

Report launch



Institute of Strategic & International
Studies (ISIS) Malaysia



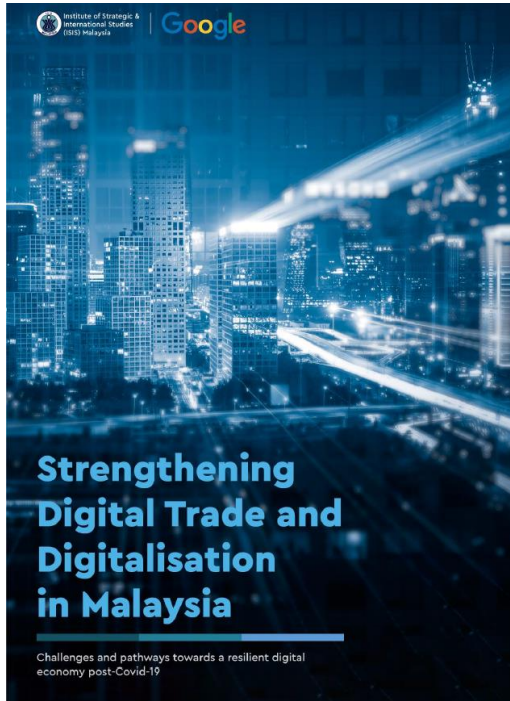
Strengthening digital trade and digitalisation in Malaysia

Challenges and pathways towards a resilient digital economy post-Covid-19

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About the report and contents



Institute of Strategic &
International Studies
(ISIS) Malaysia



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Sections

01 Digital trade and e-commerce



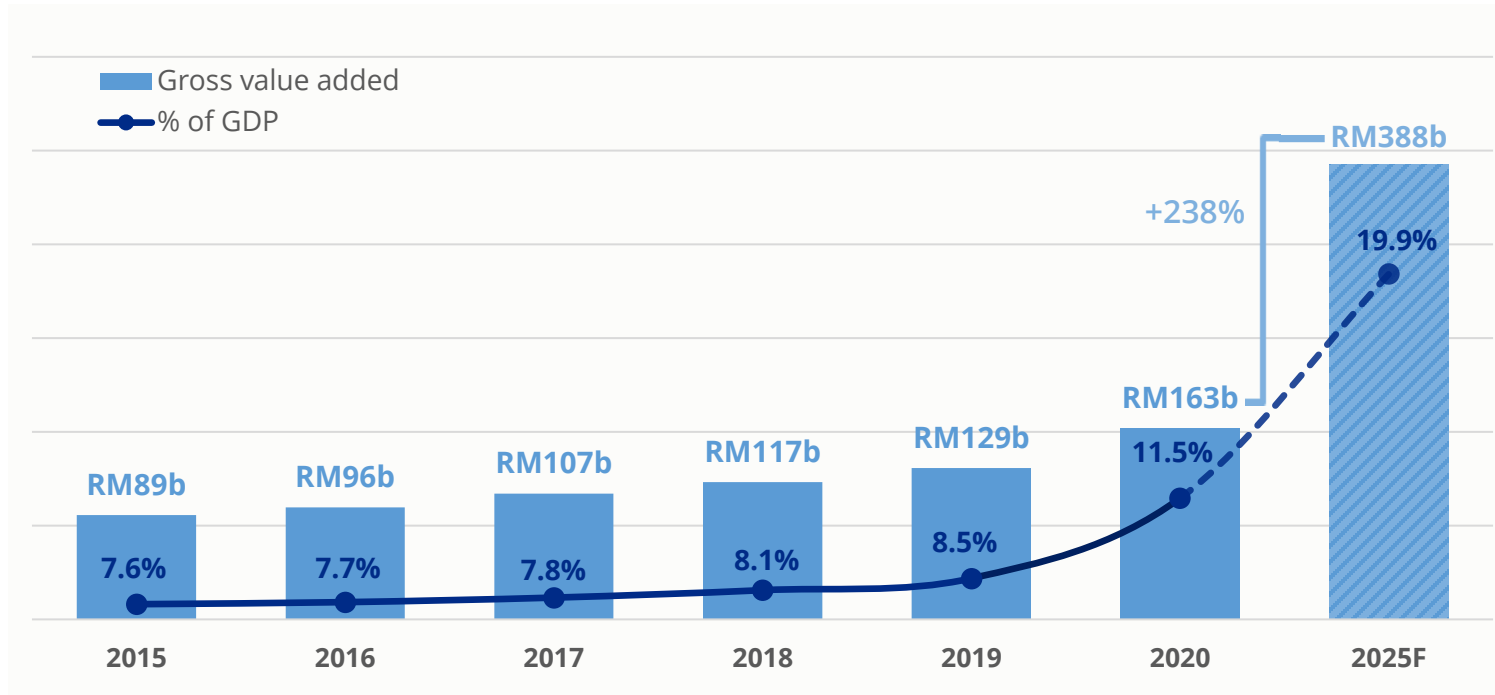
02 Digitalisation of MSMEs

03 Digital payments

04 Policies for the future

Digital trade is becoming an increasingly important part of Malaysia's economy

E-commerce contribution to GDP (value added and % of GDP)



