. This is reflected in the significant expansion of macroeconomic indicators namely the Gross Domestic Product (GDP), exports, employment and productivity. In navigating through challenging domestic and global business landscape, MSMEs managed to demonstrate remarkable resilience by not only sustaining their competitive edge but also embarking on a steady path of recovery post-pandemic period. The unwavering determination and adaptability exhibited by these MSMEs reflect their significance as key players in advancing the economic prosperity of Malaysia.

PERFORMANCE OF MSME GDP IN 2022

MSME GDP experienced an impressive double-digit growth of 11.6% in 2022 (2021: 1.3%), marking the fastest expansion since 2014. This growth was consistent with Malaysia's robust recovery, even in the face of the global economic slowdown following the Russia-Ukraine conflict and China's economic deceleration. This recovery serves as evidence of both the country's economic resilience and the determination of its MSME players. Furthermore, the growth performance of MSMEs not only surpassed the overall GDP growth of 8.7% (2021: 3.3%) but also exceeded the Non-MSME GDP growth of 6.9% (2021: 4.5%) as reflected in Chart 2.1. In value terms, the MSME GDP at constant 2015 prices reached RM580.4 billion in 2022, higher than RM520.0 billion recorded in the preceding year. As a result of the faster growth pace in 2022, the contribution of MSMEs to the overall GDP rose significantly to 38.4% as compared to 37.4% achieved in 2021 (refer to Chart 2.2).

Chart 2.1: Growth of MSME GDP, Non-MSME GDP and Overall GDP (%)



¹ Growth of MSME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

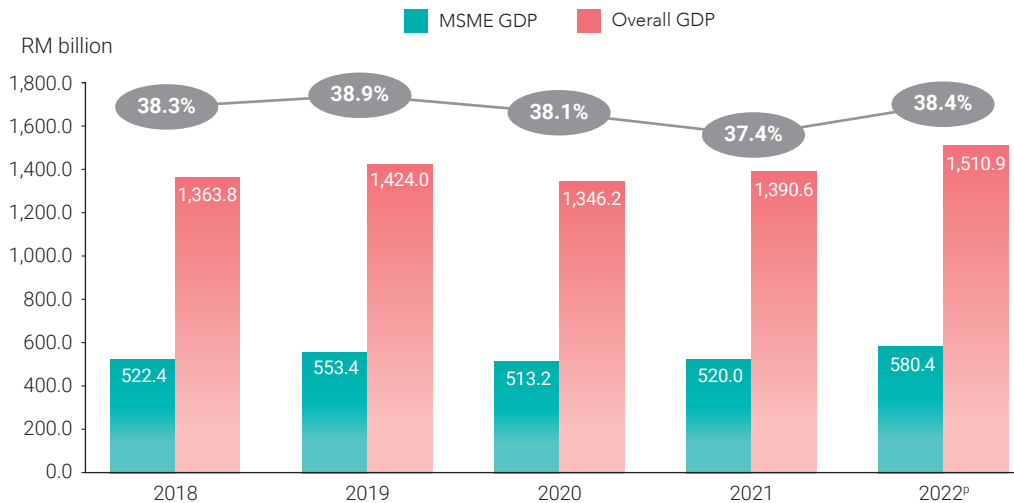
² Growth of MSME GDP based on 2014 New SME Definition versus 2013 New SME Definition

³ Growth of Non-MSME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

p: preliminary

Source: Department of Statistics, Malaysia

Chart 2.2: Value of MSME GDP and Overall GDP (constant 2015 prices)



p: preliminary

Source: Department of Statistics, Malaysia

Focusing on the sectoral performance, most economic sectors of MSMEs registered higher growth in 2022 compared to the previous year, except for agriculture sector (refer to Table 2.1). MSMEs in three sectors namely the services, mining & quarrying and construction managed to bounce back from the negative growth recorded in 2021, as they recovered strongly at 16.4% (2021: -0.6%), 8.0% (2021: -3.6%) and 4.9% (2021: -4.4%) respectively. Meanwhile, MSMEs in the manufacturing sector continued to expand at a more moderate pace of 6.0% (2021: 8.4%). The pace of Malaysian MSMEs' recovery across most sectors gained momentum in 2022, attributable to the full upliftment of containment measures and the reopening of international borders starting 1 April 2022.

