

PERSPECTIVE

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Malaysia's Self-Employment Explosion: Why So Many Own-Account Workers?

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EXECUTIVE SUMMARY

- In recent years, the numbers for self-employed persons are growing dramatically, even as the numbers for people in traditional paid employment have begun to decline. This major change in the country's workforce and business structure is often overlooked.
- The self-employed are now the second biggest group in the Malaysian workforce. In 2018, there were 2.86 million own-account workers, out of a total of 14.8 million working adults.
- The self-employed are more likely to be older males, Bumiputera, and located in urban areas. The Klang Valley (greater Kuala Lumpur) region and Sabah have the highest numbers of own-account workers in the country.
- The growth of self-employment may be due to an expanding services sector, the rise of the gig economy, the desire to "be your own boss", and a more positive attitude towards entrepreneurship in the community.
- More active government policy is needed to support this growing sector of the labour force.

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SELF-EMPLOYED PERSONS IN THE MALAYSIAN ECONOMY

Do the self-employed really matter in the modern Malaysian economy?

They are often poorly understood by policymakers, and frequently overlooked when the employment dynamics of a country are undergoing change. Yet they are still more important than most researchers and policymakers realise.

Own-account workers can be found in a very wide variety of roles, ranging from traditional solitary occupations such as being a farmer, fisher, rubber tapper or local artisan, through to being a taxi driver, sub-contractor working in the trades or construction sectors, and highly-skilled professionals such as healthcare workers (doctors, dentists, chiropractors, physiotherapists, and so on) and service providers (lawyers, accountants, freelance engineers and management consultants, to name but a few). More recent iterations include day-traders playing share markets from home and freelancers working in the so-called “gig economy” (such as Grab or Uber drivers).

Own-account workers are the smallest of all independent economic units. Whilst some self-employed persons own businesses which have their own employee workforce, many more operate enterprises that consist of no one other than the owner-operator. In fact, in most parts of the world, solo business operators form one of the biggest cohorts in the workforce (Eurostat 2019). Evidence also suggests that in many countries, this group is growing in size, even as more conventional forms of paid employment are declining.

Being a self-employed worker brings both problems and pleasures. The self-employed person has full freedom to determine their own working environment, but is reliant upon their own endeavours and effort to maintain their income and lifestyle. Earnings can be highly variable, and there is no parent company or external support agency that can be guaranteed to step in and assist if the individual is unable to work, faces a health problem that prevents them from working, wishes to take a vacation, needs financial support, or finds themselves competing against larger, more sophisticated market operators. There are often numerous compliance and regulatory burdens which also have to be met, as in many countries the solo operator is still regarded as a functional business entity and so required to meet all the attendant legal requirements. In contrast, an employee usually receives from his or her employer a commitment to regular, predictable remuneration; access to a health fund, pension funds and paid vacations; and does not take on personal liability for the legal responsibilities of the employer.

The self-employed person works alone, is often regarded as a separate legal business entity, and yet is a curious hybrid. He or she is both a (very) small business and an individual worker at the same time.

MEASURING THE SELF-EMPLOYED WORKFORCE

In Malaysia the “own-account” worker is recognised as its own unique economic unit and measured separately in the annual labour force statistics. This allows for the self-employed cohort to be much better measured and understood than in many other countries. And the results are often surprising.

In the Malaysian statistical reporting of its labour force, published annually as the Labour Force Survey Report (*Laporan Survei Tenaga Buruh*) by the Department of Statistics (DOSM), data on a number of different aspects of the own-account worker community are presented. They are one of four different types of employed persons found in the Malaysian workforce.¹

DOSM (2019: 292-293) defines each of these separate categories of “status in employment” in the following manner:

Employer: A person who operates a business, a plantation or other trade and employs one or more workers to help him or her.

Employees: A person who works for another individual, company, corporate structure or like arrangements. This includes public sector employees (such as those in government ministries and departments; statutory bodies; local authorities and the armed forces), and private sector employees who work for corporations, not-for-profit organisations, co-operatives and so forth.