Source: DOSM, Authors' estimates; GDP projections from the IMF October 2021 WEO database

Note: 2025 projections are the authors' rough estimates of e-commerce gross value added scaled to the e-commerce growth rates from Google, Temasek & Bain, 2021 e-Economy SEA report

The digitalisation of trade flows brings about wide-ranging benefits

How digital trade benefits...

The economy and trade flows	<ul style="list-style-type: none">• Lower costs of international trade and increases trade growth• Facilitate formation and growth of global value chains• Increases technological diffusion and use of information technologies
MSMEs and businesses	<ul style="list-style-type: none">• Lower the barriers for MSMEs to access global markets and value chains• Cheaper and greater access to larger consumer base• Productivity gains from technological diffusion and internationalisation
Consumers	<ul style="list-style-type: none">• Greater convenience while purchasing goods and services• Quicker, cheaper and easier to access a wider range of products worldwide• Increases customer satisfaction and raises consumer surplus

Source: Authors' illustration based on various sources, including Capillary, 2020; Bekkers, Koopman, Sabbadini, & Teh, 2021; Gonzalez & Ferencz, 2018; OECD, 2019.

Obstacles to the expansion of digital trade and e-commerce

Issues and challenges

1. Digital enablers

- Logistics performance and digital infrastructure
- Regulatory issues and non-tariff barriers
- Lack of common digital standards and agreements



2. Digital actors

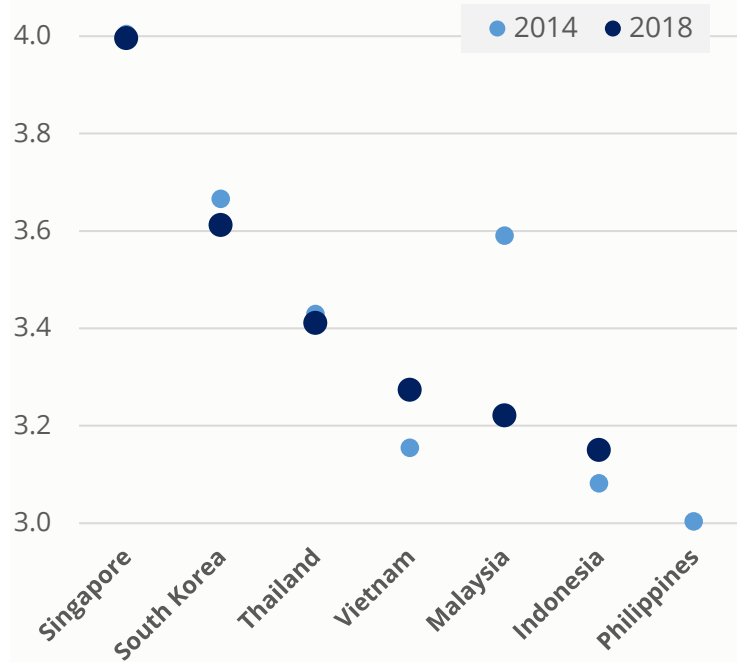
- Low firm digitalisation and digital adoption
- Consumer-related issues



Source: Authors' illustrations based on various sources including Baghdadi & Guedidi, 2021; Awad-Warrad, Boughanmi, & Hwang, 2021; Ferracane et al., 2019; Kawa, 2020; Darsinouei, 2017

Malaysia's logistics performance have declined significantly

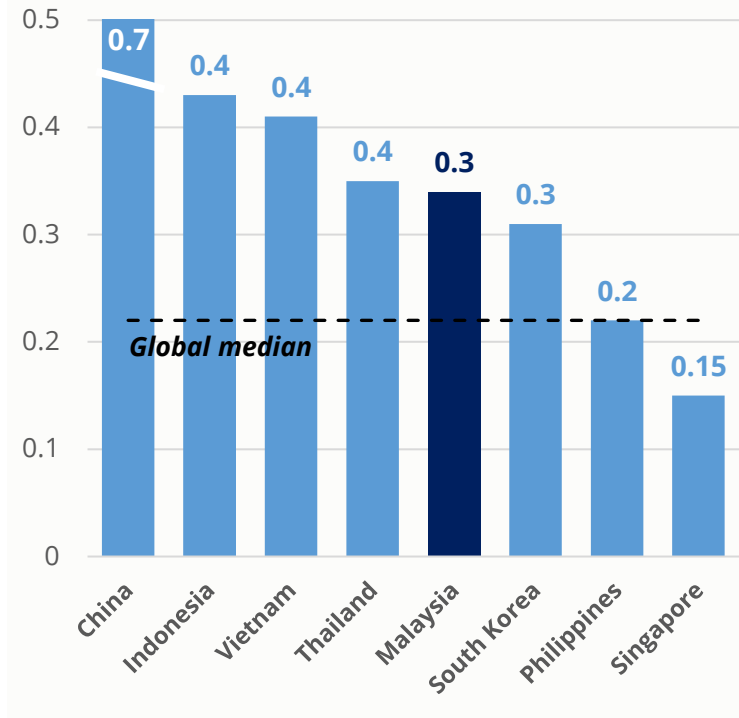
Overall logistics performance (LPI) index (1=low, 5=high)