When making a comparative analysis between the overall economy and MSMEs, a noteworthy observation emerges. Firstly, the GDP growth of MSMEs in the services and mining & quarrying sectors outpaced the overall businesses throughout the year. Secondly, MSMEs in the agriculture sector recorded a negative GDP growth as compared to overall agriculture sector which registered a marginal growth of 0.1%. This disparity can be partly attributed to the less favourable growth of MSMEs in the rubber & other agriculture sub-sector, while the overall businesses in this sector benefited from the strong performance in oil palm production in 2022. The oil palm output recovered during the year as harvesting activity improved following the re-entry of migrant workers to the plantation sector in the fourth quarter of 2022.

Table 2.1: Growth of MSME GDP and Overall GDP by Economic Sector (constant 2015 prices)

	Annual Growth (%)		
	2021 MSME GDP	2022 MSME GDP	2022 Overall GDP
Services	-0.6	16.4	10.9
Manufacturing	8.4	6.0	8.1
Agriculture	2.0	-0.6	0.1
Construction	-4.4	4.9	5.0
Mining & Quarrying	-3.6	8.0	2.6
Total	1.3	11.6	8.7

Source: Department of Statistics, Malaysia

In terms of contribution by economic sectors, the services sector continued to be the main contributor to the MSME GDP in 2022. Its share increased significantly to 63.6% from 60.9% recorded in the preceding year (refer to Table 2.2). On the other hand, contributions from MSMEs in other sectors namely manufacturing, agriculture and construction have reduced. Meanwhile, the mining & quarrying sector made the smallest contribution at 0.5% to total MSME GDP. The composition trend of the MSMEs slightly mirrors the overall GDP, except for mining & quarrying sector that carries more weightage and prominence to the overall GDP structure at 6.4%. This was due to structural differences as MSMEs in the mining & quarrying sector are predominantly engaged in activities related to other mining & quarrying and supporting services, while crude oil & condensate and natural gas activities played pivotal roles in contributing to the mining & quarrying sector of the overall GDP.

Table 2.2: MSME GDP and Overall GDP Share by Economic Sector (constant 2015 prices)

	Percentage Share to Total (%)		
	2021 MSME GDP	2022 MSME GDP	2022 Overall GDP
Services	60.9	63.6	58.3
Manufacturing	22.1	21.0	24.1
Agriculture	10.5	9.3	6.6
Construction	4.8	4.5	3.5
Mining & Quarrying	0.5	0.5	6.4
Plus: import duties	1.1	1.1	1.1
Total	100.0	100.0	100.0

Source: Department of Statistics, Malaysia

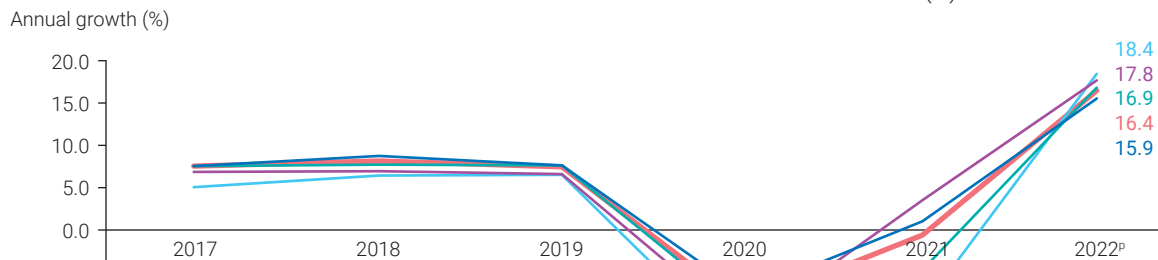
MSME Value-added in the Services Sector

For the year 2022, MSMEs in the services sector experienced a strong surge in growth as they took the lead in bolstering the MSME GDP. Value-added of MSMEs in this sector rebounded at a remarkable growth of 16.4% in 2022 (2021: -0.6%), underpinned by double-digit expansion across all sub-sectors. The wholesale & retail trade, food & beverages and accommodation sub-sector which accounted for 65.6% of MSME value-added in the sector grew at 15.9% (2021: 0.9%). Growth in this high-touch segment was anchored by the full upliftment of containment measures and gradual recovery of tourism activities as the international borders reopened on 1 April 2022. The finance, insurance, real estate and business services sub-sector expanded by 16.9%, marking a significant recovery from the declining growth of 4.9% in 2021. Real estate and business services improved throughout the year, reflecting the pickup in manufacturing and construction activities.

