

Pressing agenda to deal with economic crisis
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Terence Gomez

A growing number of Malaysian individuals and groups have called on the government to initiate a constructive agenda to deal with the potential onslaught of the financial crisis that has erupted in the United States and Europe.

The present crisis draws attention to issues that require prompt and serious consideration by the government, including the extent of its ownership and control of the banking sector, the provision of mechanisms to support small and medium-scale enterprises (SMEs), the effective and productive employment of government-linked companies (GLCs), the availability of viable incentives to draw foreign direct investments (FDI) and the volume of infrastructure development spending that has to be made available to sustain efforts to reduce poverty and stimulate growth.

While these issues require careful review, the key lesson the Malaysian government must draw from this is the need to conceive feasible measures to promote domestic entrepreneurship, even in the absence of a crisis. This is imperative if the economy is to be able to generate investments locally to curb Malaysia's heavy dependence on FDI.

malaysia stock exchange market klse 141008 05But government policies to cultivate local entrepreneurial firms have long been tempered with the need to achieve other social goals that are also held to be important, such as the promotion of bumiputera firms as part of Malaysia's affirmative action plan, or the New Economic Policy (NEP).

The government has vigorously endeavoured over the past three decades, for instance, to create a 'Bumiputera Commercial and Industrial Community' (BCIC) that is actively involved in the industrial sector. The absence, however, of bumiputera companies in the current crop of leading publicly-listed manufacturing firms raises questions about the government's success with BCIC.

More importantly, the question the government will have to squarely confront is whether its promotion of policies such as the BCIC has been at the expense of entrepreneurial firms owned by non-bumiputeras. And the other question requiring serious consideration is whether such policies have played a role in hindering Malaysian firms from moving up the technological ladder or from developing internationally recognised brand products.

Supporting SMEs

What Malaysian corporate history cogently indicates is that the high degree of government intervention in the market and the pattern of implementation of affirmative action have impacted negatively on a majority of non-bumiputera businesses in manufacturing, curbing their willingness to invest further in their enterprise. Inevitably, companies that may have had the capacity to upgrade their technology in a way that would have helped foster domestically-driven industrialisation have been constrained.

The fundamental reason for the presence of only a handful of large entrepreneurial firms with a long corporate history, or for the demise of firms owned by some of Malaysia's leading business people, or for the limited potential of SMEs to scale up the technology

ladder is that these companies have failed to invest sufficiently in production, distribution and organisation. This failure in turn can be attributed to inadequate support and encouragement by the government for research and development (R&D).

malaysia stock exchange market klse 141008 02It is quite probable that non-bumiputeras are reluctant to invest in R&D and learn new technology for fear that ethnically-based policies would work against them as they develop their ventures. Recent government policies by Prime Minister Abdullah Badawi have favoured SMEs, but the response to these public incentives has been poor. This suggests the government has yet to convince domestic investors that their investments will be protected from policy instruments adopted to redress ethnic wealth inequalities.

During the serious economic recession of the mid-1980s, for instance, affirmative action in corporate activities was 'held in abeyance', only to be actively promoted even after the New Economic Policy had lapsed in 1990, an issue that probably did not encourage non-bumiputeras to invest liberally in their enterprises.

The need now felt by the government to support SMEs is urgent as small firms worldwide have shown that they are capable of being more responsive to market demands as they are far more flexible and better equipped to engender and adopt innovations.

Importantly too, a government review of its policy orientation on enterprise and economic development may compel it to consider more explicitly its broader developmental orientation, including how it thinks about issues such as public-private cooperation.

With the government now playing a major role in steering resources to companies to attain its development and social goals, including redistributing wealth and reducing poverty, its conception of public-private compacts must be one that is seen to be inclusive.

Social compacts

In industrialised East Asian and European countries, social compacts have included not just government and business, but also labour. Such social compacts have provided for much-needed stability in policy planning and implementation and have served to control wage increases.

In Japan and the Nordic countries, it was social partnerships between employers, trade unions and the government that helped them register significant economic progress, provide for social protection measures and reduce poverty appreciably. In such models, the importance of the small firm in terms of promoting innovation, developing industrial capacity, generating employment and redressing regional (and ethnic) inequities has been noteworthy.

malaysia stock exchange market klse 141008 04Taiwanese SMEs, for example, offer an outstanding model of small entrepreneurial firms that are highly capable of competing globally. In Singapore, after a long cultivation of GLCs, the government began emphasising the need to support SMEs to foster domestic entrepreneurial capacity.

In the US, studies reveal that business organisation can shape markets in the industrial sector. Small firms can similarly pattern the form of the industrial sector if they acquire the capacity to learn and develop technology.

Britain provides other useful lessons. The Thatcher government recognised the importance of the small firm in creating employment when the economy began in 1979 to move into a deep recession that continued into the early 1980s. A 1992 OECD study showed that Britain had the fastest growth rate of self-employment among European countries between 1979 and 1990, rising from 7.5% in 1979 to 12.2% in 1990.

From 1981, as civil unrest began to spread, Thatcher's government also began to focus attention on enterprises owned by ethnic minorities. One factor that had precipitated tensions was that the government had not heeded the needs of businesses owned by minorities, an issue that was subsequently addressed, but which also helped to reduce unemployment.

Need to reassess ethnic-based policies

There are other reasons why the Malaysian government needs to reassess its ethnic-based policies in the business sector. Chinese enterprises have survived and thrived in the Malaysian economy, in spite of the implementation of affirmative action, because they have been exposed to intense competition.

malaysians 050905 Since the Chinese retain a large presence in manufacturing, they remain an important avenue through which the government can promote the rise of an independent domestic industrial base, if Malaysia hopes to reduce its persistent dependence on foreign firms in this sector.

With adequate and appropriate government support, and with policies that transcend racial boundaries, it is probable that the dynamism of private companies that clearly prevails in the corporate sector can be gainfully nurtured. It would also encourage SMEs to overcome systemic problems, such as inadequate investments in R&D and low productivity, which may help them evolve into firms of international repute.

Since the 9th Malaysia Plan already endorses SMEs, a new round of considerable policy re-configuring would be unnecessary. However, the government's willingness to adopt a more inclusive and collective orientation towards enterprise development will serve to either deeply inspire or alienate business people. And this is what may ultimately determine whether the government can usher in a form of domestic enterprise development that is highly entrepreneurial.