

# CHAPTER 2

## **Performance of SMEs in Malaysia**



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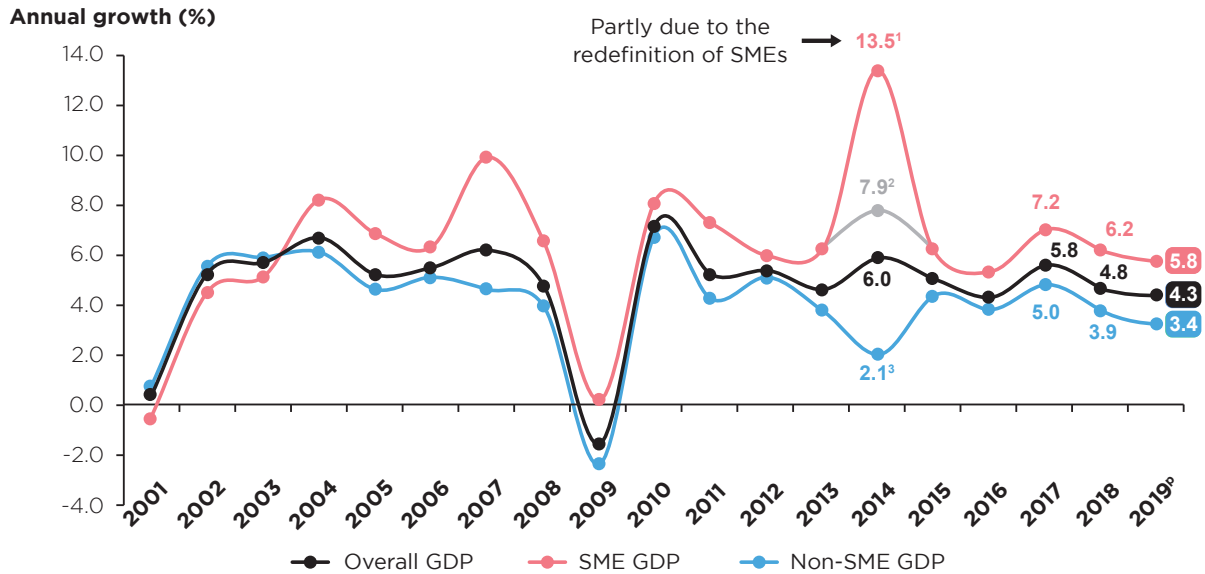


The diversified characteristics and performance of SMEs has not only enhanced its resilience but has resulted in higher contribution to the economy in 2019 despite the challenging economic environment during the year. SMEs contributed 38.9% to overall Gross Domestic Product (GDP), 48.4% to total employment and 17.9% to total exports. Domestic demand remained the key driver of growth in the Malaysian economy, including SMEs.

### SME GDP

SME GDP growth expanded at a moderate pace of 5.8% in 2019 as compared to 6.2% in the preceding year, in line with Malaysia's economic slowdown in 2019 due to the challenging global economic environment and domestic supply disruptions. Nevertheless, the growth performance of SMEs remained higher than the overall GDP and Non-SME GDP which registered a growth of 4.3% and 3.4% respectively, as reflected in Chart 2.1. A comparison of the GDP growth of SMEs and Non-SMEs suggests that SMEs are more agile and quick to change because of their small size, privately owned and relatively simpler corporate structures, all of which can be beneficial during a crisis.