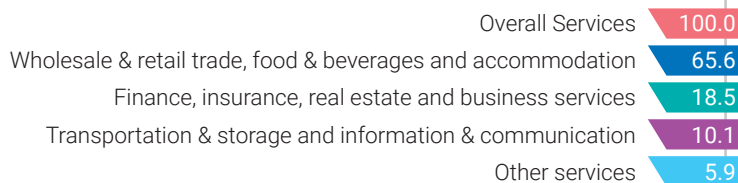


Moreover, it is imperative to highlight that the growth of the transport & storage and information & communication sub-sector continued to demonstrate a sustained growth trajectory and spur the growth momentum of the services sector as a whole, growing by 17.8% in 2022 (2021: 3.4%). The growth was benefited from the increased use of delivery services and e-commerce as well as high online retail trade activities that were prevalent throughout the year. In addition, other services sub-sector grew at the fastest pace of 18.4%, this is a substantial recovery from a sharp decline by 9.3% in 2021. The increase in other services sub-sector was supported by private health and education activities.

Chart 2.3: Value-added Growth of MSME in the Services Sub-sectors (%)



Composition of MSME Value-added in the Services Sector in 2022



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Source: Department of Statistics, Malaysia

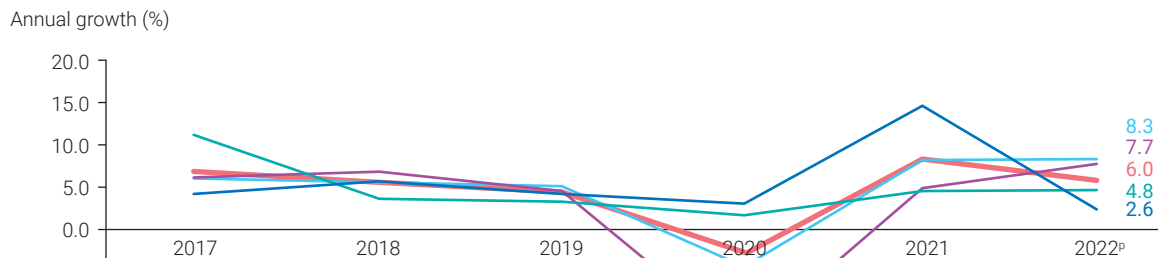
MSME Value-added in the Manufacturing Sector

The positive recovery momentum for MSMEs in the manufacturing sector persisted throughout 2022 with the value-added of MSMEs moderately grew by 6.0% (2021: 8.4%). All sub-sectors recorded positive growth as the full upliftment of containment measures lent support to production activity. Focusing across each sub-sector, strong expansion was observed in the non-metallic mineral products, basic metal and fabricated metal products which grew by 7.7% (2021: 5.2%), benefiting from the strong consumption and construction-related activities in the domestic economy (refer to Chart 2.4). Meanwhile, other manufacturing sub-sector posted an impressive growth of 8.3% as compared to 8.1% in 2021. These two sub-sectors collectively constituted 53.4% of total MSME value-added in manufacturing, thus primarily boost the overall performance of the sector.

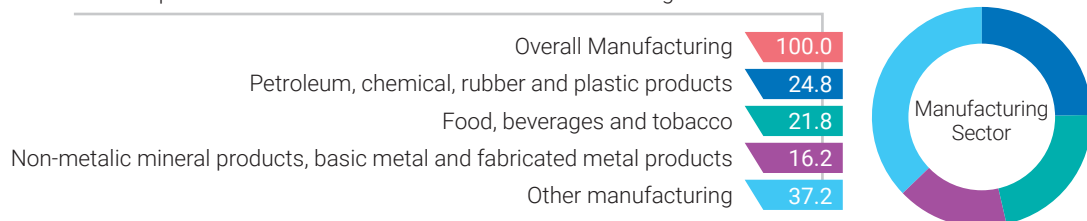


The higher growth trend was also observed for food, beverages and tobacco sub-sector as it improved by 4.8% in 2022 (2021: 4.5%) driven by stronger demand and improved domestic household spending. In addition, accounted for a quarter of total MSME value-added in the manufacturing sector, the value-added growth of MSMEs in the petroleum, chemical, rubber & plastic products sub-sector slowed down to 2.6% as compared to their outstanding double-digit growth of 14.7% in the preceding year. Although the growth pace has moderated, the higher production of this resource-based industries continued to make significant contributions to the sector's overall growth during the year following the recovery in global and domestic demand.