Self-Employed/Own Account Worker: A person who operates his or her own farm, business or trade without employing any paid workers assisting in the conduct of the enterprise.

Unpaid Family Worker: A person who works without pay or wages on a farm, business or trade operated by another member of the family.

Malaysia’s working age population in 2018 of 22,374,700 persons contained a labour force of some 15,280,300 individuals, of which 14,776,000 were employed² and 504,300 were unemployed. The breakdown of the employed group is given in Table 1 below.

Own-account workers form a substantial component of the Malaysian workforce. They are the second-biggest workforce cohort, and account for almost 20% of the current active working population in Malaysia.

Table 1: Structure of Malaysian Workforce, 2018

Employers	547,200 (3.7 %)
Employees	10,700,400 (72.4 %)
Own-account workers	2,859,200 (19.4%)
Unpaid family workers	669,100 (4.5%)
Total	14,776,000

Source: Department of Statistics, Malaysia (DOSM) 2019: Table A4.19, p.98. Some figures may not add up due to rounding.

A PROFILE OF THE “OWN-ACCOUNT WORKER” SECTOR³

The number of male own-account workers is much greater than that of females. There are approximately 1,740,400 adult men in the category, who account for 61% of the overall number of own-account workers, whilst there are only 1,118,800 (39%) women in this cohort. There has been a slight rebalancing of the gender differential over time, with the

proportion of female participation increasing year-on-year: in 2014, men accounted for 65% of all respondents in this category.

The biggest single ethnic group in the own-account cohort in 2018 were Bumiputera (see Table 2 below). Bumiputera are somewhat over-represented in the self-employed sector; they represent only 57% of the nation's total employed labour force but almost 64% of the own-account group. In contrast, Indians (3.8%) are comparatively underrepresented; they comprise 6% of the total workforce. Non-citizens are also underweight relative to their total share of the workforce.

Table 2: Own Account Workers by Ethnicity, 2018

	Share of Own-Account Workers	Share of Total Workforce
Bumiputera	1,817,600 (63.6%)	8,353,400 (56.5%)
Chinese	636,300 (22.3%)	3,245,500 (22.0%)
Indian	110,600 (3.8%)	888,400 (6.0%)
Other Malaysian ethnic groups	26,200 (0.9%)	105,200 (0.7%)
Non-citizens	268,600 (9.4%)	2,183,400 (14.8%)
Total	2,859,200 (100%)	14,776,000 (100%)

Source: DOSM 2019: Table A4.20, p.99.

The number of rural own-account workers is proportionately also greater than broader demographic trends would suggest. The vast majority of Malaysia's workforce are to be found today in urban areas: almost 79% are based in cities, towns and other urban areas, and only 21% in rural locations. However, whilst 70% of own-account workers are to be found in urban areas, 30% are located in rural regions.

The distribution of own-account workers on a state-by-state basis reveals another intriguing anomaly (see Table 3). Not surprisingly, Selangor – home to the principal business community, as well as part of the single biggest urban concentration in the country – has the greatest number of own-account workers, recording almost 640,000 such persons. (This figure is even larger if the rest of the Klang Valley region, including Kuala Lumpur and Putrajaya, is included.) The East Malaysia state of Sabah has the next highest number, with more than 400,000. There are five other states which have between 200,000 and 300,000 self-employed persons, followed by a tail of other jurisdictions which have smaller numbers.

Whilst the distribution of own-account workers is roughly proportionate to the overall state-by-state distribution of the total national workforce, some states and territories do have disproportionately more or less self-employed persons. Notably, Johor, Pulau Pinang and Putrajaya are somewhat underweight, whilst Sabah, Kedah and Kelantan are comparatively overrepresented.