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

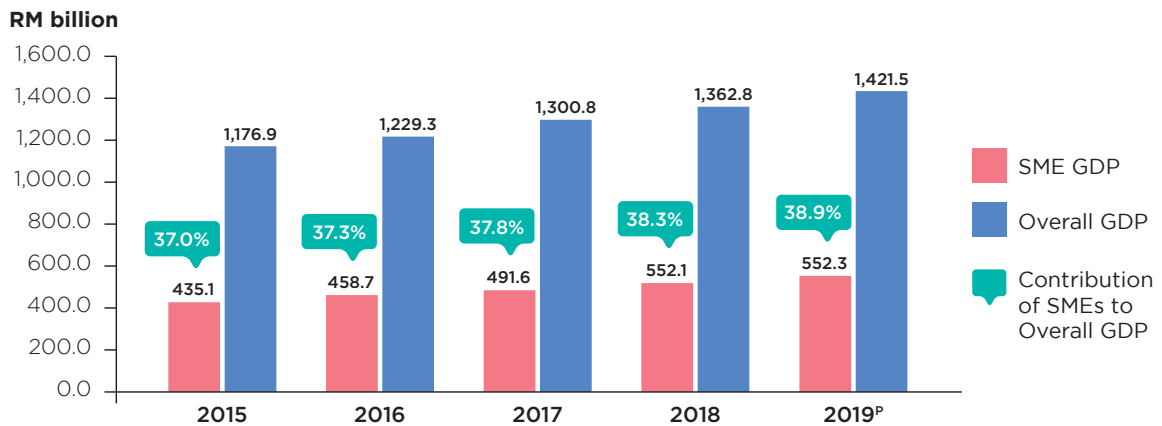


<sup>1</sup> Growth of SME GDP based on 2014 New SME Definition versus 2013 Old SME Definition  
<sup>2</sup> Growth of SME GDP based on 2014 New SME Definition versus 2013 New SME Definition  
<sup>3</sup> Growth of Non-SME GDP based on 2014 New SME Definition versus 2013 Old SME Definition

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

In terms of value, SME GDP at constant 2015 prices stood at RM552.3 billion in 2019 against the total value of the overall GDP at RM1,421.5 billion. This has resulted in higher contribution of SMEs to the overall GDP to 38.9% in 2019 from 38.3% in 2018 (refer to Chart 2.2). The increasing trend of share contribution signifies that the SMEs play a significant role in the national economy.

**Chart 2.2: Value of SME GDP and Overall GDP (Constant 2015 Prices)**



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

All economic sectors recorded a slower growth in 2019 compared to the previous year, except agriculture and mining & quarrying sectors. The agriculture and mining & quarrying sectors benefitted from an improvement in oil palm yields and strong activities in other mining & quarrying in 2019, respectively. The services sector continued to record a strong growth of 7.4% in 2019, which was well above its long-term average (2011-2018: 7.2%) as private consumption remained firm. This is evident as in 2019, the private consumption expanded at a strong growth at 7.6%, above its long-term average (2011-2018: 7.0%). Meanwhile, SME GDP growth across all economic sectors grew at a faster pace in comparison with the overall GDP growth (refer to Table 2.2).

**Table 2.2:** SME GDP and Overall GDP Growth by Economic Sector  
(constant 2015 prices)

| Sector             | 2018 SME GDP      | 2019 SME GDP | 2019 Overall GDP |
|--------------------|-------------------|--------------|------------------|
|                    | Annual growth (%) |              |                  |
| Agriculture        | 0.3               | 2.3          | 2.0              |
| Mining & Quarrying | 4.3               | 4.7          | -2.0             |
| Manufacturing      | 5.5               | 4.5          | 3.8              |
| Construction       | 4.0               | 0.1          | 0.1              |
| Services           | 8.1               | 7.4          | 6.1              |
| <b>Total</b>       | <b>6.2</b>        | <b>5.8</b>   | <b>4.3</b>       |

Source: Department of Statistics, Malaysia

In terms of sectoral contribution, the services sector has been, by far the biggest contributor to SME GDP, accounted for 63.3% in 2019. While the other sectors, namely manufacturing, agriculture, construction and mining & quarrying sectors contributed about 19.8%, 9.7%, 5.6% and 0.5%, respectively (refer to Table 2.3). A similar structure can be observed in the overall GDP with regard to contribution of sectors except mining & quarrying sector. The mining & quarrying sector contributed slightly more to the overall GDP (7.1%) compared to SME GDP (0.5%).

**Table 2.3:** SME GDP and Overall GDP Share  
by Economic Sector in 2019  
(constant 2015 prices)

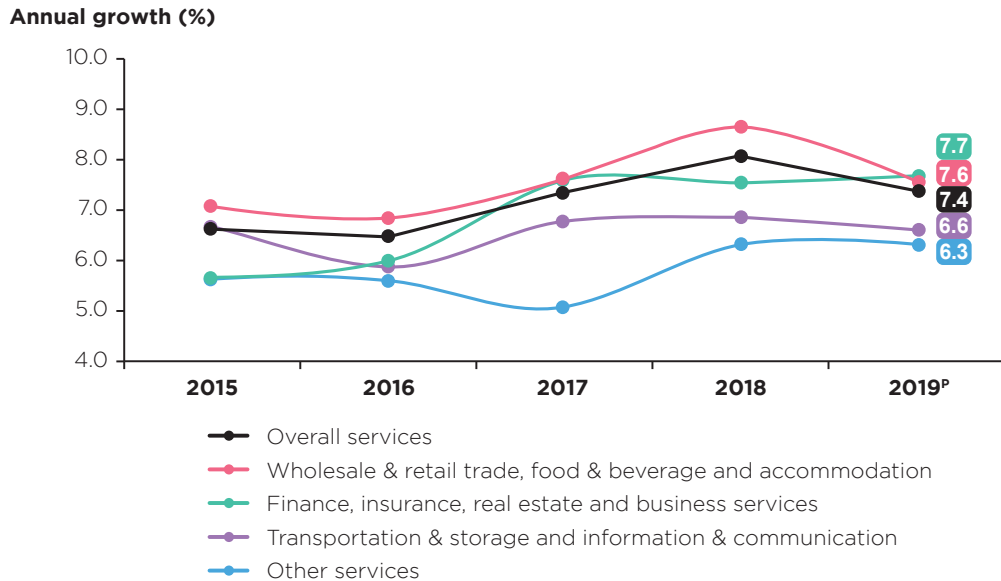
| Sector              | SME GDP                               | Overall GDP |
|---------------------|---------------------------------------|-------------|
|                     | 2019<br>Percentage Share to Total (%) |             |
| Services            | 63.3                                  | 57.7        |
| Manufacturing       | 19.8                                  | 22.3        |
| Agriculture         | 9.7                                   | 7.1         |
| Construction        | 5.6                                   | 4.7         |
| Mining & Quarrying  | 0.5                                   | 7.1         |
| Plus: import duties | 1.1                                   | 1.1         |
| <b>Total</b>        | <b>100</b>                            | <b>100</b>  |

