

STRENGTHENING ENTREPRENEURSHIP IN MALAYSIA

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OVERVIEW

The development of entrepreneurship, as both concept and activity, has been growing in importance in Malaysia. The perceived importance of entrepreneurship to the growth of Malaysia's economy is evidenced by the sheer amount and variety of supporting mechanisms and policies that exist for entrepreneurs, including funding, physical infrastructure and business advisory services. The establishment of a special ministry for entrepreneurs—the Ministry of Entrepreneur Development—in 1995, clearly showcases the importance the government places upon the issue of entrepreneurship and entrepreneur development. The Ministry is supposed to act as the lead agency for the development of Bumiputera³ entrepreneurs as well as to co-ordinate entrepreneurship activities in general.

The country's quest in this direction is underpinned by its historical roots as a center of trade and commerce in the fifteenth century when the kingdoms of Malacca and Temasek (Singapore) were at their height, as well as more modern concerns. These include economic globalization and liberalization, the need to strengthen national competitiveness, and the need to foster greater capacity for technology and innovation. However, the issue of entrepreneurship in Malaysia is closely tied to the other political economic considerations unique to the Malaysian context, and thus has its own set of constraints to contend with even while it is being developed.

HISTORICAL BACKGROUND AND CONTEXT

An interesting feature of Malaysian economic history that has to be understood in order to appreciate the current context of entrepreneurship in Malaysia is the historical practice of segregating economic activity along racial lines, a practice that was introduced by the British under their colonial rule of Malaya (pre-1957). In order to simplify administrative operations, as well as the operations of the rubber plantations and tin mines (Malaya's main economic attraction at the time), the British administration decided to import Indian migrant workers to work on the rubber plantations and Chinese migrant workers to work in the tin mines. Having had some experience with trading with the Chinese, the British allowed the Chinese to take up certain trades, becoming shopkeepers and petty traders in the towns. The Malays dominated the agricultural sector and were the only ethnic-group that was allowed into the bureaucracy. In most instances, only members of the

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³ Bumiputera literally means "sons of the soil." This demographic group includes ethnic-Malays and indigenous peoples of Peninsular Malaysia, Sabah, and Sarawak.

royal or upper-class families of the different states were allowed into the bureaucracy, while the majority of Malays were confined to the low-income agricultural sector. This resulted in a society that was very much multi-layered, segregated economically and racially with the majority of Malays (Bumiputeras) at the bottom rung.

In order to remedy the economic inequalities that existed within the country, it was agreed among representatives of the three major ethnic groups that upon independence, the Malays would be granted certain “special rights” in the realm of religion, economics and politics. The main reason for this “positive discrimination” was to elevate the status of the economically disenfranchised Malays, and thereby create a more equitable society.

These special rights received fuller articulation under the New Economic Policy (NEP) that was instituted in 1970 as a response to the growing discontent about the economic inequalities between the Malays and the other races (mainly Chinese) who were still gaining economic ascendancy. Thus, the two-pronged objective of the NEP was to eradicate poverty, as well as to obliterate the strict lines identifying a particular ethnic-group with a particular economic activity or occupation. Under the NEP, emphasis was put on increasing effective Bumiputera ownership and participation in the corporate sector, improving Bumiputera participation in high-income occupations, as well as narrowing income inequality and eradicating poverty. The aim was to attain at least 30 percent effective Bumiputera equity ownership by 2000, but this goal was extended to the year 2010 as stipulated in the Third Outline Perspective Plan (OPP3), 2001-10.

Embedded within these larger policies is the issue of creating a Bumiputera Commercial and Industrial Community (BCIC), which involves fostering Bumiputera entrepreneurs, professionals and creating a Bumiputera middle-class (Economic Planning Unit, 2001). As mentioned, this has become the backbone of Malaysia’s strategy for strengthening national entrepreneurship, and all related policies and strategies have to take this into consideration. Non-Bumiputera entrepreneurs have not been totally neglected however. The government continues to nurture the business community through a variety of entrepreneurial support services.

Due in no small part to its attention to these domestic considerations as well as to careful national economic planning, Malaysia’s economic performance has been quite impressive relative to other developing countries. It has managed to sustain a relatively high level of growth, even though it had to contend with the recent Asian economic crisis. Specifically, the Malaysian economy recorded an average growth of 4.7 percent per annum during the period 1996-2000. Real GDP expanded at an average rate of 8.7 percent per annum, before registering a negative growth rate of 7.4 percent in 1998. Efforts to resuscitate the economy, starting from mid-1998, succeeded in generating an average growth of 7.2 percent during the 1999-2000 period. Per capita income in current terms, which declined in 1998, rebounded to Malaysian Ringgit (RM) 13,359 in 2000, surpassing the pre-crisis level (Economic Planning Unit, 2001). In 2001, both the unemployment and inflation rates remained low at 3.9 percent and 1.3 percent, respectively (Bank Negara Malaysia, 2002).

Table 1. Malaysia: GDP Growth (%) by Sector

% Growth	1996	1997	1998	1999	2000	2001	2002f
Agriculture	4.5	0.7	-2.8	0.4	0.6	2.5	0.9
Mining	2.9	1.9	0.4	-2.6	3.1	0.2	3.2
Manufacturing	18.2	10.1	-13.4	13.5	21	-5.1	6.4
Construction	16.2	10.6	-24	-4.4	1	2.3	3.5
Services	8.9	9.9	-0.4	4.8	4.8	4.9	4.5
RGDP	10	7.3	-7.4	6.1	8.3	0.4	4.5

Source: MIER 2002

RATE OF START-UPS

At present, there are 585,471 legally registered companies in Malaysia based on the latest Registrar of Companies (ROC) data. Of these 577,310 are private limited companies, 3,056 are limited companies, 885 are limited with guarantee companies, 204 unlimited companies, 3,979 are foreign companies, and the rest are other forms of companies.

The number of newly created firms registered with the Ministry of Entrepreneur Development over the past nine years is presented in Table 2. According to the Ministry, 23,247 businesses were established in 1992 and the figure has been steadily progressing, reaching a high of 43,571 in 1994. There was an enormous drop in the number of new businesses set up in 1998, when the effect of the Asian crisis became more apparent. Nevertheless, there is evidence of a slight rebound beginning in 1999⁴. As such, it can be said that the rate of business start-ups reflects the economic cycles that Malaysia goes through.

Table 2. Trends in Business Establishment (Number)

1992	1993	1994	1995	1996	1997	1998	1999	2000
23,247	30,988	43,571	43,238	43,143	40,720	18,825	27,756	16,155

Note: Six months for 2000.

Source: Ministry of Entrepreneur Development cited in Ariff and Lim (2001).

