

Malaysia's digital challenges

The digitisation of the global economy has been helping many businesses to thrive in ways not possible just a decade ago. At a time of fragile economic recovery, digital technologies such as e-commerce platforms can play an important role in promoting trade expansion, notably cross-border trade, as well as productivity gains.

On the consumer side, the digitisation of trade through e-commerce platforms has made it quicker, easier and cheaper for consumers to shop and purchase a massive array of products from local and international online stores.

In addition, well-regulated digital transactions via online platforms have provided consumers with greater access to information about prices, product details and warranties, among others.

Digital trade is becoming an increasingly vital part of the economic landscape worldwide. Malaysia's economy is no exception.

The country's digital economy, including e-commerce and information technology, contributed US\$68.6 billion or 19.1% to gross domestic product (GDP) in 2019, according to data from the **Department of Statistics Malaysia**.

The numbers have continued to rise, and digital trade is projected to account for 22.6% of GDP by 2025, according to MyDigital, a national initiative to accelerate Malaysia's progress as a technologically advanced economy.

E-commerce alone has contributed nearly \$30.2 billion to GDP, rising from an 8.5% share in 2019 before the pandemic to around 12% in 2020, according to a recent report by the Institute of Strategic & International Studies (Isis) Malaysia.

The report also indicated that 26% of this e-commerce value-added came from the information and communications technology (ICT) industry, while e-commerce in other industries accounted for the remaining 74%.

Isis cited estimates by the consultancy AlphaBeta, saying digital trade has generated around \$5.7 billion or 1.8% of GDP in economic activity through technologies, leading to increases in worker productivity and creating new sources of revenue.

Also, AlphaBeta predicted that the figure could soar nine-fold to \$52.7 billion by 2030 if Malaysia can bump up the rate of digital technology adoption and take greater advantage of digital trade, according to Isis.

Based on the e-Conomy SEA 2021 report by Google, Temasek and Bain & Company, the gross merchandise value of digital trade and e-commerce, including online travel, media, transport and food, will flourish at a constant annual growth rate of 14%, reaching \$35 billion in 2025, Isis pointed out.

The same report pointed out that Malaysia has added about 3 million new digital consumers since the start of the Covid-19 outbreak -- while existing digital consumers used an average of 4.2 more digital services compared to the start of 2020.

"Catalysed by Covid-19, the globalisation of digitisation means there is an increasingly urgent need for us to address the various obstacles we face to harnessing the forces of technology for the well-being of Malaysian households, firms and workers," Isis Malaysia chief executive Herizal Hazri said at a recent virtual forum hosted by Isis and Google.

"The digital economy and digitisation have certainly become somewhat of a buzzword in policy circles over the past decades, yet it is easy to forget that the popularity of discussions surrounding digitisation, as a very compelling underlying reason, is perhaps the most important driver of innovation productivity and growth for firms as well as for our nation's economy as a whole," he added.

As post-Covid Malaysia renews its push toward becoming an inclusive and high-income economy, it is essential to strengthen and support the digital economy ecosystem.

"As we move ahead on this path of economic recovery, we have witnessed the resilience of our country as many sectors and businesses have accelerated their digital transformation," said Marc Woo, managing director of Google Malaysia.

About 81% of all Malaysian internet users are consumers of digital services while businesses are adopting technologies at a faster pace than before, using digital tools to serve their customers better, Mr Woo added.

"Digital solutions have truly made our lives easier in all aspects. Undoubtedly, the pandemic has accelerated the process of digitisation as a new normal," said Fabian Bigar, chief executive officer of MyDigital Corporation.

"Malaysia needs to fully leverage the fast-growing digital economy as a key strategy for economic recovery, which means attracting more investment into digitisation."

Malaysia must tackle macro-level hurdles like quality infrastructure and digital trade restrictions and micro-level challenges like technological adoption by the smallest businesses, says Calvin Cheng, senior analyst with Isis Malaysia. SUPPLIED

STARTING SMALLER

From the perspective of micro, small and medium enterprises (MSME), a wide range of digital technologies give them a greater opportunity to access financing, tap global markets and experience productivity gains.

"Firm-level digitisation is a prerequisite for digital trade," an Isis report stated. "For digital trade and e-commerce to expand in an economy, its firms first need to have the ability, capacity and willingness to and adopt digital technologies."

One in three digital merchants believe they would not have survived the pandemic if not for digital platforms. Eight in 10 anticipate that more than 50% of their sales in the next five years will come from online sources, said Joanne Bala, government policy lead with Google Malaysia.

"Therefore, it's important that we ensure both the private and public sectors come together to provide SMEs with the tools they require to help them with their digital transformation," she added.

To do so, Google has initiated Mahir Digital Bersama Google and trained some 36,000 MSME participants in digital skills. The platform provides free access to training courses, tools and face-to-face coaching to help small business participants obtain the right skills to embrace new opportunities, grow their business, find jobs or even advance their careers.

However, overall digitisation and digital adoption rates for businesses in Malaysia are still relatively low. Larger firms adopt e-commerce at far higher rates than MSMEs, which pick up only a small share of the benefits as a result, according to the World Bank.

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MSMEs adopted some basic front-end digital solutions such as sales and marketing tools during lockdowns, but more advanced technologies from Internet of Things (IoT) to more complex solutions have been adopted at a slower pace, if at all.

Low e-commerce and digital technology adoption rates pose a major challenge to the expansion of digital trade, given that MSMEs account for 98.5% of Malaysia's businesses.