Source: Department of Statistics, Malaysia



## SME Value-added in the Services Sector

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



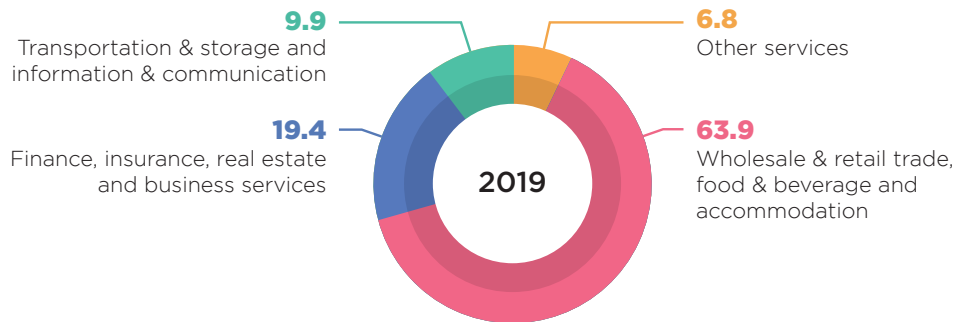
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Source: Department of Statistics, Malaysia

In 2019, value-added of SMEs in the **services sector** expanded by 7.4% (2018: 8.1%), as growth normalised following a robust performance in 2018. In the services sector, the finance, insurance, real estate and business services sub-sector registered the fastest pace of growth during the year at 7.7% (2018: 7.5%). The growth momentum was spurred by business services and real estate sub-sectors. Meanwhile, growth in the wholesale & retail trade, food & beverages and accommodation sub-sector remained strong, supported by firm household spending amid supportive labour market conditions. Transportation & storage and information & communication sub-sector recorded a sustained growth of 6.6% in 2019 (2018: 6.9%), driven by transportation & storage segment which comprise of land transport, water transport, air transport, warehousing & support activities and post & courier services. In terms of components of value-added of SMEs in the services sector, almost two-thirds of the value-added was contributed by wholesale & retail trade, food & beverages and accommodation sub-sector. This is mainly due to the fact that majority of SMEs (64.3%) in Malaysia are concentrated in this sub-sector.

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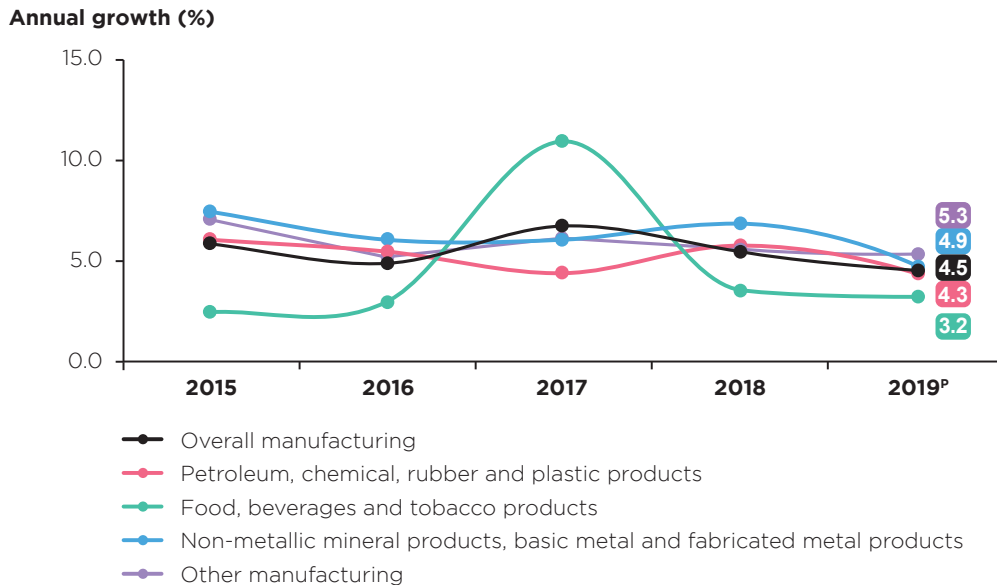
**Chart 2.4:** Components of Value-added of SMEs in the Services Sector (%)



