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The Struggles of Small and Medium Enterprises in Malaysia: Navigating Economic Uncertainty

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The Malaysian economy is primarily composed of small and medium-sized firms, or SMEs. Nearly 70% of workers are employed by small enterprises, which account for 98.5% of all businesses in Malaysia (Department of Statistics, 2021). The GDP of Malaysia was boosted by 1,226,494 small enterprises in 2021, amounting to RM500 billion, or almost 38%. Even though SMEs are the backbone of the country's economy, they frequently encounter difficulties, ranging from volatile international markets to modifications in internal policies. This article highlighting their challenges for building resilience in the current economic situation.

The global economic environment has been unpredictable, and Malaysia is no exception. Malaysian SMEs have been confronted with a number of uncertain events, including the COVID-19 pandemic, natural disasters, and political unrest, which have resulted in persistent problems and risks for these businesses. In addition, SMEs, have been hit hard by disruptions in supply chains, fluctuating currency values, and reduced consumer spending (Jaish et al., 2023). These issues have led to prolonged periods of low revenue and increased operational costs.

For SMEs in Malaysia, financing is one of the most significant challenges. According to Bank Negara Malaysia (2023), small firms are facing difficulties in obtaining essential capital due to the tightening of lending requirements by banks and financial institutions. Youth entrepreneurs in Malaysia often rely on informal sources like family and friends for financing. Although financial institutions provide over 90% of total financing, 72% of youth entrepreneurs rely on their own and family savings, and only 6% receive financing from financial institutions. This indicates that financial institutions play a weak role in channelling financing to youth entrepreneurs (Salim, Kassim & Thaker, 2020; Khazanah Research Institute, 2018; Chik et al., 2015).

Then, the cost of doing business in Malaysia has risen sharply. From increased rental prices to higher wages due to minimum wage adjustments, SMEs are finding it challenging to maintain profitability (Malaysian Employers Federation, 2023). The minimum wage has increased from RM900 in 2013 (the year the Minimum Wage Order was implemented) to RM1,500 currently, representing a 67% increase (Tong, 2023). For many, these rising costs are not matched by an increase in revenue, leading to a precarious financial situation.

Though technology provides a route to efficiency and growth, many Malaysian SMEs have difficulty implementing digital transformation. The Malaysia Digital Economy Corporation (2023) identifies three main obstacles to technology adoption: low levels of digital literacy, high adoption costs, and lacking infrastructure. Online transactions accounted for 47.7% of Malaysian transactions in 2022. This indicates that buyers are actively looking for digital sales platforms. However, they are not the only ways by which digitization is taking place. The efficiency and continuity of business operations are impacted by cloud computing and enterprise resource planning (ERP). To prevent a small and medium-sized enterprise's cash being tied to idle inventory, new infrastructures, such as smart warehousing, are being developed to provide just-in-time inventory management.

In a nutshell, the economic challenges faced by SMEs in Malaysia are complex and multifaceted. While government initiatives and support systems are in place, more tailored solutions are needed to address the unique needs of these businesses. Providing easier access to financing, reducing bureaucratic hurdles, and supporting digital transformation are critical steps towards ensuring the resilience and growth of SMEs. As Malaysia navigates its economic future, the strength and stability of its SMEs will be crucial to the overall health of the national economy. Through collaborative efforts between the government,

financial institutions, and the SMEs themselves, there is hope for a more robust and sustainable economic environment.

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