

Boosting SMEs vital to increase wages, reduce inequality

By **SULAIMAN MAHBOB** - August 25, 2023 @ 12:01am



These are conscious efforts to create mid-tier companies consistent with the essence of the Madani Economy. - NSTP file pic

The interview with Datuk Dr Nungsari Ahmad Radhi, which appeared in the *New Straits Times* on Aug 21 about the [Madani Economy](#), clarified the philosophy, values, objectives and thrusts of the new policy.

Malaysia Madani is the country's new social and economic development framework.

While emphasising the importance of economic growth, the framework equally highlights the need to reduce inequality, boost the role of small and medium industries, and increase labour force participation, particularly of women.

I agree with Nungsari that an economic development framework has to have a basic philosophy while factoring in the need for economic growth and the importance of sharing the benefits of economic growth among the lower income groups.

Herein lies the importance of promoting small and medium industries to contribute a greater share to gross domestic product. As it is, the sub-sector contributes about 34 per cent to the country's GDP, compared with over 50 per cent in developed countries.

They need to grow to become strong and viable mid-tier companies to support small-scale companies and the big ones. Thus, special policy orientation may be required.

The idea is to create a unimodal structure in our industrial distribution pattern, with a large number of viable small industries at one extreme and a concentration of larger ones at the other end, with mid-tier companies forming the mode at the centre of the distribution. Our structure now is bimodal, with a large concentration of small industries at one end and large multinational companies (MNCs) at the other.

The twins don't interact and integrate, thus not allowing greater market and technological linkages, a feature that developed in Taiwan.

In this regard, the Malaysian Investment Development Authority (Mida) has initiated efforts to promote greater linkages between MNCs and local small and medium industries so that they may grow to become part of the world industrial cluster of companies.

Equally important are Mida's efforts to match local companies with foreign investors who are technologically more advanced, through vendor arrangements.

These are conscious efforts to create mid-tier companies consistent with the essence of the Madani Economy.

Companies have to grow in size and improve productivity to allow natural wage increases, which otherwise are still low and account for about 33 per cent of total income, with the remaining 67 per cent accruing to the owners as capital returns in the form of profit, rents and dividends.

If the rate of return to capital persistently exceeds GDP growth, as rightly said by Thomas Picketty, economic inequality becomes increasingly pronounced.

In Singapore and South Korea, the total wage bill makes up 45 per cent of national income, while in Europe, it's about 55 per cent, indicating that productivity and wages have to rise, again consistent with the framework of Madani Economy.

The Madani Economy also expects higher female participation in the workforce to augment labour supply, especially those with skills and education.

Given the large opportunity to improve one's skills in this country, this low participation rate should not be the case.

Higher female participation in the labour market will enhance the family income and contributes to reduction in household income inequality. There's no reason for a lower female participation rates, not on cultural or religious grounds.

In Kelantan, the womenfolk have been active in the trade and services sectors. This culture can be emulated by women in other states.

One issue is again the wage level. If higher wages are paid to the workforce, voluntary unemployed labour can be convinced to leave homes and partake in the workforce.

In this regard, a greater understanding of our labour market dynamics is needed to further our industrial development.

We need to know the labour demand and supply and the wage level that would clear any bottleneck or slack in the market to help formulate more effective measures consistent with the Madani Economy framework.

The understanding of all these labour issues is vital to give the framework for Madani Economy a stronger foundation.

In some respects, matters such as wages, technical and vocational education and training, and skills shortage pose challenges to Malaysia's economic growth and industrialisation.