Source: Department of Statistics, Malaysia

### SME Value-added in the Manufacturing Sector

**Chart 2.5:** SME Value-added Growth of Sub-sectors in the Manufacturing Sector (%)



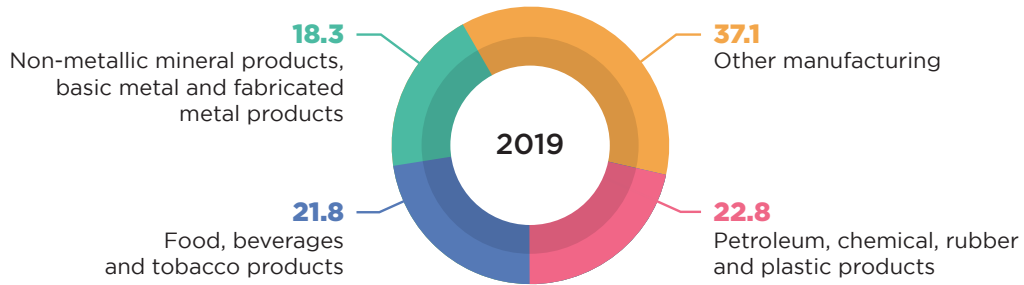
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Source: Department of Statistics, Malaysia

In **manufacturing sector**, value-added of SMEs increased at a slower growth of 4.5% (2018: 5.5%). The growth was weighed down by a moderation across all sub-sectors (refer to Chart 2.5). Petroleum, chemical, rubber and plastic products sub-sector which accounted for 22.8% of total value-added of SME manufacturing sector expanded by 4.3%

in 2019, slowing from the 5.9% growth in 2018 due to supply disruptions in key commodities during the year. Meanwhile, food, beverages and tobacco sub-sector and other manufacturing registered a more moderate pace of growth in 2019 at 3.2% and 5.3%, respectively. Non-metallic mineral products, basic metal & fabricated metal products sub-sector grew by 4.9% (2018: 6.9%), weighed down by construction-related activities.

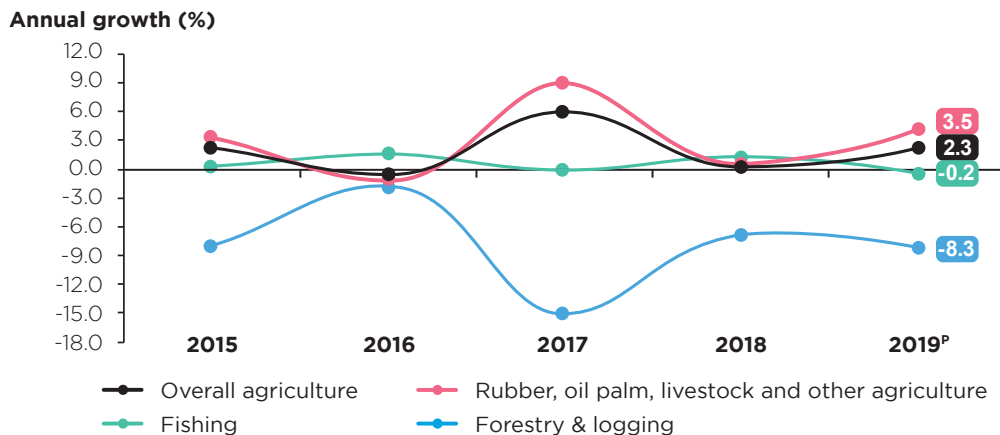
**Chart 2.6:** Components of Value-added of SMEs in the Manufacturing Sector (%)