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



Composition of MSME Value-added in the Manufacturing Sector in 2022



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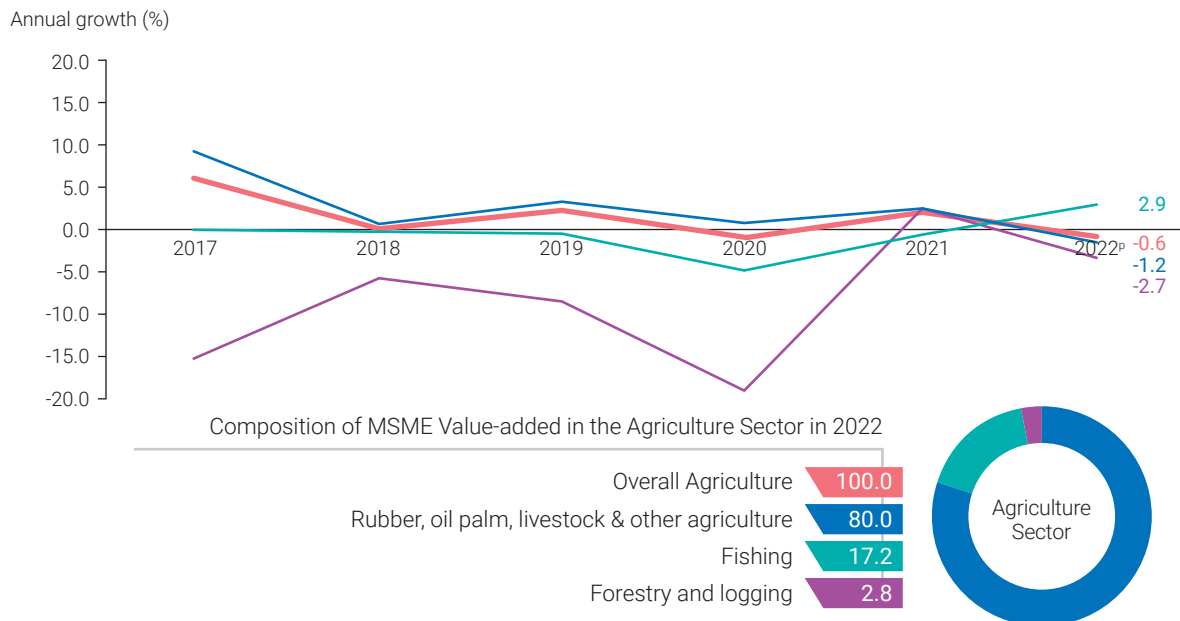
Source: Department of Statistics, Malaysia



MSME Value-added in the Agriculture Sector

The growth in value-added of MSMEs in the agriculture sector registered a contraction of 0.6% in 2022, in contrast to the 2.0% expansion achieved in year 2021 (refer to Chart 2.5), attributed to the lacklustre performance of rubber & other agriculture MSME players. This is reflected in the negative growth of rubber, oil palm, livestock & other agriculture sub-sector by 1.2% (2021: 2.5%). This sub-sector constituted majority 80.0% of the total MSME value-added in the agriculture sector, thus exerting a substantial drag on the overall performance of MSMEs in this sector. The rising input costs particularly for animal feed and fertiliser may partly contribute to the underwhelming performance of the sub-sector. Furthermore, the contraction in agriculture sector was also affected by the forestry and logging activities throughout the year as it contracted by 2.7% (2022: 2.2%). On the other hand, there was a discernible recovery among MSMEs in the fishing sub-sector, with the value-added of firms rebounded by 2.9% in 2022, compared to a marginal decline of 0.5% in the preceding year.

Chart 2.5: Value-added Growth of MSME in the Agriculture Sub-sectors (%)



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Source: Department of Statistics, Malaysia

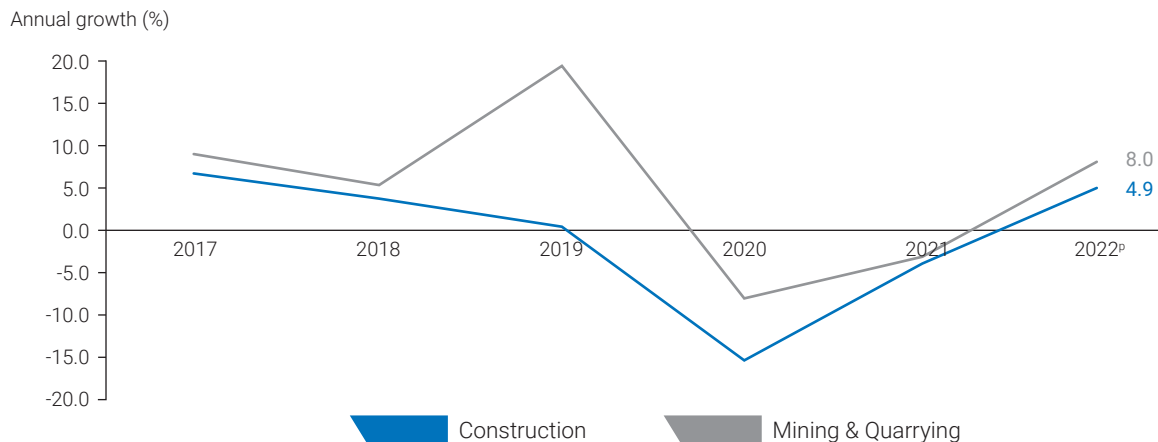
MSME Value-added in the Construction and Mining & Quarrying Sector

