

Entrepreneurship or Risk
Management after TPPA?

What is most needed?

Thanks

| | POSITION IN MARIM | NAME |
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Why entrepreneurship?

- The broad diagnosis is not new. It follows recent papers by others from the HBS---Comin & Vietor--- but sharpened.
- Analysis so far based on larger companies and the upper 10% within them. Good for companies, but needs to go further to change society.
- Both by temperament and training, I want to take a wider view.

Bottom line---policies

- Use the consular officers at embassies
- angel investors need to be more prominent
- encourage agglomeration
- ease entry and allow painless exit
- Generalists for MBA's
- Lower the limit on deposit insurance
- weaken post-bankruptcy laws
- encourage schools and universities to interact with business
- emphasise PLS in Islamic banking and the share market.

Stories

- Ice king of Boston
- Jute in Dundee
- Shopping in Bangladesh
- Darby in England
- Factory towns in UK

What is TPPA?

- The TPP is an economic partnership agreement negotiated by 12 countries in three continents, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam. Malaysia began negotiations in August 2010, and participated as a full negotiating member from October 2010 onwards.

General aim of TPPA

- The overall intent of the TPPA is a simple one: it is to extend non-discriminatory treatment to all TPPA members. This does not mean that regulations and restrictions will not exist---only that such regulations will apply equally to both Malaysians and to non-Malaysian TPPA members.

TPPA envisages more open competition

- TPPA may never pass! Both Hillary and Trump have spoken against it.
- Trump claimed that no one in the USA knows its ramifications, while 'the other countries' know all its details---all 6000 pages!
- But if the general trajectory of Malaysia is in Trade as it is in Banking, more competition is coming regardless of TPPA
- I will continue on the assumption that it will pass
- The NIA done by ISIS clearly suggest that MY firms will have to sink or swim. P 117 "There will be a negative impact for the industries that are less competitive. This is where the survival of the fittest will be tested. "

Risk or Uncertainty?

Some uncertainties are beyond remedy

- Risks can be calculated, it deals with known or repeatable events; Uncertainty is particular and volatile, its effects are incalculable.
- Trade cannot exist without law but in a globalized world the laws are not of our making
- Environmental regulations, health regulations, animal rights champions...
- More insidious are the falsehoods
- Illustrate with interest rates and banking---LIBOR and Gold

TPPA is uncertainty not risk

- The threat here is not from cyclones or floods, but from foreign businesses. If you want theory this is **Game Theory**, not Programming or Statistics. Too many potential competitors to worry about them individually. So we need systemic thinking, not ad hoc responses.
- **What is risk management under these circumstances?**
- Looked at reaction to TPPA in the general community---no one seemed to say, ‘ now my potential market is 600 m customers instead of just 30 m’ , instead the fear was that “ now another 30 m has been added to *their* market.”

The cloudy scenario

- Low global growth rates means that cheaper, lower quality products will be desired, so lowering costs and quality is one strategy---'bottom feeding'
- But it cannot last. Africa may solve its problems and provide an enormous pool of low wage labor.
- Income inequality is forcing the USA into a 3rd world economic frame and the undocs are willing to work at any wage.
- Human capital is rapidly eroded by this strategy and when the world economy revives, Malaysia will be unable to grasp the opportunities

The sunny scenario

- Upgrade quality and innovate products---that is the infinite market. How to approach this opportunity?
- Focus upon Entrepreneurship---not a silver bullet, but a real bullet
- The infrastructure was laid in the 1980's and 90's, contra Rajan. Has the hoped for response come forth?
- Take a comparative look with Vietnam, especially since one important reason for joining TPPA is

Surviving as an entrepreneur is HARD

Research on Small Businesses by Moya K. Mason

- 1. Statistics Canada : about 145,000 new businesses start up each year in this country, and about 137,000 businesses declare bankruptcy each year.
- 2. The Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years.
- How many businesses open and close each year? USA
Estimates for businesses with employees indicate there were 572,900 new firms and 554,800 closures (both about 10 percent of the total) in 2003.
-

Malaysian 'churning' seems reasonable

- New Business 2013 2014 2015
- Malaysia 46112 49203 45658
- Bankruptcies in Malaysia increased to 1668 Companies in June from 1621 Companies in May of 2015. Or about 20,000 a year?—50% fail
<http://www.tradingeconomics.com/malaysia/bankruptcies>
- If TPPA passes, perhaps the primary competitor will be Vietnam. Lets do a comparison

Corruption Rank: lower number is less corrupt

- | | Corruption | | | Competitiveness | | |
|------------|------------|------|------|-----------------|------|------|
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| • Malaysia | 53 | 50 | 54 | 25 | 24 | 20 |
| • Vietnam | 116 | 119 | 112 | 75 | 70 | 68 |
- lower is less corrupt
- lower is more competitive
- <http://www.tradingeconomics.com/vietnam/corruption-rank>

Malaysia & Vietnam: a worrying contrast

- Govt policies/provision are almost uniformly better for MY than VT
- Finance[1,50], policies[10,25], taxes[7,15], programs[10,25], educ[11,47] & [13,47], infra[9,17], norms[8,14]
- Then why are % self-perceived opportunities, capabilities, fear of failure, intentions for young so different? rank out of 70
- MY 49 57 49 57
- VT 9 19 8 23
- MY appears to excel at fulfilling the formal criteria, without necessarily entering into the spirit inspiring the criteria. GEM 2015

The youth are the future

- Then why are % a) self-perceived opportunities, b) capabilities, c) fear of failure, d) intentions-- for the young so different? rank out of 70
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Type of Entrepreneurship

- Comparison of Total Entrepreneurial Activity (TEA) and Entrepreneurial Employee Activity (EEA), **GEM 2015**

Low TEA

High EEA Norway, United Kingdom

Low EEA Bulgaria, **Malaysia**, Morocco

High TEA

Australia, Canada, Estonia, Israel, United States

Burkina Faso, Cameroon, Ecuador, Peru

TEA: younger individuals actively involved in business start-ups, either in the phase of starting a new firm (nascent entrepreneurs), or in the phase spanning 42 months after the birth of the firm (owner- manager of new firms).