Source: Department of Statistics, Malaysia

### SME Value-added in the Agriculture Sector

**Chart 2.7:** SME Value-added Growth of Sub-sectors in the Agriculture Sector (%)

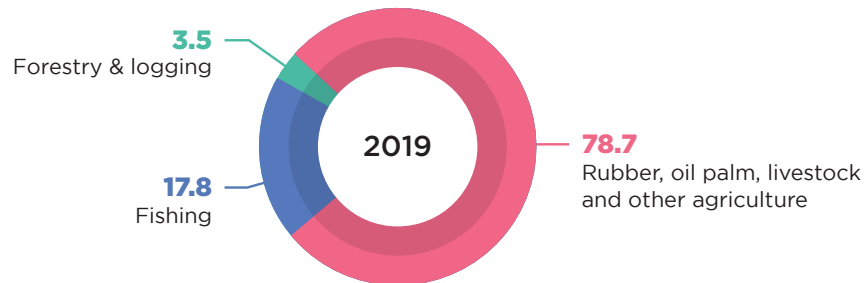


*p: preliminary*  
Source: Department of Statistics, Malaysia

Value-added growth of SMEs in the **agriculture sector** expanded to 2.3% in 2019 from 0.3% in the previous year (refer to Chart 2.7). The higher growth was led by rubber, oil palm, livestock and other agriculture sub-sector which grew by 3.5% (2018: 0.7%), benefitted from

an improvement in oil palm yields and natural rubber production. Almost 80.0% of the SME value-added in the agriculture sector are involved in this sub-sector. Fishing and forestry & logging activities continued to record a decline in value-added growth in 2019.

**Chart 2.8:** 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

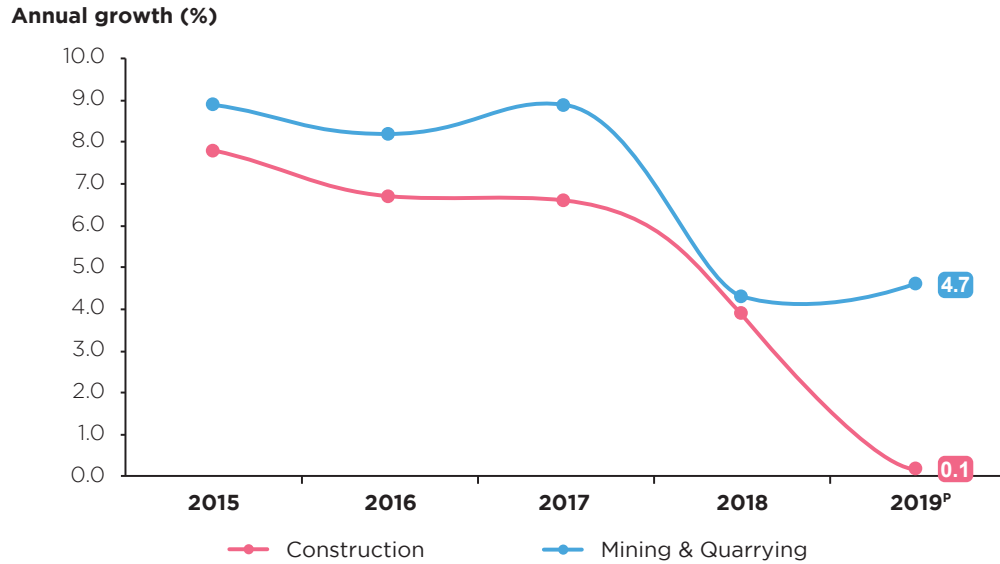
SME value-added growth in the **construction sector** increased marginally by 0.1% in 2019, moderating further from the 4.0% growth in 2018. Construction activities such as special trade and non-residential buildings were affected by fewer and smaller new projects amid the commercial property glut and elevated level of unsold residential properties. Civil engineering sub-sector which propelled by the public sector recorded a slower growth during the year due to delay in construction work for major highways, in addition to the completion of large petrochemical projects.

SME value-added growth in the **mining & quarrying sector** improved to 4.7% in 2019 (2018: 4.3%), driven by other mining & quarrying sub-sector, namely quarrying of stone, sand and clay activities. This explained by the fact that about three-quarter of SMEs in the mining & quarrying sector were highly concentrated in quarrying activities. These building material products which are used most notably in construction sector correspondingly provide support to the latter sector during the year.