Table 3: State/Territory Distribution of Own-Account Workers, 2018

State	Own Account Workers	Total Share of Workforce
Selangor	638,800 (22.3%)	3,446,700 (23.3%)
Sabah	415,300 (14.5%)	1,825,500 (12.4%)
Johor	274,400 (9.6%)	1,693,300 (11.5%)
Kedah	226,700 (7.9%)	909,200 (6.2%)
Sarawak	218,500 (7.6%)	1,274,400 (8.6%)
Kelantan	214,500 (7.5%)	683,300 (4.6%)
Perak	207,400 (7.3%)	1,034,800 (7.0%)
Pahang	166,400 (5.8%)	716,600 (4.8%)
WP Kuala Lumpur	115,100 (4.0%)	824,400 (5.6%)
Pulau Pinang	104,300 (3.6%)	830,800 (5.6%)
Terengganu	98,600 (3.4%)	447,800 (3.0%)
Negeri Sembilan	81,400 (2.8%)	488,600 (3.3%)
Melaka	63,600 (2.2%)	416,700 (2.8%)
Perlis	28,000 (1.0%)	104,000 (0.7%)
WP Labuan	4,800 (0.2%)	41,500 (0.3%)
WP Putrajaya	1,400 (0.05%)	38,400 (0.3%)
Total	2,859,200 (100%)	14,776,000 (100%)

Source: DOSM 2019: Table B4.11, p.227. Percentage figures may not add up due to rounding.

With regards to age, own-account workers are, by and large, an older group of individuals. As Table 4 indicates, participation in this category peaks amongst individuals aged between 25-35 years, and relatively high numbers of participants can be found in each of the older age cohorts. There are surprisingly few self-employed individuals in the 15-19 year age bracket (55,800 individuals). Contrary to the common perception that self-employment is largely the province of the young, this data suggests the reverse: older persons are more (not less) likely to operate as self-employed individuals.

Table 4: Age Distribution of Own Account Workers, 2018

15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
55,800	199,800	358,500	380,300	340,300	339,400	357,300	337,200	289,800	200,800

Source: DOSM 2019: Table A4.23, p.104.

One final but intriguing demographic characteristic is also to be found in the annual Labour Force Survey: the number of hours which each segment of the workforce spends in active work each week. As Table 5 indicates, own-account workers seem to have an easier lot than both employers and employees, as they report some of the lowest number of weekly working hours of any group.

Table 5: Weekly Working Hours by Status in Employment, 2018

	Mean	Median
Employers	47.4	48.0
Employees	46.7	48.0
Own account workers	39.3	40.0
Unpaid family workers	39.4	40.0

Source: DOSM 2019: Table A4.38, p.125.

THE SELF-EMPLOYMENT “EXPLOSION”

Malaysia has experienced an explosion in the number of own-account workers in recent years. Since 2014, self-employment has grown substantially across the country.

There has been a very large increase in both the absolute and relative size of the own-account workforce (see Table 6). Whilst all groups have increased to some extent over a five-year time period, self-employed persons have grown faster than any other group.

Table 6: Changes in Composition and Relative Sizes of Malaysian Workforce, 2014-18

	2014	2015	2016	2017	2018
Employers	511,500 (3.7%)	568,600 (4.0%)	486,400 (3.4%)	553,500 (3.8%)	547,200 (3.7%)
Employees	10,447,600 (75.4%)	10,395,500 (73.9%)	10,534,200 (74.4%)	10,710,100 (74.0%)	10,700,400 (72.4%)
Own Account Workers	2,267,200 (16.4%)	2,476,200 (17.6%)	2,522,300 (17.8%)	2,606,700 (18.0%)	2,859,200 (19.4%)
Unpaid Family Members	626,300 (4.5%)	627,400 (4.5)	620,900 (4.4%)	606,400 (4.2%)	669,100 (4.5%)
Total	13,852,600 (100%)	14,067,700 (100%)	14,163,700 (100%)	14,476,800 (100%)	14,776,000 (100%)

Source: DOSM 2019: Table C3.5, p.263. Some figures may not add up due to rounding.