The World Bank's Digital Adoption Index shows that Malaysian businesses lag far behind their peers in Singapore and other high-income OECD countries, as well as some Asean economies, including Thailand, Vietnam and the Philippines, Isis noted.

Only 62% of Malaysian companies are connected to the internet and less than 28% have a web presence, while only 15% make use of online platforms to export their products, Isis added.

The figures are even worse for smaller firms, highlighting the wide digital gap between multinationals and micro-enterprises.

At the same time, economic pressures and prolonged Covid restrictions across Malaysia forced many MSMEs to cease operations.

Those that have survived the past two years are redirecting their time and capital away from being innovative and productive to simply being able to survive.

While the pandemic has been a silver lining in terms of increased digitisation, the digital divide could widen if there is no speedy government action, warned Dr Smita Kuriakose, senior economist with the World Bank in Malaysia.

"When I talk about the digital divide, it's threefold," she said. "It is the regional digital divide where we can see that there are some states that are lagging as opposed to others, there are the MSMEs versus the larger firms and then there is the gender dimension."

The government's MyDigital blueprint has brought together the main actors to look at a policy framework to address this divide to make sure that people are not left behind, she said.

And while policies are plentiful in Malaysia, it's not clear if they are agile enough to keep up with the fast pace of the digital economy, Dr Kuriakose pointed out.

Before Covid-19, she said, there was very little awareness of digitisation among MSMEs. Few saw it as a priority while most viewed going digital a kind of luxury.

As the pandemic intensified, it was no longer a luxury, she pointed out.

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POLICY GUIDANCE

Currently, Malaysia ranks among the 11 most restrictive countries toward digital trade, based on the Digital Trade Restrictiveness Index compiled by the OECD. This is higher than the global median and much higher than neighbouring economies like the Philippines and Singapore, said Calvin Cheng, senior analyst at Isis Malaysia.

Transforming Malaysia into a technology-driven and high-income digital nation is challenging as policymakers, businesses and consumers alike are facing a number of obstacles.

To expand digitally enabled trade, the country must tackle macro-level hurdles like the availability of quality infrastructure and digital trade restrictions, to micro-level challenges like technological adoption by MSMEs, Mr Cheng said.

Digital trade relies on digital networks and data flows. Any restrictions at any one node of the process can dramatically impede transactions across the entire supply chain, he added.

As Malaysia strives to strengthen digital trade and digitisation, policymakers need to remove restrictions related to logistics performance and customer procedures, regional integration and free trade agreements. At the same time, they need to establish a one-stop digitisation platform, as well as improve federal-state cooperation and reduce duplication.

According to Isis, the overall performance of Malaysia's logistics infrastructure and customs procedures remains a barrier to the expansion of digital trade.

Despite attempts at moving toward a paperless system, the customs clearance processes still requires physical documentation, particularly outside Port Klang. Digitising the process would increase efficiency and reduce the time goods spend at border control.

Other chronic drawbacks include traffic congestion in and around key transport hubs and container terminals and depots, along with poor road quality and lack of amenities.

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A digital system could also lead to healthier coordination between port authorities, customs agents and freight-forwarding agents and reduce leakage, bribery and corruption.

As for logistics infrastructure, as the National Transport Policy noted, the government could support greater investment and deeper integration across all modes, focusing on improving the efficiency of rail-based freight -- which has been regarded as the weakest and most underused of Malaysia's transport modes, Isis added.

As one of the most export-dependent economies in the region, Malaysia should also deepen regional integration, pursue regional free trade agreements (FTAs) and strengthen digital trade rules in order to boost cross-border digital trade, regional digital connectivity and regional economic cooperation.

On the regional front, accelerating the implementation of the 2018 Asean Agreement on E-commerce (AAEC) would be a good start, according to Isis.

Doing so would facilitate cross-border transactions, improve consumer trust and security and enable capacity building to intensify e-commerce adoption across the region.

In addition, the government can proactively promote the Asean model of contractual clauses for cross-border data flows and join the cross-border privacy rules system devised by the Asia Pacific Economic Cooperation (Apec) group -- which can make it possible for MSMEs to better perform in regional digital markets.

At the same time, MSMEs, particularly smaller enterprises with lower digital literacy, need a more tailored, mentorship approach to up their digital game, Isis noted.

"It's important that we ensure both the private and public sectors come together to provide SMEs with the tools they require to help them with their digital transformation," says Joanne Bala, government policy lead with Google Malaysia. SUPPLIED

However, many government digitisation programmes are more suited to mid-size firms and/or those with some existing level of digital knowledge.

The lack of digital literacy among smaller enterprises magnifies the dangers of exclusion, where the smallest, least capable firms are left out. This can be either due to a lack of awareness or a lack of capability to apply to these programmes.

As such, as firm-level digitisation becomes a greater priority, policymakers could look at consolidating the numerous individual digitisation grants, loan programmes and other initiatives, with all their separate eligibility and application requirements.

Consolidation would make it easier to create a one-stop application platform such as the Digital Enhancement Centre of the Malaysia Digital Economy Corporation, while reducing application and compliance burdens.

Last but not least, deeper coordination and collaboration is needed between federal and state ministries and agencies. MSME digitisation is a huge task, and there are many agencies at the federal and state levels involved in various ways.

A lack of inter-agency coordination can lead to duplicated and fragmented initiatives.

Federal ministries and agencies should design programmes in consultation with state agencies, disburse federal funds to state agencies, then allow states to report metrics for monitoring and evaluation purposes, Isis recommended.

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