Also, it cannot be denied that the assistance provided to existing and potential Bumiputera entrepreneurs has gone some way in increasing the total number of businesses being established. Between 1996 and 2000, a total of 26,300 Bumiputera entrepreneurs were developed through various BCIC programs. In addition, there was also a significant increase in the establishment of Bumiputera enterprises, both in the corporate and non-corporate sectors. A total of 97,500 Bumiputera companies registered with the Registrar of Companies (ROC) in 1999 compared with 69,700 companies in 1995 or 19 percent of the total companies registered with the ROC. Meanwhile, the number of Bumiputera entities registered with the Registrar of Businesses (ROB) doubled from 366,790 in 1995 to 743,550 in 1999. This increase represented about 38.7 percent and 45.3 percent, respectively, of the total number of ROB registered companies.

⁴ Although these figures are indicative of the general business start-up trend in Malaysia over the past decade, they by no means represent the total number of business start-ups because not all businesses need to register with the Ministry of Entrepreneur Development to start up a business.

CULTURAL AND DEMOGRAPHIC FACTORS

ATTITUDES TOWARD ENTERPRISE CREATION

According to the Global Entrepreneurship Monitor (GEM, 2000) report, the general attitude of the public toward entrepreneurship and the understanding and support of the importance of entrepreneurship in society are key social and cultural norms. In several European countries for instance, the study was very clear that society's negative posture with respect to creativity, innovation and change significantly reduced the number of people engaged in starting new firms.

In the Malaysian case, and at the risk of over-generalization, it can be said that on an individual level, attitudes toward enterprise creation have been previously divided along racial lines (due to the identification of race with economic activity), although the situation is beginning to change as the whole of Malaysian society begins to modernize and social restructuring begins to take effect. Historically, the Chinese (and to an extent the Indian-Muslim community) have had a long tradition of entrepreneurship, and their community members have had less resistance to the whole notion of entrepreneurship. In fact, the handing over of family businesses from father to son was the norm for these groups.

This was in contrast to the Bumiputera community who, as a whole, did not have a tradition of entrepreneurship. Rather, they were used to being either employed in the government service, or self-employed as agricultural farmers or smallholders. Nevertheless, there were exceptions to the rule where Bumiputeras were involved in business, although the numbers were small. Another exception is the women in the northern state of Kelantan. Kelantanese women have traditionally been the main breadwinners of the family and worked as petty traders in the markets, thus engaging in a basic form of entrepreneurship.

As can be gleaned from the current explosion of the number of enterprises being created (see previous section), attitudes toward entrepreneurship have indeed improved. At the national level, the government's recent focus on creating the BCIC, and in parallel an entrepreneurship culture, has had some effect in improving attitudes toward entrepreneurship especially among the Bumiputeras. The high-profile and celebrity status attached to successful millionaire Bumiputera entrepreneurs of the late 1980s and 1990s, such as Halim Saad of the Renong Group, Tajudin Ramli of TRI, and Wan Azmi of Land and General, also went some way in changing attitudes towards entrepreneurship among the Malays. This group of successful millionaire Bumiputera entrepreneurs became the new "role-models" for the Malays, a position previously filled by political figures, especially those who had fought for the country's independence.

Perhaps more important than simple attitudinal change has been the series of government policies ranging from privatization to the encouragement of small and medium-scale industries (SMI)⁵

⁵ In Malaysia, SMI is defined as follows depending on the number of employees and sales turnover: SMI is an enterprise with employee number not more than 150 and sales turnover not more than 25 million ringgit. SMI is classified into medium-size enterprise and small-size enterprise. The former is defined as an enterprise with not less

development, which helped to create the conditions and opportunities for entrepreneurship to flourish. Beginning in 1983, the government began to reverse its earlier promotion of public enterprises and began to encourage privatization.⁶ Moves to privatize included the divestment of state-owned enterprises⁷, and “contracting out” or “licensing out” of services previously provided by the public sector. The construction of public infrastructure, meanwhile, has been privatized through a combination of build-operate-transfer (BOT), build-operate (BO) or build-operate-own (BOO) methods (Gomez and Jomo, 1999: 81-2).

Gomez and Jomo (1999: 86-7) agree that the Privatization Master Plan had indeed stimulated growth by providing greater opportunities to private sector entrepreneurs. The privatization of the Malaysian International Shipping Corporation (MISC), Malaysian Airline System (MAS), Syarikat Telekom (M) Berhad (STM), and Tenaga Nasional Berhad (TNB) apparently increased business opportunities by allowing the private sector to venture into areas previously monopolized by the government, namely broadcasting, shipping, airlines, telecommunications and power generation. For example, through the introduction of the private television network TV3, multiplier effects such as the stimulation of the domestic film and advertising industries kicked in, and in this way encouraged private sector entrepreneurship. Nevertheless, critiques of the privatization process abound. For example, privatization has been questioned by many parties who see it as a way of distributing political patronage to politically connected businessmen (Gomez and Jomo, 1999). Yet another common critique is that the development of Bumiputera entrepreneurship was also hampered, as contracts awarded to Bumiputeras were eventually sub-contracted to foreigners and non-Bumiputeras.

The privatization move served to create a small class of millionaire entrepreneurs (some of whom are mentioned above), even while it helped to raise the equity stakes of the Bumiputera masses.⁸ On the other hand, the move to encourage SMI development was mainly aimed at creating a large pool of genuine medium-scale entrepreneurs who are able to compete in the global market place. This stance is echoed in the research works of a variety of scholars who point to the SMI field as a spawning ground for entrepreneurship, which provides opportunities for value-added employment creation, income distribution, training and skill development, and which completes the supply chain links with big industries and multinationals (Harper, 1984; Ismail, 1990; Chee, 1990). There are many government assistance plans, including financial assistance, tax incentives and business advisory assistance, among others. Nevertheless, over the years, SMI development in Malaysia has been a little slow to take off due to attitudinal and implementation problems, but prospects are improving.

than 51 and not more than 150 employees and sales turnover of not less than 10 million ringgit and not more than 25 million ringgit. The latter is defined as an enterprise with not more than 50 employees and sales turnover of not more than 10 million ringgit.

⁶ Paul Cook and Martin Minogue, “Waiting for the Privatization in Developing Countries: Towards the Integration of Economic and Non-Economic Explanations,” *Public Administration and Development*, Vol. 10, (1990): 390. This was seen as a response to domestic economic problems, and the burgeoning financial burden that public enterprises were imposing on the government. The shift was also in line with what Cook and Minogue saw as the transposing of a global ideological stance—more private sector-oriented development policies—from major multilateral financial agencies like the World Bank and the Asian Development Bank.