Own-account workers are the only group to have grown in number in every year. They are also the only group to have consistently increased their share of the total workforce year-on-year. Other categories of employment are subject to significant ups and downs in their numbers, but own-account worker numbers keep growing constantly.

In 2018, own-account workers comprised 19.4% of the workforce, up from 16.4% in 2014. At the same time, traditional paid employee numbers have shown an ongoing decline in their relative share of the workforce. In 2014, they represented 75.4% of persons; in 2018 the corresponding figure was just 72.4%.

Trends in the last two years have been even more dramatic. The number of own account workers grew between 2017 and 2018, from 2,606,700 to 2,859,200. This is a massive jump of 252,500 persons in just one year. In other words, more than a quarter of a million more

self-employed workers joined the labour force in that one year. Even more sobering, this took place in a year in which the overall net increase in the employed workforce was just less than 300,000 persons.

At the same time, the number of employers declined over the 2017-18 period, as did the number of employees. Between 2017 and 2018, for example, the number of known employers actually shrank from 553,500 persons to just 547,200, and employee numbers also fell, from 10,710,100 in 2017 to 10,700,400 in 2018.

It may be a statistical anomaly or an outlier year in terms of data collection, but if this trend continues, then self-employed own-account workers are well on their way to becoming the most dynamic and fastest-growing segment of the Malaysian workforce.

WHY THE SUDDEN EXPLOSION?

Why has the very smallest of all types of businesses become the fastest growing in the Malaysian economy?

Several reasons are possible, many of which may be due to positive features encouraging the growth of self-employment. One is the growth of the services sector. Services are often based on the skills and knowledge contribution of individuals, rather than on the accumulation of capital or infrastructure. Thus a booming services sector can often open up many more possibilities for professionals and highly skilled workers to offer their services on an ad-hoc, freelance, consulting or occasional basis, which allows them to operate as independent micro-businesses. This is increasingly a common feature in many advanced economies, where post-industrial employment patterns have seen a resurgence in own-account workers and other very small, micro-sized enterprises. It can also occur where there is a growing professional class of individuals, who form the basis of a large-scale ecosystem of freelancing service providers.

Self-employment can also be indicative of an increasingly liberal economic environment. As marketplaces become more flexible and dynamic, own-account operators frequently appear to meet the emergent needs of larger firms to buy in or contract in periodic, limited services and skills. This can also be encouraged by changes to regulatory, taxation and social security arrangements which make it easier to become self-employed.

Technological disruption may also play a part in the emergence of more own-account workers. The advent of so-called “gig economy” or “freelance economy” activity, in which individuals perform work on a sub-contract basis using apps and other online services, has seen a large number of persons move into this pattern of work, either temporarily or permanently.

Finally, growing self-employment can also be indicative of a positive change in the general perceptions of, and the willingness to embrace, entrepreneurial activities. Whereas some societies place a premium on job security and tenure, other communities may place more value on innovation, personal enterprise, risk-taking and “being one’s own boss.” Such cultural attitudes to entrepreneurial work are not fixed in stone. Societies over time can become more or become less risk-taking. Generally, when enterprising behaviour is more

valued, more members of a society become more willing to try their hand at self-employment.

All of these above drivers are sometimes referred to as the preconditions of “opportunity entrepreneurship,” a situation which occurs when there is a favourable mix of policy, cultural and economic conditions which encourages more people to experiment with self-employment (Bosma & Kelley 2019).

Conversely, the number of own-account workers can also grow when economic conditions are poor. Often referred to a “necessity entrepreneurship” (Bosma & Kelley 2019), this takes place when individuals are no longer able to find gainful employment in the established labour marketplace. If a job cannot be found working as an employee in the conventional sense, then many of these individuals must instead try to survive on the basis of their own endeavours, even if they would prefer not to do so. Necessity entrepreneurship is a common feature in many lesser-developed economies, low income regions and fragile states, but would appear to be an unlikely catalyst in Malaysia, which is a middle-income country and has generally had stable government and solid economic growth over many years.