**Chart 2.9:** SME Value-added Growth in the Construction and Mining & Quarrying Sectors (%)

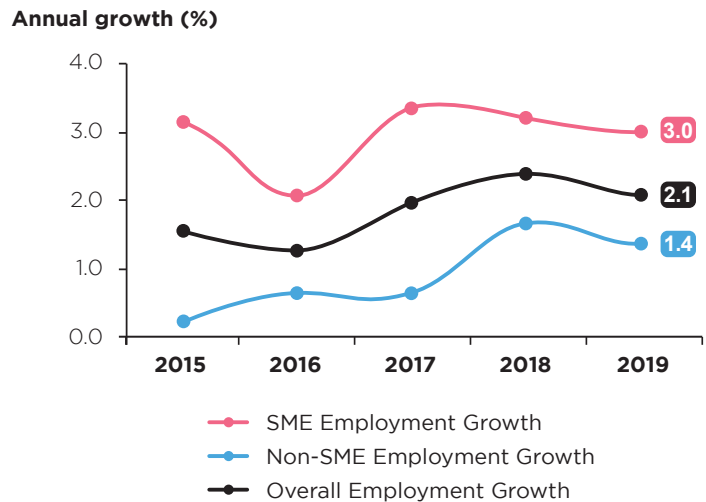


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 Source: Department of Statistics, Malaysia

### SME Employment

In 2019, SMEs in Malaysia employed 7.3 million people compared to 7.1 million people recorded in 2018, denoting an increase of 3.0%. SME employment growth was supported by all sectors except the construction sector which registered a negative growth during the year. The slower pace of SME employment in construction sector was partly due to weaker construction activities specifically suspension of infrastructure projects as reflected in SME GDP in construction sector. Meanwhile, SME employment grew at a faster rate in comparison to overall employment and Non-SME employment at 2.1% and 1.4% respectively (refer to Chart 2.10). This indicates the importance of the opportunities that SMEs offer.

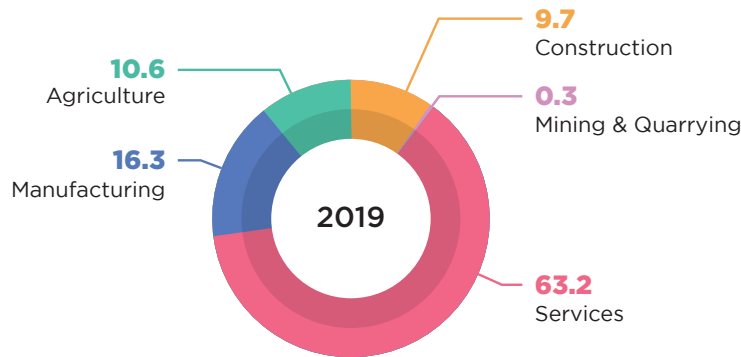
**Chart 2.10:** SME Employment, Non-SME Employment and Overall Employment Growth (%)



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 Source: Department of Statistics, Malaysia

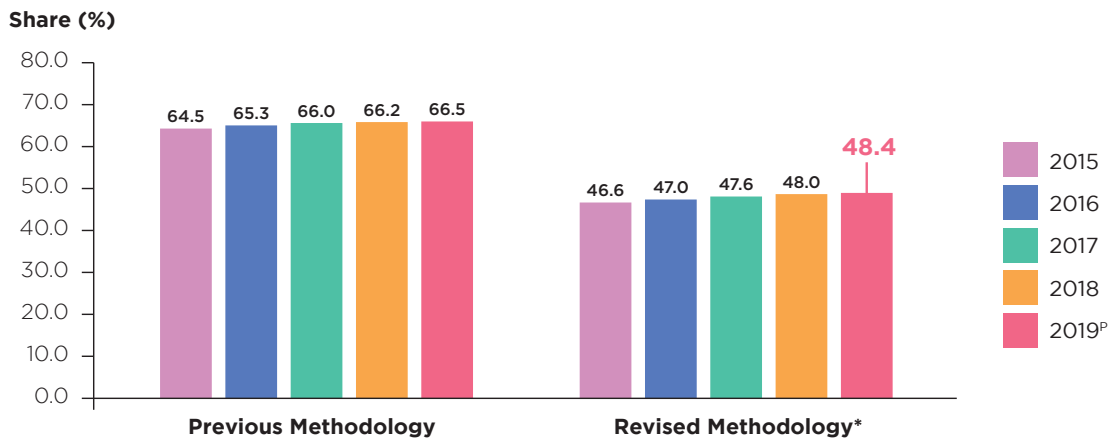
In terms of composition of SME employment by economic sector, almost two-thirds (63.2%) of them were employed in services sector, particularly in the wholesale & retail trade. SME employment was also generated by manufacturing (16.3%), followed by agriculture (10.6%), construction (9.7%) and mining & quarrying (0.3%) (refer to Chart 2.11). In the manufacturing sector, SME employment was mostly concentrated in food & beverage and tobacco as well as non-metallic mineral products, basic metal & fabricated metals sub-sectors.