⁷ Divestment of state-owned enterprises through public-listing sometimes required that corporatization of the state-owned enterprise be undertaken first to ascertain the public enterprise’s financial position, introduce managerial reforms, and make the company more “marketable” for launch in the stock market.

⁸ Shares of the former state-owned enterprises could be acquired by public trust agencies and individuals.

Overall, the privatization and SMI development policies are evidence of the government's encouraging attitude toward enterprise creation, based on the premise that it encourages and does not jeopardize other national objectives such as those embodied within the NEP.

ATTITUDES TOWARD FAILURE/SUCCESS

As the successful creation of the BCIC depends to a large part on the continued success of Bumiputera entrepreneurs, the government naturally has great interest in seeing enterprises (not necessarily the entrepreneurs) survive and flourish. This was clearly demonstrated during the post-Asian economic crisis, a time when many highly leveraged business enterprises and entrepreneurs found themselves in severe financial trouble. Indeed, many of the "new rich" have been adversely affected by the crisis, as the value of their corporate stock shrank, leaving them with the severe problem of restructuring their loans. Halim Saad, Tajudin Ramli and Mirzan Mahathir were among those whose corporate stock value shrank drastically.

Mirzan's main publicly listed company, the shipping concern Konsortium Perkapalan Bhd. (KPB), was barely afloat, with huge debts estimated at around RM 1.7 billion. In March 1997, before the financial crisis, the KPB share price was RM 17.30; by February 1998, its price had fallen to RM 3.78. Nevertheless, since it was deemed that their interests were "too big to fail," ways were found to keep their companies, and to a certain extent themselves, afloat.⁹ The Petronas-controlled, publicly listed MISC bailed out KPB for cash by mainly acquiring KPB subsidiaries saddled with loans. In a controversial bailout which precipitated a RM 70 billion, or 20 percent, collapse of the stock market in the three days after it was announced, Halim Saad's UEM, which owns the cash-rich North-South Highway toll-operator PLUS, took out a huge short-term loan to acquire a 32.6 percent stake in its holding company, Renong Bhd., at an inflated price of RM 2.34 billion. As more UEM loan obligations became due, the Renong Group proposed to the government the exchange of RM 10.5 billion of its debt for government-backed, long-term zero coupon bonds (that is, yielding no income to bond-holders), probably to be sold to the government-controlled institutions such as the Employees Provident Fund (EPF). The bonds would be paid for with North-South Highway toll revenue, which would be exempted from taxes worth RM 4.5 billion. The Renong proposal would also "transfer" a RM 824 million government soft loan with the commercially unviable Second Link Bridge to Singapore to a new government agency, the Infrastructure Development Corporation (IDC). The Second Link was not expected to be profitable in the short term, but the government had given Renong more than 42 square miles of what is now valuable land around the Malaysian end of the bridge as an inducement. The proposed IDC is thus supposed to take over the debt and the liability, while Renong gets to keep the land, some of which it has already resold for more than 10 times the price the group paid for it.

Besides this, the government has also promoted the non-failure of enterprises in the aftermath of the Asian economic crisis by setting up various special purpose vehicles such as Danaharta Nasional and Danamodal to acquire and manage non-performing loans (NPLs), and to recapitalize the banking sector, respectively. With the banking sector on a relatively more solid ground, this reduced

⁹ Renong's proposal to the government has been justified by the size of the group's accumulated debt of RM 20-28 billion, constituting more than 5 percent of loans by the Malaysian banking system. Terence E. Gomez and K. S. Jomo, *Malaysia's Political Economy: Politics, Patronage, and Profits*, 2nd ed. (Cambridge; Cambridge University Press, 1999).

the number of businesses that would have been forced into bankruptcy. Besides Danaharta and Danamodal, businesses and corporations also needed an entity that could help them address problems such as debt servicing and repayment. With this in mind, a separate entity to restructure corporate debts was created alongside Danamodal and Danaharta, namely the Corporate Debt Restructuring Committee (CDRC). The CDRC provided a platform for both the borrowers and the creditors to work out feasible debt restructuring schemes without having to resort to legal proceedings. Initially, a large number of borrowers and creditors in dire financial straits had sought legal protection under Section 176 of the Companies Act 1965, rather than explore other options such as debt restructuring. With the establishment of the CDRC debt-restructuring framework, Creditor Committees, comprising banking institutions, were formed to work out how the debts would be restructured. These are but a few examples of the efforts undertaken to curb the failure of what were considered strategic businesses.

Besides the “too big to fail” argument, it can also be argued that, to a certain extent, the bailouts were undertaken mainly to ensure that Bumiputera corporate interests and equity share would not be severely eroded by the crisis. However, the moves were seen in a very negative light, especially by the international community who were influenced by the currently fashionable ideology of good governance and transparency espoused by the World Bank and the International Monetary Fund. There was also a strong feeling between both the international and local business communities that the bailouts were selective, insofar as they were directed to those who were politically well connected. Nevertheless, four years after the crisis, it is interesting to observe that many of the “new rich” such as Halim Saad and Tajudin Ramli, who were accused of making use of their connections to orchestrate bailouts, are no longer in the cushy positions, both financially and politically, that they once enjoyed. After failing to repay a RM3 billion loan that had been temporarily managed by Danaharta, Halim Saad has lost his company UEM. After facing a similar fate, Tajudin Ramli has lost control of his company Celcom, and is being sued for gross mismanagement of his other company MAS (the national airline), which suffered severe financial losses under his management.

These developments could signal the beginning of a new attitude toward Bumiputera entrepreneurs insofar as how much political “support” they can expect in the future, or it could signal the adoption of a new “model” for national economic development, one that separates the agenda of developing Bumiputera entrepreneurs from that of trusteeship of UMNO¹⁰ (the main party in the ruling coalition which is associated with championing Malay/Bumiputera interests) and Bumiputera equity. The latter is evidenced by the fact that professional managers, rather than selected entrepreneurs, are now being invited to head various strategic companies. Nevertheless, domestic political considerations, which have nothing to do with the first two suggestions, cannot be ruled out. Specifically, Halim Saad and Tajudin Ramli were Daim Zainuddin’s, (the former Finance Minister and so-called financial mastermind behind Malaysia’s economic success) protégés. Their fall could be a reflection of Daim’s fall from political favor.

ACCEPTANCE OF WOMEN IN THE WORKFORCE

Even in historical times, women have played a part in the productive economy of Malaysia, although the specific roles they play have begun to change. Whereas prior to the middle of the last century

¹⁰ UMNO is the acronym for United Malays National Organization.

they had been involved in petty trading and helping out family businesses, beginning in the 1950s, women began to join the workforce as schoolteachers, nurses and secretaries. Currently, women can be found in nearly all professions and at all levels of the corporate and even political scene (see Table 3). Nevertheless, compared to men, women generally are more prevalent in the so-called low-income occupations, although this is changing with improved attitudes toward women in the workforce and higher educational attainment of women in Malaysia.