Finally, the role of unpaid family workers in the growth of the own-account worker workforce also needs to be considered. As the name suggests, these individuals receive no formal income for their work, but are often to be found working alongside or close to own-account workers. Their numbers have also increased in recent years (see Table 6). Although a detailed discussion of this phenomenon is outside the scope of this paper, it is an issue worthy of further investigation. How closely are the two cohorts linked? Are they meaningfully correlated? Does the growth of one influence or encourage an expansion of the other?

Ultimately, of course, it is hard to prove or show causality from the data discussed in this paper. The DOSM surveys⁴ are a measure of broad movements in the labour force; they are not a tool for measuring the level of “animal spirits” or enterprising behaviour in a community. So while one thing is clear – that self-employment is growing rapidly in Malaysia today – the reason for it is not yet well understood.

CONCLUSION

Self-employment in Malaysia is booming, and it is taking place within the smallest of all independent ventures: the own-account worker group. It indicates a possible new coming-of-age for the importance of micro-enterprises in Malaysia, and throws up a number of interesting policy, regulatory and research questions.

There is plenty of scope for Malaysia to refine its approach to self-employment. Some notable steps have been taken in recent years, such as the *Self-Employment Social Security Act (2017) (Act 789)*, which requires own-account workers in several sectors to insure themselves against work-related injuries or diseases, but its coverage is still not universal, and several categories of self-employed persons remain outside its reach (Nordin 2020). The *Employment Insurance System Act (2017) (Act 800)*, which provides social security support to workers who lose their jobs, specifically does not permit the self-employed to

join, contribute and access benefits if needed (Government of Malaysia 2020). Both programmes could be reformed to allow the self-employed to participate.

Many of the country's employment and entrepreneurship support programmes are directed towards established employing firms – for example, the recent Malaysians@Work scheme provides incentives for established firms to employ more staff – but offers minimal support to the self-employed. Other nations have adopted a range of specific self-employment assistance programmes,⁵ and it would be prudent for Malaysia to examine these and introduce similar measures to foster more, not less, self-employment. There is also room for business and government leaders to publicly champion the validity of self-employment as a career option.

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¹ The Labour Force Survey is conducted annually, using probability sampling that includes both Malaysian citizens and non-citizens. Both the sampling process and the status of employment definitions employed are based on those developed by the International Labour Organization (for more details, see DOSM 2019: 288-293). The sampling frame is restricted to those persons aged 15-64 years (which is deemed to be the active working age of the population), and covers both those who are employed (i.e. have worked on a paid basis for at least one hour during the reference week) and those currently unemployed. It excludes those labelled “outside the labour force”, such as retirees, full-time students and those managing a domestic household (DOSM 2018: 13).

² DOSM uses the term “employed” to refer to persons who fall into any one of the four “status of employment groups” cited previously; it does not necessarily mean that those persons are employees *per se*. This fine distinction can be confusing to those unfamiliar with the data.

³ The Labour Force Survey collects a variety of workers data, principally focussed on a number of demographic and socioeconomic characteristics of respondents. These have allowed DOSM to collate and publish statistics on several key features of the own-account worker group, and to compare these with the other categories of employed persons. Whilst not exhaustive, they do allow researchers to compile a useful profile of self-employed persons.

⁴ There is also a possibility that the survey has been distorted by errors in data collection or publication, although this appears to be unlikely in a well-established credible agency such as DOSM.

⁵ Two examples are the New Enterprise Allowance scheme in the UK, and the New Enterprise Incentive Scheme in Australia, which both help unemployed people move into self-employment training and financial support to unemployed persons (see <https://www.gov.uk/government/collections/new-enterprise-allowance-campaign> and <https://www.employment.gov.au/self-employment-new-business-assistance-neis> respectively).

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