Aligned with the firm expansion of Malaysia's construction industry, MSMEs in the construction sector also managed to bounce back, achieving a positive growth rate of 4.9% in 2022. This marked a significant improvement from a sharp contraction of 4.4% recorded in previous year (refer to Chart 2.6). The specialised trade sub-sector which predominantly propels the industry and mainly composed of MSMEs, received a boost from early- and end-stage activities like site preparation and installation, along with the ongoing execution of smaller-scale projects. Furthermore, the non-residential sub-sector also improved, driven by the accelerated advancement of large-scale commercial real estate and industrial projects.

Meanwhile, a similar pattern of recovery was evident in the mining & quarrying sector, rebounded to grow at 8.0% in 2022 (2021: -3.6%), underpinned by the expansion of its sub-sectors, namely other mining & quarrying and supporting services. This growth surpassed the overall GDP growth rate for the mining & quarrying sector, which stood at 2.6%. Notably, the activities related to mining support services played a pivotal role in driving the sector's recovery, underscoring the fact that majority of MSMEs in this sector were engaged in mineral mining and quarrying activities.



Chart 2.6: Value-added Growth of MSME in the Construction and Mining & Quarrying Sub-sectors (%)



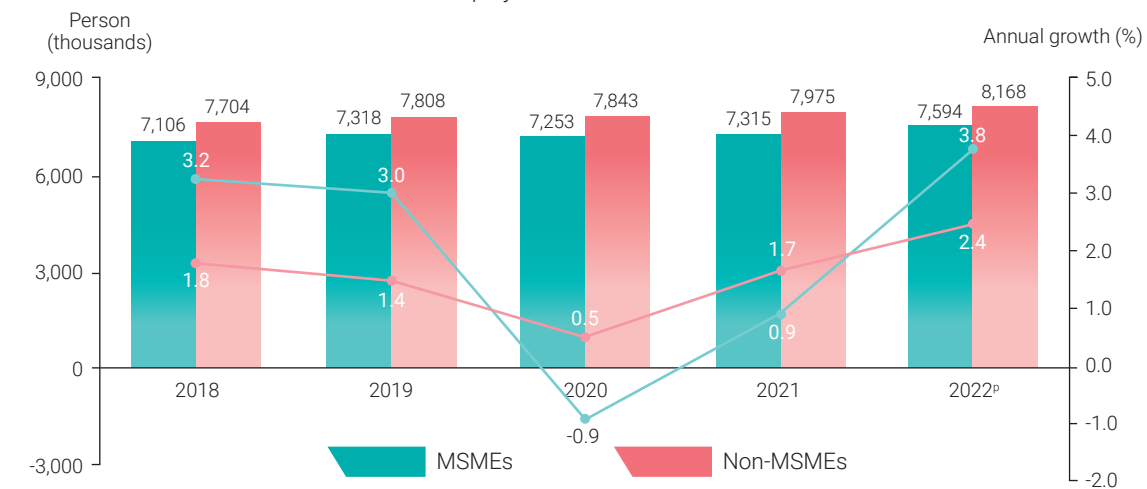
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Source: Department of Statistics, Malaysia

PERFORMANCE OF MSME EMPLOYMENT IN 2022

MSMEs play a crucial role in Malaysia's employment landscape, significantly contributing to the nation's total workforce. The MSME employment growth increased to 3.8% (7.6 million workers) in 2022, the highest recorded since redefinition of MSMEs in 2014 (refer to Chart 2.7). This translated to an increase of approximately 280,000 workers employed, supported by firmer economic growth following the easing of COVID-19 containment measures, normalisation of economic activity and reopening of international borders. On the contrary, the non-MSMEs experienced a modest growth in employment at 2.4% or an increase of about 193,000 workers. The robust expansion in employment by MSMEs has led to an increased share of MSMEs in the overall employment landscape, accounting for 48.2% in 2022 as compared to 47.8% in the preceding year. The increase in shares highlights the persistent role that MSMEs continue to play in fostering job opportunities and supporting livelihoods across various sectors of the economy.