Table 3: Employment Distribution (%) by Occupation and Gender, 1995 and 2000

Occupation Category	1995		2000	
	Male	Female	Male	Female
Professional, Technical & Related Workers	8.4	12.7	8.9	13.5
Administrative & Management Workers	3.9	1.8	4.7	2.2
Clerical and Related Workers	7.5	17.5	7.1	17.5
Sales & Related Workers	10.5	11.6	11.1	12.1
Service Workers	9.4	14.4	9.5	17.4
Agricultural Workers	21.9	16.6	20.4	14.8
Production and Related Workers	38.3	25.4	38.4	22.6
TOTAL	100	100	100	100

Source: Economic Planning Unit, 2001

Various measures have been taken to improve female participation in the labor market. The Employment Act 1955 was amended in 1998, which among other laws, provided for flexible working hours and empowered the Minister of Human Resources to make rules on statutory benefits to be paid to part-time workers proportionate to those accorded to full-time employees. This amendment permitted women, especially housewives, to be gainfully employed in part-time employment, while allowing them the flexibility to meet their family obligations. In an effort to allow women in the public sector to care for their newborns, as of May 1998, maternity leave of up to 60 days is allowed for a maximum of up to five children. In addition, provisions for tax deductions are provided to employers for the establishment of childcare centers near or at the workplace. Employers are also encouraged to provide facilities such as proper housing, transport and healthcare for the benefit of rural migrants, the majority of whom are women.

In terms of ensuring equality between the sexes, the Federal Constitution of Malaysia contains article 8(1), which provides that all persons are “equal before the law and entitled to the equal protection of the law.” This applies to the status of women as well. In the public sector, an “equal work, equal pay” ruling applies.

In terms of skills and entrepreneur development, training programs have been established to enable women to improve themselves and take advantage of the opportunities in the job market. In this regard, courses in areas such as business and organizational and financial management were implemented. Skills training programs provided by the Center for Instructor and Advanced Skills Training were expanded and resulted in an increase of 19.4 percent in the female enrolment between 1995 and 2000. Measures were also undertaken to facilitate the involvement of women in business through the provision of easy access to capital. The Women’s Entrepreneurs Fund was established in 1998 with an allocation of RM 10 million (approximately US\$263,157). A total of 12 projects amounting to RM 9.5 million were approved under the Fund. Through the Small Entrepreneur

Fund, a total of 6,000 women entrepreneurs obtained loans amounting to RM 65 million (approximately US\$171,052) (EPU 2001).

Various women entrepreneur and industry associations have also been formed and generally serve as a platform for women entrepreneurs to establish networks and exchange information and experiences as well as to conduct training programs, seminars and workshops on motivation, leadership and entrepreneur development.

IMPLICATIONS OF DEMOGRAPHIC AND LABOR TRENDS

Current estimates indicate that the Malaysian population increased at an average annual rate of 2.4 percent during the period 1996-2000, reaching a total of 23.27 million in 2000. The population of Malaysian citizens grew at an average rate of 2.3 percent per annum, while the non-citizen population increased at a higher average rate of 4.3 percent. In general, the rate of population growth continued to slow down as shown by a declining fertility rate as the country progressed towards a developed nation status. The median age of the population in 2000 was 23.9 years, indicating that Malaysia continues to have a young population age structure.

There has been an increase in the number of people in the working age group of 15-64 years, accounting for 62.9 percent of the population in 2000. Of this figure, the labor force participation rate (LFPR) was 65.5 percent in 2000, an increase from 64.9 percent in 1995. There were more than 1.3 million additional entrants into the labor market during the period 1996-2000, averaging 254,400 people per year. More women than men joined the labor force in 2000 as women's LFPR rose 1.0 percent, compared to men's LFPR, which rose only 0.1 percent.

The Labor Force Survey (LFS), conducted by the Department of Statistics (DOS), indicated that 55.3 percent of the labor force was in urban areas. The survey also showed that the educational profile of the labor force improved since 1992 with more than half of the labor force completing secondary education. Similarly, those with tertiary education also increased from 11.1 percent in 1995 to 14.0 percent in 2000 (Department of Statistics, 2000).

In the years leading up to the Asian crisis, Malaysia experienced a persistent labor shortage problem. To deal with situation, Malaysia resorted to the recruitment of foreign labor, especially in the manufacturing sector. The ratio of foreign workers to the entire labor force increased from 1:10 in 1995 to 1:8 in 1997, but declined to 1:13 in 2000, following the massive migrant labor repatriation exercises that were undertaken following the economic crisis in 1997 and 1998. Currently, out of a total of 749,200 foreign workers with work permits, 31.3 percent are in manufacturing, 22.9 percent in agriculture, 8.7 percent in construction, 7.4 percent in services and 20.3 percent as domestic help. Expatriates, who are highly skilled foreign workers, accounted for 9.4 percent of the foreigners working in this country.

The young population of Malaysia and the fact that just over half of the labor force is in urban areas bode well for the development of entrepreneurship, as there are plenty of opportunities in terms of access to capital and business opportunities. The increasing importance of information communications technology (ICT) to Malaysia also bodes well for the development of a more technologically savvy entrepreneur in Malaysia—the technopreneur. The fact that women are

becoming a very important economic group in their own right also signals that more efforts are needed to nurture them in taking up entrepreneurship.

BUSINESS ENVIRONMENT

STRENGTH OF FINANCIAL SYSTEMS

In comparison with the rest of the countries in the region, Malaysia has always had a healthy banking and financial sector. While there were some concerns raised during the height of the crisis, the financial and banking sector is currently regarded as one of the healthiest in the region. The government continues to develop the financial system, implement policies to promote a robust and resilient financial system, and reduce the potential for financial instability. These efforts have been undertaken in order to ensure that the financial sector is able to remain sound and intact despite the severe consequences of the recession following the Asian economic crisis.

The Capital Market Master Plan and the Financial Sector Master Plan were launched on February 22, 2001, and March 1, 2001, respectively. Both master plans chart the strategic directions of the capital market and financial sectors over the next 10 years, and are aimed at enhancing their efficiency, resilience and competitiveness in an increasingly globalized and integrated environment (Ministry of Finance, 2001). In addition, consolidation of the domestic financial institutions through recapitalization and mergers has also been initiated in order to develop a core of strong domestic institutions. The Economic Report 2001/2002, published in October 2001, reported that the bank merger program has successfully consolidated 52 out of 54 domestic banking institutions into 10 banking groups, resulting in 98 percent of total assets of the domestic banking sector rationalized and consolidated. The recent conclusion of the RHB-Bank Utama deal (the remaining two domestic banks that have yet to be merged) represents a major step forward in the bank restructuring process (MIER, 2002).