**Chart 2.11:** Components of SME Employment by Economic Sector (%)



Source: Department of Statistics, Malaysia

**Chart 2.12:** Comparison for Share of SME Employment (%)



\* Revised methodology takes into account Government servants, employees in informal sector excluding agriculture sector, unregistered businesses in agriculture sector and outsourcing activity in the summation for overall employment (denominator)

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Source: Department of Statistics, Malaysia

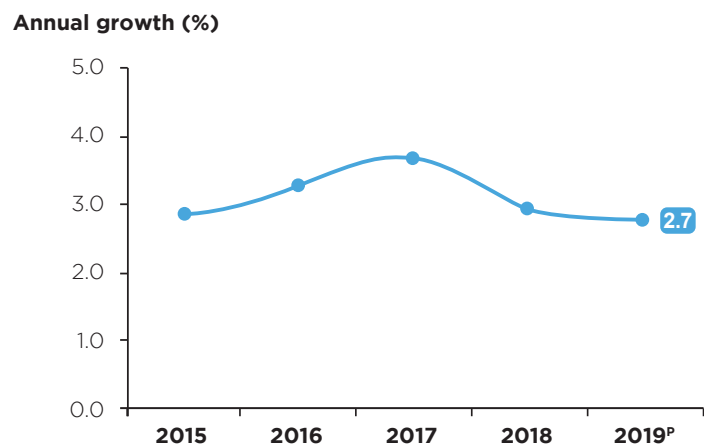
The contribution of SMEs to overall employment increased by 0.4 percentage points from 48.0% to 48.4% in 2019. The share of SME employment was revised based on the changes in methodology that now include the Government, informal sector excluding the agriculture sector, unregistered businesses in the agriculture sector and outsourcing activities in computing the overall employment which signified as denominator. Based on the new overall employment which accounted for 15.1 million people in 2019, the contribution of SMEs to overall employment has revised to 48.4% from 66.5% when compared to the previous methodology (refer to Chart 2.12). According to Department of Statistics, Malaysia, the computation of overall employment in the previous methodology has excluded the Government, informal sector excluding the agriculture sector, unregistered businesses in the agriculture sector and outsourcing activities. By applying the revised methodology, the overall employment reflects the actual employment situation in the country. Moreover, the formula to calculate the denominator will be similar to computation of overall GDP to attain share of SME GDP.

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## SME Productivity

Labour productivity per employee refers to the efficiency and effectiveness of each employee to generate value-added or overall output. It is calculated by using the ratio of value added of SMEs at constant prices to the SME employment by economic sector in Malaysia. Labour productivity of SMEs in Malaysia has maintained steady growth over recent years, despite the pace of growth has moderated slightly. In 2019, SME labour productivity grew by 2.7% (2018: 2.9%) to RM75,457 per employee as compared to RM73,449 per employee in 2018.

**Chart 2.13:** SME Productivity Growth (%)



*p: preliminary*  
Source: Department of Statistics, Malaysia



The construction sector recorded the highest productivity growth of 3.7%, followed by services (2.8%), mining & quarrying (2.5%) and manufacturing (2.3%). Meanwhile, productivity growth in the agriculture sector rebounded to 0.6% due to higher palm oil and rubber yields during the year.

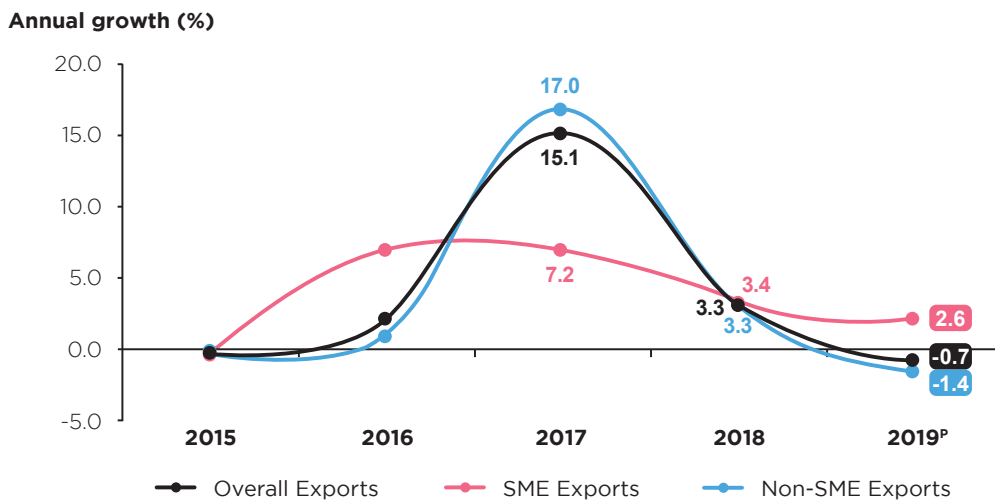
Nevertheless, comparing the value of productivity among the key sectors, the mining & quarrying sector had the highest productivity level at RM123,810 per employee, followed

by manufacturing (RM91,904), services (RM75,656) and agriculture (RM69,298). The construction sector had the lowest productivity level at RM43,527 which indicated that construction-related industries need to be more aggressive in adopting modern technologies and practices to reduce low-skilled labour.

