THE DEVELOPMENT OF MALAYSIA’S ECONOMIC GROWTH THROUGH YOUTH ENTREPRENEURSHIP SUPPORT SYSTEM

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ABSTRACT

Global economic challenges have forced the majority of youth to become self-employed. As such, being an entrepreneur is one of its spheres. However, to start entrepreneurship, these young entrepreneurs need to be assisted in some areas, especially in the financial domain. Regarding this matter, the significance of this study is to examine the development of Malaysia’s economic growth through the youth entrepreneurship support system (Financial Assistance) for the period of 2010 until 2019. In addition, this study also will look at both the long run and short run effect of Financial Assistance on economic growth. This study will employ the Autoregressive Distributed Lag (ARDL) bound testing approach for Cointegration and the Error Correction Model (ECM) for the short-term relationship. All the variables will be tested for the stationarity of the series at all levels. Through this research, constructively, an effective model of Financial Assistance in Malaysia can be proposed to help enhance the development of economic growth through youth entrepreneurship.

INTRODUCTION

Job competition environment currently has initiated self-employment opportunities in youth in order to survive. Moreover, a developing country like Malaysia is not pertinent anymore for the youth to depend on the job offered by organizations. Besides, youth are most affected by this situation as the youths are relatively new to the workforce and relatively inexperienced in the job competition. According to the Department of Statistics Malaysia 2019, there are increasing numbers of self-employed from the year 2014 to the year 2018. The rough average increasing numbers of self-employed are 200 for every year.

This proved that becoming self-employed is one of the strategies in facing the global economic challenges. Therefore, the government strongly encourages youths to get
involved in business and entrepreneurship (Ahmed, 2019; Nguyen, 2018) which was a subset of the self-employed. This is because, with the involvement of youth entrepreneurship, it will assist in reducing the rate of unemployment in this country (Bakry, Khalifa, & Dabab, 2019; Elmi & Robleh, 2019; Kola, Abdulrahman, Opeyemi, & Azeez, 2019). At the same time, youth should be aware that there is an alternative to initiate themselves in industry and gain experience before being recruited by an organization (Khan, Noor, & Anuar, 2016). Furthermore, with the presence of industrial revolution 4.0 and technology development, social entrepreneurship participation among youth has been rising (Ahrari, Krauss, Ariffin, & Meng, 2019).

In Malaysia, the age range of youth is between 15 to 40 years old. However, the government development programs in this country underlined the youth entrepreneurs age group between 18 to 25 years old. There are several agencies involved in the business support programs such as AIM, MARA, TEKUN, PUNB, MAVCAP, MTDC, MDV and MDeC (Khan et al., 2016).

Researchers have found numerous studies stated that business supports are essential to sustain the youth’s entrepreneurs (Manolova, Edelman, Shirokova, & Tsukanova, 2019; Shamsudin, Ishak, Othman, & Rahman, 2019; Yusuf, 2010). Additionally, financial assistance in obtaining a loan was one of the business support systems towards youth entrepreneurship (Diana Rusu & Roman, 2020; Bazan et al., 2019; Haron, Said, Jayaraman, & Ismail, 2013).

Based on the foregoing discussion, the future looks promising. This research focuses on its financing and development which has produced new findings, serves as good guidance for all related parties. Having a model to support this study would strengthen the idea of incorporating the development of youth entrepreneurship. Concisely, this study is in an attempt to analyze the development of Malaysia’s economic growth through youth entrepreneurship support system (Financial Assistance) in both the long run and short run. The important influencing factors will provide better future suggestions for further improvement of the overall economic growth.

**LITERATURE REVIEW**

**BUSINESS SUPPORT TOWARDS SUSTAINABLE YOUTH ENTREPRENEURSHIP**

As entrepreneurs, they cannot express the business support they want since they have different types of business or industry. Hence, the government should take a role to make sure the business support is available to fulfil the entrepreneur necessities. According to (Yusuf, 2010), business support is very needed for a new entrepreneur in start-up level to avoid the risk of failure in the early movement of new business. Then, youth Entrepreneurs in Malaysia also need to be assisted in terms of financing, support services and capacity building. According to Khan, Noor and Anuar (2016), some government and non-governmental organization agencies in Malaysia involved
with the support in financing, capital, microcredit program, business consultation specifically for youth entrepreneur business development and sustainable.

Business support among entrepreneur shows a positive impact on SME performance once an entrepreneur tries to get financing support for capital sources to develop business (Yusuf, 2010). Business support provided by the agencies always requires an entrepreneur to spend some money and commitment in time for training. Entrepreneur’s performance can be measured after attending a program organized by the participating agencies to see the effectiveness of the program in helping entrepreneurs in various ways.

**FINANCIAL ASSISTANCE**

The main factors affecting the growth of an entrepreneur is the capability to get financial support or assistance. In economic sight, insufficient access to financing giving a massive issue to SMEs development. Malaysia SMEs also having the problem according to (Haron et al., 2013) that most of the entrepreneurs in Malaysia have insufficient working capital and financing to assist the business. However, from time to time, SMEs development comes to the attention of the government and adds to the country’s development plan. Therefore, SMEs as an entrepreneurial venture should focus on how to get updated information (application document and requirement) on financial assistance from agencies. Further studies are also needed to research on Malaysian SMEs for improvement in financial assistance relating to factors affecting loan approval, perception on financing provided, and collaterals.