The health of the banking sector has improved slightly with non-performing loans (NPLs) on six-month arrears slipping to 8.2 percent in February 2002 from 8.4 percent in the previous month following the successful restructuring of some of the large borrowers. Based on three-month arrears, NPLs declined marginally to 11.6 percent from 11.7 percent in January 2002. The risk-weighted capital ratio (RWCR) remained firm and stable at 12.5 percent in February, indicating a sturdy capital position in the banking sector.¹¹

Interest rates, which have been low for quite a while, continue to remain accommodative amidst ample liquidity to support economic recovery. The BLR was cautiously reduced by 50-basis points after the September 11 attacks to mitigate the impact of the disaster. The three-month Kuala Lumpur Interbank Offered Rate (KLIBOR) eased further to 2.86 percent in March 2002, from 3.21 percent in January 2001. The general impact of low interest rates on total loan growth has been modest, which is unsurprising, given the prevailing excess capacity and weak demand from dispirited consumers (MIER, 2002). Loan growth moderated from a peak of 6.4 percent in July 2001 to 4.3

¹¹ The RWCR well exceeds the Basle minimum of 8 percent.

percent in February 2002. If PDS financing is included, the total banking system financing grew by 6.3 percent instead.

In order to strengthen the capital market further, efforts were taken to consolidate the stock brokerage industry. As of the end of August 2001, seven stock brokerage companies had entered into agreements to acquire or merge with three other companies. In light of improvements in the equity market, the 10 percent exit levy on repatriation of portfolio profits within one year was withdrawn on May 2, 2001. With this development, the remaining capital control restrictions on portfolio investment have been completely removed.

The importance of good corporate governance is also being emphasized, as evidenced by the newly developed Malaysian Code on Corporate Governance. As of July 2001, 29 (41 percent) of the 70 recommendations on corporate governance proposed by the Finance Committee on Corporate Governance have been implemented. Legislation, rules and regulations are being reviewed and updated on a continuous basis to further improve corporate governance.

ACCESS TO CAPITAL

The emergence of a variety of financial institutions enables the nation's funds to be channeled productively and efficiently to investment activities. Among the sources of capital that are open to entrepreneurs in Malaysia are the banking system, development finance institutes, venture capital funds and other special funds.

- The *banking system* has been the traditional source of funds for entrepreneurs. Loan growth was in excess of 20 percent per annum since 1995, and remained high in 1996 and 1997, expanding by 28.5 percent and 26.6 percent, respectively. Between 1995 and 2000, loans extended by the banking system were directed mainly to broad property [real estate] (35.9 percent of total bank loans) and the manufacturing sector (15.1 percent of total bank loans) as well as for consumer credit (13.1 percent of total bank loans).
- *Development Finance Institutions (DFIs)* complement other major financial institutions by providing financing to priority sectors. They specialize in medium- and long-term capital financing as well as a range of financial services not normally provided by licensed financial institutions. Lending by these institutions increased by an average rate of 21 percent per annum, from RM 5.1 billion in 1995 to RM 13.2 billion in 2000. At the end of 2000, loans extended to the manufacturing sector accounted for 25 percent of total DFI loans, while the transport/storage and construction sectors accounted for 22.3 percent and 8.5 percent respectively.
- *Venture capital funding* is a relatively new source of funds for entrepreneurs. It is based on the premise that traditional bank lending may not be forthcoming for activities based on promising ideas or intangible collateral, such as high technology and knowledge-based enterprises. Venture capital financing provides a viable alternative to traditional lending as it provides seed capital for early start-ups and acts as a business angel for high-risk growth sectors. The venture capital companies (VCCs) in Malaysia, however, remain reluctant to provide seed capital financing due mainly to their risk-averse attitude towards investments, and the lack of groundbreaking technology in Malaysian technology firms. As a result, financing for start-ups was substantially reduced from a high level of RM 81.1 million in 1997 to RM 7.3 million in 1999. However, the number of VCCs increased from 20 in 1995

to 30 in 1999, as recorded in the annual survey of VCCs conducted by Bank Negara Malaysia (BNM). During the period 1996-99, VCCs invested a total of RM 726 million of which 70.8 percent was in the manufacturing sector. In terms of type of investment, RM 193.2 million, or 26.6 percent, was channeled to acquisition or buyout financing, RM 100.8 million, or 13.9 percent for second stage financing and RM 124.2 million, or 17.1 percent, for bridging finance.

A number of venture capital funds were also established to further enhance the SMEs' access to financing. These include a RM 120 million Multimedia Super Corridor (MSC) Venture One fund, established in June 1999 to provide venture capital financing to innovative and emerging ICT and multimedia companies at the various stages of start-up, growth and pre-initial public offering (IPO) stage; two funds of RM 150 million each established at commercial banks; and a RM 200 million fund to finance high-technology projects channeled through Bank Industri dan Teknologi Malaysia Berhad.

- In view of the need for technology-based companies to seek competitive forms of financing, the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) was launched in 1997. MESDAQ provides an avenue for high-growth and technology companies to gain access to public funds, as well as venture capitalization with an early exit route. However, as of the end of 2000, only three ICT-based companies related to pharmaceuticals, ICT and multimedia have been listed.
- The existence of *Special Funds* are part of the government's continuing efforts to make available financial resources at reasonable cost to promote investments in the priority sectors. A number of new funds have also been established to provide additional funding. The new funds include the Fund for Small and Medium Industries (FSMI), Rehabilitation Fund for Small and Medium Industries, and *Tabung Project Usabawan Bumiputera* (TPUB) or (Bumiputera Entrepreneurs Project Fund). The FSMI, whose objective was to provide financing for SMEs in the manufacturing and services sector in order to assist them to penetrate the export market or provide linkages to export-oriented companies, proved so popular that the amount allocated was fully utilized and FSMI 2 was launched in 2000 with an allocation of RM 200 million.

IMPACT OF GLOBALIZATION, AFTA AND WTO ON SMEs

The true measure of success of Malaysian entrepreneurs and SMIs/SMEs is the degree to which their products can successfully compete in the global marketplace. This will be a major challenge for Malaysian entrepreneurs and SMIs/SMEs that are used to enjoying high protection and subsidization by the government. However, the situation is beginning to change under increased pressure from ASEAN Free Trade Area (AFTA) and World Trade Organization (WTO) commitments.

