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Madani economy - nurturing homegrown indigenous firms

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The vast majority of today's giant corporations are from developed countries.

How do the big businesses in developed countries made it to where they are today? Is it due to the free market, or the invisible hand? A closer inspection reveals that today's high-income and developed countries all went through a phase of nurturing their own large indigenous firms through state support before eventually releasing the well-endowed and well-established national champions into the turbulent waters of global competition. Following this argument, should developing countries do likewise?

Throughout The Wealth of Nations, Adam Smith sees little role for the state. The market will suffice to almost all things, hence the role of the government is to create the minimal facilitative conditions and thereafter step back. Neoclassical proponents, such as Milton Friedman advocate the importance of many small firms over few large ones, and the primacy of perfect competition. They hold advanced capitalism as a c regarded as the central explanation to the rise of the 'Four Little Tigers' of Asia.

By virtue of being latecomers in the global economy and with the reality of a non-level playing field. Shouldn't developing countries nurture national champions? Today many developing countries are actually at the stage where current developed nations were in the mid-19th and the 20th century. Being latecomers in the global economy, most indigenous industries in the developing world are still at the infant stage.

Just as Britain once nurtured BP and France, Elf (petroleum industry), China's nurturing of Sinopec and Malaysia's Petronas should not be viewed with contempt by neoclassical proponents. The question of how far these national champions can go even with the support of the state is a different issue altogether; the point here is that at least they are given a chance to mature and compete.

Given that there is no way these national champions can take on the corporate behemoths, (i.e. established giants) head-on. It is suggested that the national champions be nurtured for a different strategic aim — niche markets.

There may be possibilities for catch-up in mid-tech industries rather than low-tech consumer goods or high-tech products. Industries such as steel, chemicals, automobiles and transport equipment appear to offer the best opportunities for emerging big businesses in developing countries.

In realigning the strategic focus of national champions, the core competencies and competitive edge identified should be merged with the consideration of building niches in the few industries identified as possibilities for catching up. This is exactly what underlies the rise of the global giants of advanced economies today — first-mover advantage. The non-level global playing field can be attributed to the fact that corporations from the advanced economies have long grabbed first-mover advantages in various industries. They have since established and consolidated their pole-positions and therefore it is difficult to dislodge them.

For example —through Embraer, Brazil built a successful national aerospace industry. Starting off by focusing on the niche market of small aircrafts, Embraer has risen to prominence —from a small regional manufacturer to a significant global player. Notable examples of Chinese national champions include Huawei and Bank of China. In-line with China's Belt and Road Initiative, national champions venturing out is a Chinese government priority.

Sometime ago, the Think Tank ASLI (Asian Strategy and Leadership Institute) produced a thought provoking paper titled "Rationale for Developing Countries to Nurture National Champions Through State Support." Its central thesis being that developing countries should do what the developed countries did — nurture large indigenous firms through state support.

The paper concludes by arguing that developing countries should nurture large indigenous firms and the reasons for this argument are many. The existence of a non-level global playing field makes it imperative that indigenous firms simply cannot compete and survive without the support from the state during their infancy. The fallacy of the neoclassical free market theory implies that there are substantial gains to be reaped from building big businesses and oligopolies and that large indigenous firms in their infancy are not prepared for free competition. National pride and identity, and social policy considerations are other two reasons for which it is argued why. However, the strategic approach has to be that the national champions be nurtured to focus on niche markets.

The Madani Economy, empowers people by emphasising innovation and inclusivity. It is critical for Malaysia to continue its focus on accelerating the growth of homegrown small and medium enterprises (SMEs) through automation and digitalisation. In this context, the Madani Economy framework provides a strategic vision that aligns with advanced and resilient economies, positioning Malaysia at the forefront of technological advancement and creating opportunities for all sectors of society.

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