### SME Exports

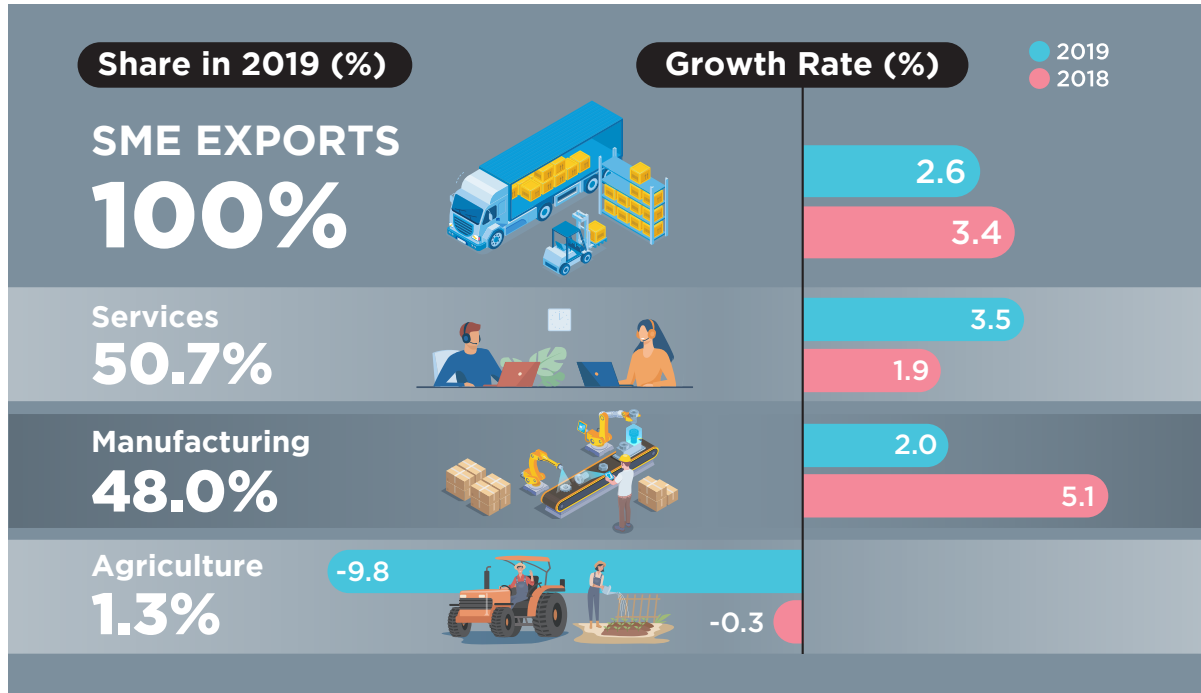
In 2019, SMEs continued to record a positive exports growth of 2.6% (2018: 3.4%), despite weaker external demand, ongoing trade tensions between United States (US) and China and lower commodity production during the year (refer to Chart 2.14). The Non-SMEs, on the other hand, was far more affected as it contracted by 1.4%, the first decline since 2013.

**Chart 2.14:** SME Exports, Non-SME Exports and Overall Exports Growth (%)



*p: preliminary*  
 Source: Department of Statistics, Malaysia



**Chart 2.15:** SME Exports Growth and Component by Economic Sector (%)

Source: Department of Statistics, Malaysia

The performance of SME exports was mainly driven by services and manufacturing sector which recorded the growth of 3.5% and 2.0%, respectively. Exports of SMEs in services sector which contributed 50.7% of total SME exports in 2019 was led by tourism-related industries following higher tourist arrivals, other business services and transport activities. Meanwhile, the SME exports in manufacturing sector was highly attributed by machinery & transport equipment, manufactured goods e.g. mineral manufactures, glass and aluminium as well as chemicals goods which accounted for more than half of the total SMEs exports in manufacturing sector. The main destination for SME exports in the manufacturing sector was Singapore which constituted 18.4%, followed by China (9.3%) and the US (7.5%). However, growth of SMEs exports in the agriculture sector contracted further by 9.8%, due to the decline in SME exports in vegetables, fisheries, poultry, banana and other tropical fruits such as watermelon, guava and others. The top three exports destinations for SMEs in the agriculture sector were Singapore, Japan and Thailand.