AFTA was fully implemented for the six original ASEAN members comprising Indonesia, Brunei, Malaysia, Philippines, Singapore and Thailand on January 1, 2002. Although Malaysian SMEs/SMIs can now expect stiffer competition from imports from other countries, many have not yet felt the pressure of competition from other regional producers/products, despite the lowering of Common Effective Preferential Tariff (CEPT) rates, because they are still enjoying protection in some other form (Mohd. Haflah, 2002). Mohd. Haflah cites as evidence the increasing average nominal and

effective rate of protection of Malaysia's manufacturing sector since the Asian economic crisis. For instance, the overall simple average tariff rate has increased from 8.1 in 1997 to 9.2 percent in 2001. Overall, this means that most favored nation (MFN) tariff escalation, which measures the effective rate of protection, has been more pronounced in 2001 than it was in 1997. In addition, the number of tariff lines subject to import licensing and restrictions also appear to have increased since 1997. Currently, some 27.3 percent of Malaysia's tariff lines are subject to such import measures compared with only 17.0 percent in 1997. This all implies that Malaysian manufactures are still enjoying high MFN tariff protection, duty-free import of their intermediate and capital requirements, subsidized and cheaper full inputs, low and preferential cost of funds mainly due to a more relaxed monetary policy and an array of increasing, quantitative import restrictions.

Nevertheless, this implicitly high protection may not last much longer. Under the CEPT agreement, all quantitative restrictions will have to be eliminated immediately upon enjoyment of the CEPT preferences, and all non-tariff barriers (NTBs) will have to be abolished in stages within five years of CEPT implementation. This means that all trade measures that limit and/or distort trade, which include among others, quota, import licensing and production subsidies will have to be abolished. Going by the strict definition of NTBs, even domestic price controls currently being enforced by the Ministry of Domestic Trade and Consumer Affairs, will have to be discontinued.

How will SMI/SME competitiveness be affected once all aspects of the CEPT agreement are fully implemented? Withdrawal of subsidies, particularly those involved in the pricing of fuel, will increase the cost of energy to industries. Those industries that are energy-intensive will experience an increased cost of production and hence, other things remaining the same, an erosion in their competitiveness. Similarly, tougher competition resulting from the full liberalization of other forms of import restrictions and NTBs can be expected. Unless strategic mitigating measures are undertaken by the producers (SMIs/SMEs), then one can expect the latter to be adversely affected. Among the products involved are unprocessed agricultural products (mainly rice, poultry, tropical fruits and vegetables, which are categorized as sensitive products in the CEPT scheme), wood and wood products, and automotive products.

According to Mohd. Hafiah (2002), measures to respond to the problem could include (a) upgrading the products and processes; (b) shedding off unprofitable products, processes or activities; (c) relocating costly products, processes and activities to a more profitable and competitive location within the country, or in other ASEAN countries; and (d) forming strategic alliances with other businesses taking advantage of the ASEAN Industrial Cooperation Scheme and the ASEAN Investment Area program. Greater information sharing and dissemination among relevant parties, however, must precipitate these measures, as currently there is still a lack of appreciation among local businesses of the significance of AFTA and WTO commitments to them as individual entities.

ROLE OF GOVERNMENT

EXTENT OF GOVERNMENT AND COMPLEXITY OF REGULATIONS

Ironically, the role of the government is very important in fostering private sector entrepreneurship in Malaysia. Nevertheless, although there are many programs and financial support systems for

entrepreneurs, they have not been as effective as they should be. A common critique is the extent of the bureaucracy or “red tape” with which entrepreneurs must contend, causing delays of several months just to get approval for applications. This difficulty, only one example among many, is due to the fact that most of the programs for entrepreneurs are organized and offered by government agencies. As Mohd. Rosli (2000) posits, the earnestness with which the government promoted entrepreneurship and its SMI development programs in the early days led to the involvement of a large number of ministries as well as government and non-government agencies. He cites Chee (1990) who estimated that there were about 13 ministries and more than 30 government and non-government agencies involved in a variety of programs for the development of SMIs in 1990. Add to this number, the banks and financial institutions that were also involved in providing the financial support, and one gets an idea of the complexity of the situation. The large number of ministries and agencies involved inevitably caused overlapping of functions and responsibilities, leading to inefficiencies and ineffectiveness of the programs being run. This eventually curtailed the level of participation among genuine entrepreneurs, who ended up feeling very frustrated with the system.

Given this dire situation, there was an attempt to reorganize the system in 1992, whereby a streamlining exercise was undertaken. Under the new system, the number of agencies responsible for SMI development was pared down to five “Lead Agencies” and a number of “Implementer Agencies.” These were divided into five promotional areas, namely, marketing, incentives, technical and R&D, training and management, finance and infrastructure. Each Lead Agency was responsible for standardizing the actions of the Implementer Agencies within its promotional area. In 1995, a special body known as the Small- and Medium-Scale Industry Development Corporation (SMIDEC) was set up to facilitate and ease the task of planning and implementing all the programs dealing with SMIs. Among its areas of responsibility was the handling, supervision and streamlining of vendor development programs and franchising, incubator premises, loans, the provision of factory sites, entrepreneurship training and use of technology. Although the degree of complexity has been reduced by this streamlining exercise, there is still room for improvement.

The need for the government to get involved in the financial “market,” by providing entrepreneurs with alternative sources of funding and credits at favorable rates also added to the complexity of the funding situation in the country. (In the early days, entrepreneurs faced difficulties in obtaining credit in the open market as they lacked collateral or did not meet the criteria of banks and financial institutions for whatever reason.) Currently, there are numerous sources of funding available to entrepreneurs and SMIs that are basically provided by the government. Nevertheless, as these are government-led funding sources, the inevitable problem of bureaucratic delays or red tape is also ubiquitous.

GOVERNMENT SUPPORT/PROMOTION OF ENTREPRENEURSHIP

As can be gleaned from this chapter so far, the Malaysian government has been, and continues to be, supportive of entrepreneurship. It has taken various steps to promote the development of entrepreneurs in general (including providing a conducive economic environment, various financing and funding schemes, tax incentives, as well as business advisory centers). The government has regarded nurturing entrepreneurs as a way to facilitate and upgrade the industrial structure so as to create industries for the next generation. For this reason, the government has paid special attention to the development of SMIs/SMEs.

Among the foremost measures undertaken by the government was the setting up of the Ministry of Entrepreneurship in 1995. Although the Ministry was intended mainly to build Bumiputera entrepreneurship, it has served as a coordinating body for all matters pertaining to entrepreneurship. Among the specific services currently offered by the Ministry are a one-stop entrepreneurship information center, the spearheading of the franchise and vendor development program and the provision of entrepreneurship training, subsidized business premises (for qualified entrepreneurs), financial assistance in the form of grants or loans, and an on-line resource and information center for entrepreneurs.