<http://www.igi-global.com/dictionary/>

- EEA: entrepreneurial activity happening inside established business. Specifically, this includes employees who are developing new activities for their main employer, such as launching new goods or services, or setting up a new business unit, a new establishment or subsidiary. <http://www.babson.edu/>

Personal bankruptcies

- **Bankruptcy cases in Malaysia**
- 2007-2014 from 13,000 in 2007 to 22,000 in 2014
- **Main causes of bankruptcy 2007-2014**
- 39082 (27%) Hire purchase loans
- 25616 (18%) Housing loans
- 24041 (17%) Personal loans
- 55735 (38%) Others
- Suggests an emphasis on consumption
- https://infogr.am/bankruptcy_in_malaysia

Analysis and action

- “You either have it or you don’t”. “its in the culture.”
- This is not a 0-1 proposition. We can study ,learn and develop these talents. We can redirect our culture. Bangladesh.
- Society and state have much to say on this--- and we make both.
- Ice king of Boston
- the conflict between textbook competition and Schumpeterian competition. How does a small player keep up, let alone innovate?

Focus on distant goals

- quality of entrepreneurship : US measurements at time of registration. Continuous flux. Lesson: Do not depend constantly on numbers.
- Because specialization is limited, *entrepreneurship is harder in poor economies*. Accounts, Engineering, Marketing, HR etc
- Think of what the system should be and stand firm. Avoid trying to feel the breeze and adjust. Let society adjust---if you explain your goals, people understand.

Worldviews, bureaucracy, & institutions affect risk-taking

- Risk can only be managed if risk is taken. People will avoid risk unless failure is accepted as 'normal'.
- Faith has much to say about this. We cannot prove that things will turn out well. In fact, in a market economy, only a minority can succeed. So we must have faith that the system is good overall.
- I do not know about other religions but the entrepreneurship of Islam can be emphasized.

Two innocent obstacles

- MY bureaucracy very competent---it should either do more or do less, because Bureaucracy sets the frame of the market. Do less and choose more carefully what to do
- MY banks generate too much trust. Among the most trusted in the world. Quite efficient. But the risk taking is left to the banks!
- Since TPPA effectively minimizes the direct role of Govt., we need to be clear about the paths that are being closed

Nothing succeeds like success

- Historically, this initial success has been obtained with some form of Govt assistance. Direct state direction can be effective, but EAM no more
- Attaining Size is important. Korea used chaebols for industry. Korean pop. **Yale Insights**. The most watched video ever on YouTube has received more than 2.5 billion views. What is it?

Korean Pop

- In 1990's, a whitepaper from a presidential advisory board noted that a single movie, *Jurassic Park*, earned the equivalent of selling 1.5 million Hyundai cars. The paper sparked a national discussion about getting into the pop culture business. The result was the formation, in 1994, of the Cultural Industry Bureau.
- Despite the bureaucratic name, it was an audacious step because, as Hong says, "There was zero market for Korean popular culture. It had to be force fed into foreign markets." The government paid to translate Korean soap operas and even arranged for ad sales so that TV stations across Asia would accept the ready-to-play packages.
["Gangnam Style,"](#) by Psy.

Government or Private

- While TPPA still provides a window to the SOE's they must try.
- The size needed can come from activist banks or from conglomerated firms---like Tata or Birla in India. Much harder for Malaysia to achieve
- Activist banks ----take lessons from Germany

Institutional nudges

- Use the consular officers at embassies
- angel investors need to be more prominent
- encourage agglomeration
- ease entry and allow painless exit
- Generalists for MBA's

Attitudinal changes

- Lower the limit on deposit insurance
- weaken post-bankruptcy laws
- encourage schools and universities to interact with business
- emphasise PLS in Islamic banking and the share market.

Both TEA and EEA are effective

- So far, I have addressed TEA, but we must not discount EEA
- Appreciate skilled labor. You cannot build an entrepreneurial culture with the upper 10% alone.
- See the TPPA regulations as an opportunity, not as a threat
- 35% of TP in Industrial Revolution cannot be attributed to anyone. This is the contribution of skilled labor.
- Jute in Dundee.

Finally,...

- Markets cannot work in isolation, and certainly not when they counter social forces. Markets flourish when they are embedded within market societies, and there is a give and take between society and economy
- Malaysia has a great opportunity. It has prepared all the prerequisites to flourish, now it is time to engage in the changing of mindsets which will grasp the opportunities.
- As a Bangladeshi-American I feel diffident in speaking about a country where I am a visitor. So let me state clearly
- Saya tetamu
- Saya tak tahu
- Please excuse my mistakes