Chart 2.7: Number of Employment and Annual Growth from 2018 - 2022

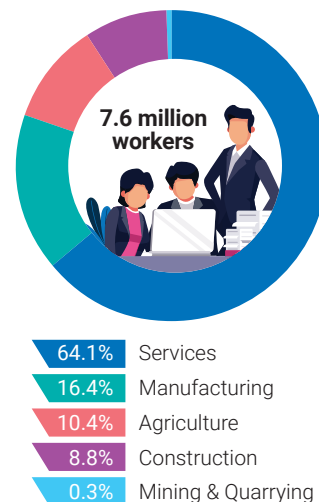


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Source: Department of Statistics, Malaysia

Analysing the performance of economic sectors, it is evidenced that all segments of the economy exhibited positive growth in MSME employment, with the exception of the agriculture sector which recorded a marginal decline of 0.4% (2021: 1.5%). In line with the contraction in the overall agriculture employment, the hiring trend of MSMEs in the agriculture sector may be affected due to labour shortages. Despite Malaysia has eased COVID-19 restrictions on hiring foreign workers in February 2022, shortages in the workforce still persist, thus causing disruptions in productivity particularly in the palm oil industry. Meanwhile, services sector which made up almost two-third of MSME employment primarily pushed the growth of MSME employment in 2022 with growth registered at 5.3% or increment of around 244,000 workers. Chart 2.8 provides a visual representation of the distribution of MSME employment across economic sectors, with the services sector dominating at 64.1%, followed by manufacturing (16.4%), agriculture (10.4%), construction (8.8%) and mining & quarrying (0.3%).

Chart 2.8: Components of MSME Employment by Economic Sector in 2022 (%)

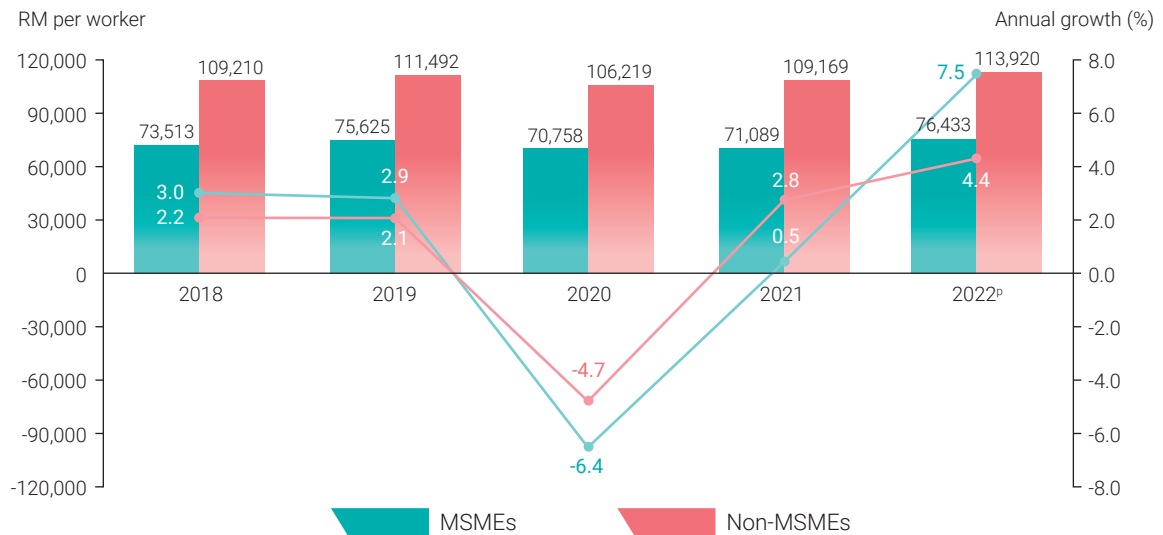


Source: Department of Statistics, Malaysia

PERFORMANCE OF MSME LABOUR PRODUCTIVITY IN 2022

MSME labour productivity as measured by real value-added per worker continued to expand further at a significant growth of 7.5% in 2022 (2021: 0.5%), thus resulted in a productivity value of RM76,433 as compared to RM71,089 in 2021 (refer to Chart 2.9). The surge in productivity was driven by strong growth in the services (10.6%) and mining & quarrying (7.9%) sectors throughout the year. Notably, productivity of MSMEs in the services, mining & quarrying and construction sectors rebounded from the negative productivity growth being recorded in the previous year. While all sectors recorded positive growth in productivity, MSMEs in the agriculture sector on the other hand turned negative at 0.2% in 2022 (2021: 0.5%), in line with the contraction in GDP and employment among agriculture MSMEs.