SIMs are also promoted and upgraded in line with the national industrial policy to create inter- and intra-industry linkages and ensure the success of the larger industries. Table 4 contains a list of programs specifically targeted for the development of SIMs. SIMs in Malaysia are mainly in the manufacturing sector, and so the programs are reflective of this fact. The various development programs aimed at enhancing SIMs have to a certain extent been able to upgrade the performance of SIMs, especially those under the Vendor Development Program. Action is being taken to identify and approve many more SIMs as vendors to the 43 anchor companies that are already under the Vendor Development Program.

Table 4: SIM Development Programs

The Vendor Development Program
Integrated Market Program
SIM Expos and Industrial Fairs
The Subcontract Exchange Scheme
Human Resource Development
Foreign Technical Assistance for SIMs
Product and Market Segment Study
Industrial Technical Assistance Fund (ITAF)
Soft Loan for Modernization and Automation/Soft Loan for Furniture and Food-based Products
Infrastructure Development Program

Source: Ministry of International Trade and Industry (MITI).

As mentioned, the government is also trying to improve the economic environment so it will be conducive to the development of entrepreneurship. One important method has been to outline the specific direction that the Malaysian economy will take in the years ahead. In 2000, the government announced the “Knowledge Economy Master Plan” to transform the economy to one that is knowledge- and information-driven. In order to implement this plan, the government has clearly outlined its intention to nurture high-tech, information and knowledge-intensive ventures. With this in mind, the government has already established Multimedia University, a human resource development fund, and an e-commerce master plan, and it has enacted legislation on intellectual property rights. By clearly indicating the future direction of the economy and where the major allocation of funding will be, entrepreneurs can channel their energies in a specific direction, and minimize the risk associated with investing in future technologies.

In order to enhance technical capabilities among entrepreneurs, in line with the intended direction of the economy, the government created the Malaysian Technology Development Corporation (MTDC) in 1992. MTDC provides not only technical advice and premises, but also risk capital to promising ventures. In 1998, MTDC set up five incubators in the country in collaboration with the

universities. Currently, 75 ventures are being incubated. The majority belong to high-tech areas such as software, information-related and biotechnology.

Table 5: Main Activities and Services of MTDC

MTDC Services	<ul style="list-style-type: none"> ▪ Government-Technology-Industry Services ▪ Consulting Group ▪ Technology Infrastructure ▪ Private Equity and Corporate Advisory ▪ ICT Services
Government Grants	<ul style="list-style-type: none"> ▪ ▪ ▪
Technology Centers	<ul style="list-style-type: none"> ▪ Incubator Centers ▪ Server Farm ▪ Selangor Science Park

Source: Adapted from MTDC (2002).

In order to finance high-technology companies, Malaysia is looking toward adopting the venture capitalist model of funding, which has been proven in other industrialized countries (GEM, 2000). The Malaysian government, under the Multimedia Development Corporation (MDC), has set up the MSC Venture Capital Company to provide risk capital to start-up IT-related ventures and to promote, and feed into, its Multimedia Super Corridor (MSC) projects (Ariff and Lim, 2001). So far, it has contacted 30 ventures and has already invested in a few firms. In 2000, MSC Venture Capital committed to investments in 10 companies amounting to RM 43 million (EPU, 2000). Foreign VCCs are also being encouraged to come to Malaysia. As of 1999, there were more than 30 VCCs, up from a mere six in 1990. While venture capital (VC) funding has been attained relatively successful by manufacturing companies, there are some problems associated with adopting this model of funding for high-tech start-ups in Malaysia. Specifically, there is currently what is now being termed a “funding mismatch” between the needs of Malaysian “technopreneurs” and the funding criteria of VCs (Nazrin, 2001a; Nazrin, 2001b).

As mentioned earlier the creation of MESDAQ in 1997 was also to support entrepreneurship in high technology areas insofar as it was supposed to provide capital and function as an exit mechanism for emerging companies. MESDAQ is an over-the-counter (OTC) market that basically targets high-tech ventures, although even non-high-tech ventures are able to be listed as long as they have prospects for high growth. The listing criterion is not strict; a venture is not required to be profitable to go public. The only criticism of MESDAQ is a high paid-up capital requirement of not less than RM2 million. Not many high-tech start-ups can achieve this and as of December 2000, only three firms were listed: a pharmaceutical firm, a software development firm and a materials manufacturer for PCs.

Other more indirect measures are also being undertaken to instill an entrepreneurial spirit among the younger generation of Malaysians. For instance, the government has already started to provide entrepreneurial education at the junior high school level, as well as at the university and graduate school levels.

INVESTMENT INCENTIVES AND TAX POLICIES

Malaysia offers incentives for investments in certain manufacturing, agriculture, hospitality and tourism industries, research and development (R&D) and training activities. These incentives, which promote certain products or activities, are contained in the Promotion of Investments Act 1986, Income Tax Act 1967, Labuan Offshore Business Activity Tax Act (LOBATA) 1990, the Customs Act 1967, Sales Tax Act 1972, Excise Act 1976, and Free Zones Act 1990. The incentives are designed to grant partial or to a limited extent, total relief from the payment of tax. Among some of the better known policies are:

- The Promotion of Investments Act 1986, allows for such schemes as pioneer status (PS) whereby a company granted PS will enjoy different degrees of exemptions depending on the types of promoted products or activities. For example, companies producing high-technology products or associated activities are granted a full exemption of income tax (100 percent of the statutory income for five years), while companies that are producing products or conducting activities in areas currently being promoted are granted an exemption of income tax on 85 percent of statutory income for five years (the balance 15 percent of the statutory income will be taxed at the prevailing company tax rate).
- The investment tax allowance (ITA) is an alternative to the pioneer status and is designed to cater to projects which have large capital investments and long gestation periods.
- The industrial adjustment allowance (IAA) is available to companies in selected manufacturing sectors, namely wood-based textiles, machinery and engineering, stamping, molding, tools and dies, and the machinery sub-sector. Approved companies are granted an allowance of 60 percent to 100 percent based on the industrial activities undertaken. The allowance can be used to offset up to 100 percent of adjusted income in the year of assessment.
- Infrastructure allowance (IA) is available to any resident company in Malaysia engaged in manufacturing, agriculture, hospitality, tourism or other industrial/commercial activity in Sabah, Sarawak and the designated eastern corridor of peninsular Malaysia. Companies are granted an allowance of 100 percent of capital expenditure or infrastructure. The allowance can be utilized to offset up to 85 percent of statutory income in the year of assessment.

EXISTENCE OF SOCIAL SAFETY NET AND IMPACT ON ENTREPRENEURIAL SPIRIT

Although it is far from a welfare state, Malaysia has its own version of a social safety net in the form of the Employees Provident Fund (EPF) for private sector employees and the Government Pension Scheme for public sector employees. The EPF guidelines state that all employees must contribute 11 percent of their monthly salary, and employers 12 percent of the employee's monthly salary, to an EPF account set up on behalf of the employee. The money is then invested on behalf of the employee, and this forms the bulk of the employee's retirement fund. Under the government pension scheme, public sector employees upon retirement are entitled to one-third of their last salary for as long as they live.