Small-scale SMEs are the most in need of financial assistance in developing their business than large-scale SMEs. SMEs can make use of various special purpose-specific funds set up by the government to help SMEs (BNM, 2005). Other than that, according to previous literature assertions by Beck and Demirguc-Kunt (2006); Kyaw, (2008), finance from friends and family members play more significant roles in developing countries than developed ones.

SMEs entrepreneurs are competing within the industry because of insufficient financial resources and assistance (Ting, 2004). The role of Central bank is crucial to ensure that struggling the SMEs did not disappear in a challenging business world regarding due to the financial constraints. The central bank of Malaysia concerns with the issue and stated that the SMEs should get support from well-built financial infrastructure to sustain in business (BNM, 2005). However, according to the Organization for Economic Co-operation and Development (OECD) 2013 report, the banking institution’s role is still inadequate to support the financing needs for SMEs (Green, 2013). Besides, according to OECD (2015), bank financing is still acknowledged to be crucial for the SME sector to support the "growth capital gap" through long-term investment.
The results on access to financing based on the Census of Establishment and Enterprise 2005 and 2011 by the Department of Statistics Malaysia revealed similar patterns of financing among SMEs, even when the period of analysis gap is six years. This information on the pattern on access to financing in Malaysia needs further study and may help to identify factors affecting the SMEs’ choices of funding. The results of the Census 2005 revealed that some entrepreneurs not only depend on business support but initially try to build ventures on their own and create funds resources from friends and also family supporters to enhance their business. Less than 20 percent (%) of respondents revealed that they depend on financial institutions assistance for capital funding while more than 50 percent (%) depend on their share partner or shareholder for capital funding. This is crucial to conduct further study to look into access to capital funding for SMEs which is identified as a significant factor in contributing to the national income.

METHODOLOGY

This paper will employ the ARDL model by Ordinary Least Squares (OLS) estimator by Pesaran, Shin and Smith (2001) to check for the cointegration relationship between the proposed variables. The study then will use the ECM to check for the short run relationship between the cointegrated variables. Further, the study will check for the stability of the developed model by using the cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares (CUSUMsq) of recursive residuals.

In this study, the ARDL bounds equation for GDP growth is estimated as shown in Equation (1).

\[
\Delta Y_t = \alpha_0 + \sum_{i=0}^{p} \rho_i \Delta FA_{t-i} + \sum_{i=0}^{p} \beta_i \Delta Y_{t-i} + \sum_{i=0}^{p} \mu_i \Delta G_{K_{t-i}} + \sum_{i=0}^{p} \gamma_i \Delta IGDP_{t-i} \\
+ \sum_{i=0}^{p} \delta_i \Delta G_{L_{t-i}} + \sum_{i=0}^{p} \theta_i \Delta HUMAN_{t-i} + \sum_{i=0}^{p} \pi_i \Delta INF_{t-i} + \sigma_1 BS_{t-1} \\
+ \sigma_2 PL_{t-1} + \sigma_3 Y_{t-1} + \sigma_4 G_{K_{t-1}} + \sigma_5 IGDP_{t-1} + \sigma_6 G_{L_{t-1}} + \sigma_7 HUMAN_{t-1} \\
+ \sigma_8 INF_{t-1} + \epsilon_t
\]

(1)

where \( FA_{t-i} \) is financial assistance, \( G_{Kt-1} \) is capital growth, \( G_{Lt-1} \) is labour growth, \( IGDP_{t-1} \) is initial GDP, \( HUMAN_{t-1} \) is human capital, \( INF_{t-1} \) is inflation, \( p \) is the optimal lag length and \( \Delta \) refers to the first difference of variables. The first part of Equation (1) with \( \rho, \beta, \mu, \gamma, \delta, \theta \) and \( \pi \) refer to the short run. The rest with \( \sigma_k \) are the long run parameters.

Relying on the presence of a cointegrating relationship, the ECM can be written as in Equation (2),
\[ Y_t = \alpha_{10,t} + \sum_{i=1}^{p} a_{11,i} FA_{K_{t-i}} + \sum_{i=1}^{p} a_{12,i} G_{K_{t-i}} + \sum_{i=1}^{p} a_{13,i} GDP_{t-i} + \sum_{i=1}^{p} a_{14,i} G_{L_{t-i}} + \sum_{i=1}^{p} a_{15,i} HUMAN_{t-i} + \sum_{i=1}^{p} a_{16,i} INF_{t-i} + ECT_t \]

where \( \phi ECT_{t-1} \) is the error correction term. All other variables are as defined above.

Several socio-economic studies on economic growth have been conducted in Malaysia by employing a similar method. Among others are those by Shaari, Karim, and Basri (2015); Shaari, Karim and Basri (2016) and also by Shaari, Karim and Basri (2017). However, previous studies focused more on the effect of flood disaster on GDP growth at the aggregate level, this paper differs from prior studies as it looks at the effect of financial assistance on GDP growth at both the long run and short run time periods.

**CONCLUSION**

This paper examines the development of Malaysia’s economic growth through youth entrepreneurship support system (Financial Assistance) from the year 2010 until 2019. The paper explores the existence of the long run and short run relationships between GDP growth and Financial Assistance variable in the case of Malaysia. The paper used the ARDL approach to Cointegration and the ECM for the short-run relationship. Through this research, an effective model proposal to enhance the development of economic growth through youth entrepreneurship support system can be devised.

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