Chart 2.9: Labour Productivity and Annual Growth from 2018 - 2022



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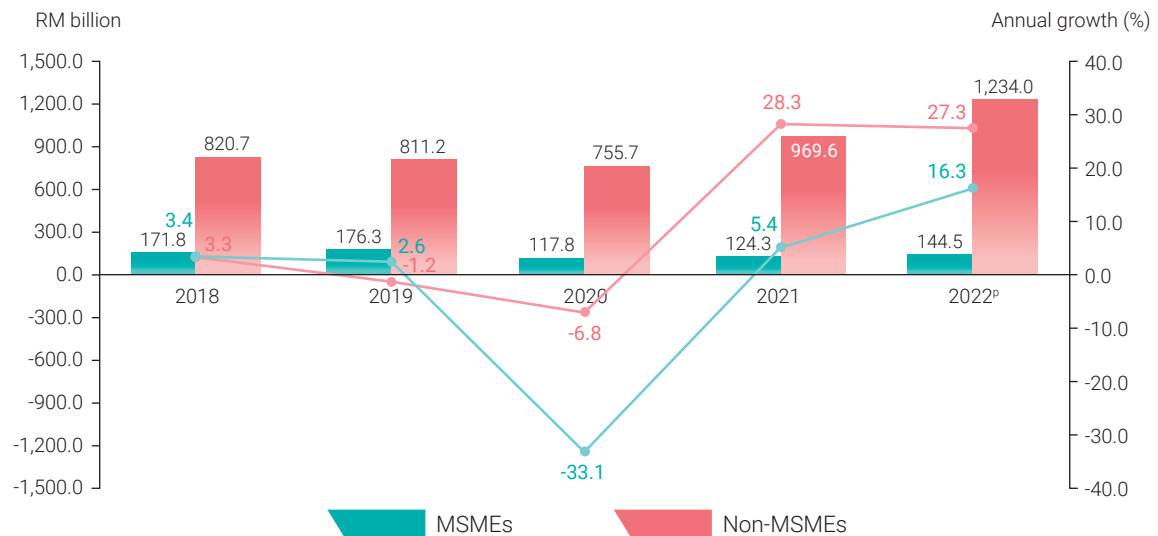
Source: Department of Statistics, Malaysia

Comparing the productivity level between MSMEs and non-MSMEs, the latter recorded slower growth of 4.4% to reach RM113,920 per worker in 2022 (2021: 2.8%). Despite the slower growth, non-MSME labour productivity has consistently remained 1.5 times higher than that of MSMEs since 2015. This disparity is attributed partly to the productivity gains of larger firms which have been supported by increased capital investment and a greater presence of highly skilled workers. The most significant labour productivity gap was observed in the mining & quarrying sector, standing at 12.3 times higher for non-MSMEs. Nonetheless, MSMEs in this sector achieved the highest productivity value, reaching RM137,490 per worker in 2022 while the construction sector reported the lowest productivity at RM39,080 per worker. In a nutshell, improvement in back-end digitalisation and continuous adoption of cutting-edge technologies are needed for MSMEs to further boost its value-added generation. Implementation of better management practices can lead to heightened productivity by enhancing operational efficiency and minimising cost.

PERFORMANCE OF MSME EXPORTS IN 2022

On the external front, the exports of MSMEs grew significantly by 16.3% in 2022 as compared to 5.4% registered in 2021 (refer to Chart 2.10). MSME exports achieved a total of RM144.5 billion in value terms (2021: RM124.3 billion), with positive growth observed cut across all sectors. In comparison, non-MSME players experienced even faster expansion in their exports, benefiting more from the global economic growth and increased trade activities. Consequently, the contribution of MSME exports to total exports during the year was lowered at 10.5% (2021: 11.4%) (refer to Chart 2.11). The robust exports by large firms were partly supported by the higher exports in electrical & electronics (E&E) products. This is true due to Malaysia's prominent position as a major E&E exporter (38.3% of total national exports in 2022), especially with the rising demand for E&E components amid the rising technological megatrends such as electric vehicles, artificial intelligence and Internet of Things.