It is important to note that these two social safety net schemes are for employees. There are no mandatory schemes for the self-employed, including entrepreneurs. This group is supposed to form their retirement fund from their own profits and savings. Of course, this all depends upon the profitability of the entrepreneur's company over the years and the level of financial proficiency and

financial foresight that they, as individuals, have. Therefore, there is a degree of risk involved in becoming an entrepreneur in Malaysia, especially if the business fails. Perhaps the time is ripe to look into some innovative social safety net schemes to reduce the risk that entrepreneurs expose themselves to. For example, governments could reduce the risk of business failure by implementing a social safety net or investment guarantee system. Furthermore, business owners could also reduce their risks by carefully researching, planning and compiling business agendas.

Indeed, an international study of entrepreneurship has found that those countries with a more developed social safety net were at or near the bottom for new business formation (GEM, 2000). Indeed, according to Paul Reynolds, GEM project coordinator and a professor at both Babson College and London Business School, “societies that grow dependent on social support systems stifle personal initiative, and thereby decrease the level of entrepreneurial activity.” This is, to some degree, evident in the Malaysian scenario, although it seems to be in contrast with the situation in less developed countries, where entrepreneurship becomes a form of social safety net in times of economic downturns. Nevertheless, the non-existence of official unemployment benefits in Malaysia does, however, bode well for the rise of entrepreneurship when the economy is at a downturn and unemployment is on the rise, although this may only be a temporary phenomenon.

RULE OF LAW AND PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

The principal public policy rationale for intellectual property rights (IPRs) is that they provide direct, socially beneficial incentives to innovate as well as to facilitate further innovation by mandating public disclosure of the patented technology. When individuals or organizations know that legal protection will enable them to recoup their research investments, they have a stronger incentive to pursue such innovations. The existence and effective implementation of these IPRs are therefore an important stimulant for entrepreneurship development.

In addition, IPRs are also important for economic development as a strong IPR regime tends to positively affect the investment climate and hence, the probability of multinational corporations' (MNCs) investments. On the other side of the coin though, Kumar (2002) points out that “there seems to be a general consensus that the East Asian success owes a lot, in general, to their ability to imitate, absorb, replicate or undertake ‘duplicative imitation’ of foreign inventions. Although the literature is not explicit in acknowledging its role, the soft intellectual property protection (IPP) regime adopted in the period of duplicative imitation or reverse imitation has played an important role in facilitating the firm level of technological learning.” In short, while countries at the technology frontier clearly benefit from the IPR protection, developing countries that need to catch up, however, are at a disadvantage in an environment with strong IPR protection.

In Malaysia, there is a system to safeguard intellectual property, although it could be argued that the implementation aspect of intellectual property protection could be improved. Malaysia is a member of the World Intellectual Property Organization and signatory to two conventions administered by the world body, namely, the Paris Convention (for protection of industrial property-patents, trademarks and industrial designs) and the Berne Convention (for the protection of Copyright). Malaysia is also a signatory to the TRIPs Agreement (Agreement on Trade Related Aspects of Intellectual Property Rights), an agreement under the auspices of the World Trade Organization. Overall, the intellectual property system in Malaysia provides protection for patents, trademarks, industrial designs, copyright, layout designs of integrated circuits and geographical indications (Bank

Negara Malaysia, 2001). With regard to the two contending sides of the IPR debate discussed earlier, it becomes increasingly clear that Malaysia, as a developing country that wants to promote indigenous innovation capability but still needs to take advantage of technology diffusion and spillovers from advanced countries under financial and economic constraints, will have to tread its way carefully in this area in the future.¹²

CONCLUSION AND RECOMMENDATIONS

Malaysia has a vibrant entrepreneurial base with a huge potential to become a global player. Indeed, past and current policies to create a class of entrepreneurs have succeeded in the sense that there are more Bumiputeras involved in business and entrepreneurship now compared to before. Non-Bumiputera (mainly Chinese) companies are spreading their reaches overseas, proving that Malaysian companies can succeed in the global arena. Nevertheless, as evidenced by the drastic decline in Bumiputera businesses and corporate equity following the economic crisis, the quality and level of competitiveness of the majority of Bumiputera companies could be improved so that they are more resilient to the ups and downs of economic cycles. Some would argue that the reason for their complacency is the over-reliance on government contracts, funding and support. Recognizing this fact, there have been some moves by the UMNO leadership to change the attitudes of Bumiputeras so as to be less reliant on the government. Admittedly, much of the debate has centered on the concept of meritocracy in education, although the debate has the potential to spread to the idea of entrepreneurship and meritocracy. Nevertheless, it is still too early to gauge whether this will lead to actual changes in government policies on entrepreneurship or is merely political rhetoric.

It is clear however, that a paradigm shift and some improvement in policy-making processes are needed. As the Malaysian economy begins to transform from manufacturing-based to knowledge-based, the kind of businesses and entrepreneurs, as well as their needs and demands, are likely to change as well. This gives rise to the need for closer consultation between the private sector, entrepreneurs and the government and its agencies. Indeed, bureaucratic delays and red tape are major stumbling blocks to entrepreneurs, especially the newer breed of technopreneurs, who have to operate and make decisions in real-time. Essentially, pockets still exist within the public sector where the “sense of urgency” is lacking. This is a worrisome situation because the speed at which economic conditions change and at which economic decisions have to be made will only continue to get faster as the world becomes increasingly connected via ICT.

On a more positive note, the government does seem to be aware of the need to address certain pressing issues that affect entrepreneurs. Among the more salient are ensuring a healthy, conducive and stable political and economic climate, matching the most appropriate funding models to suit the needs of businesses, making funds available to stop the liquidity crunch, promulgating guidelines and regulations to ensure intellectual property right protections, and encouraging corporate governance. The need for entrepreneurs to receive more guidance and training from business incubators has also been recognized. This bodes well for the strengthening of entrepreneurship in Malaysia.

¹² For more information on developing countries’ experiences and options regarding intellectual property rights and technology, refer to Kumar (2002).

Considering the effect of globalization, perhaps the time is ripe to begin to expand the common view of entrepreneurship from one that is centered on domestic needs and the domestic environment, to one that is more global in outlook. In that sense, policies should focus on how best to build resilient, competitive global entrepreneurs, and not be too mired in matters of equity. Hence, there is a need for more information sharing on entrepreneurship among countries in the region, beyond what works, in the local context, to a broader, more global discussion and examination.

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