Chart 2.10: Exports Performance and Annual Growth from 2018 - 2022

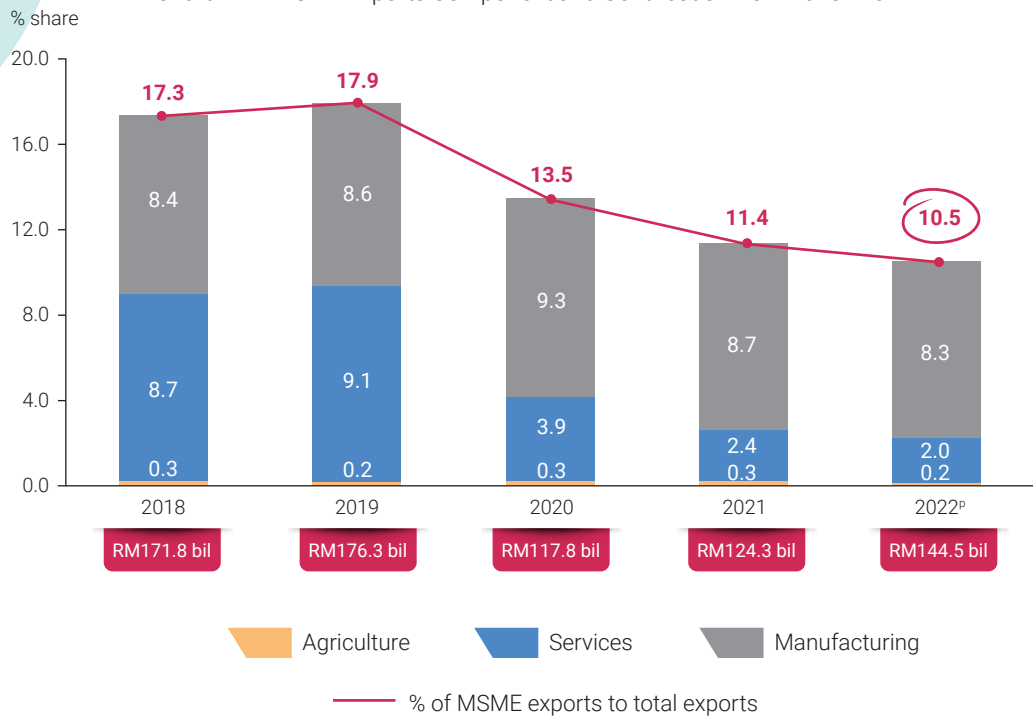


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Source: Department of Statistics, Malaysia

Focusing on performance by sector, the exports growth momentum was led by MSMEs in the manufacturing sector which contributed the bulk 78.8% of total MSME exports in 2022. Statistics indicated that the MSME exports growth performance in the manufacturing sector continued to strengthen by 19.5% in 2022 (2021: 16.7%), resulting in an export value of RM113.8 billion. The growth was bolstered primarily by high exports in manufactured goods and machinery & transport equipment, which recorded a strong expansion of 39.6% and 41.7% in 2022 respectively. Looking at key destinations for MSME exports in the manufacturing sector, Singapore emerged as the top destination with a share of 17.4%, followed by China (15.0%) and the United States (11.6%).

Chart 2.11: MSME Exports Component and Contribution from 2018 - 2022



p: preliminary

Source: Department of Statistics, Malaysia

The services sector which contributed around one-fifth of total MSME exports, bounced back from a sharp decline of 22.6% in 2021, as the sector registered a positive growth of 5.7% in 2022 to reach RM27.7 billion. The sector's recovery in exports was driven by industries such as travel; telecommunications, computer & information; and transportation. These industries benefited from the gradual recovery of tourism activities following the reopening of international borders as well as high online retail trade and e-commerce activities during the year. The growth of MSME services exports were also partly supported by higher exports growth in transport services in 2022 at 43.3% (2021: 24.7%), such as delivery, postal & courier services.

Meanwhile, agricultural exports recorded a moderate growth of 6.2% in 2022 (2021: 20.4%), contributing 2.1% to total MSME exports. The growth of the agriculture sector was mainly driven by the increase in MSMEs' exports of fruits and vegetables. The primary destination of MSME agricultural exports was Singapore (48.3%), followed by Thailand (8.7%) and Japan (6.1%). In a nutshell, MSME penetration into global market needs to be further pushed, as internationalisation activity is crucial to enhance their performance. Targeted policy measures and initiatives must be put in place to elevate exports among these MSMEs, with tailored strategies aimed at strengthening their capacity and capability.