Source: World Bank Logistics Performance Index (LPI) 2018

Malaysia's overall digital trade regulations are relatively restrictive

Digital trade restrictiveness index (DTRI) (0=low, 1=high)



Source: Ferracane et al., 2019; ECIPE

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02 Digitalisation of MSMEs



03 Digital payments

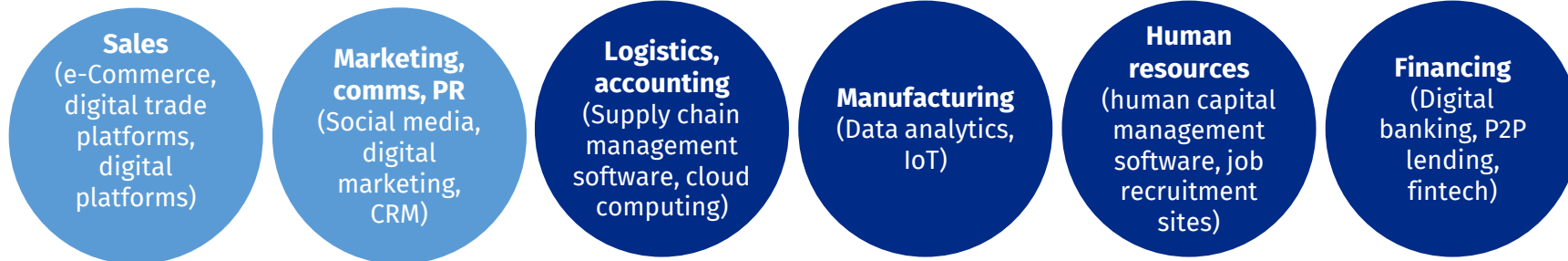
04 Policies for the future

■ Digital technologies benefit MSMEs in many different areas...

Business process and their corresponding digital solutions

Front-end processes

Back-end processes



■ ...but numerous obstacles remain

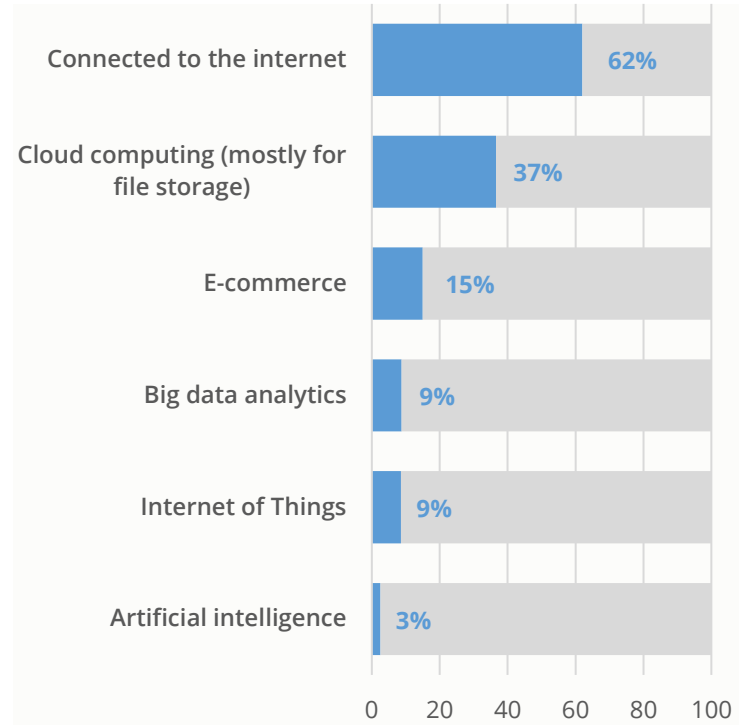
Issues and challenges in increasing digital adoption in MSMEs

Obstacles to increasing digital adoption amongst MSMEs

- Access to digital infrastructure
- Awareness and skills gaps
- Financing constraints
- Firm size and the digital divide
- The impact of Covid-19
- Gender-related issues

Deployment of key digital technologies among Malaysian businesses is still low

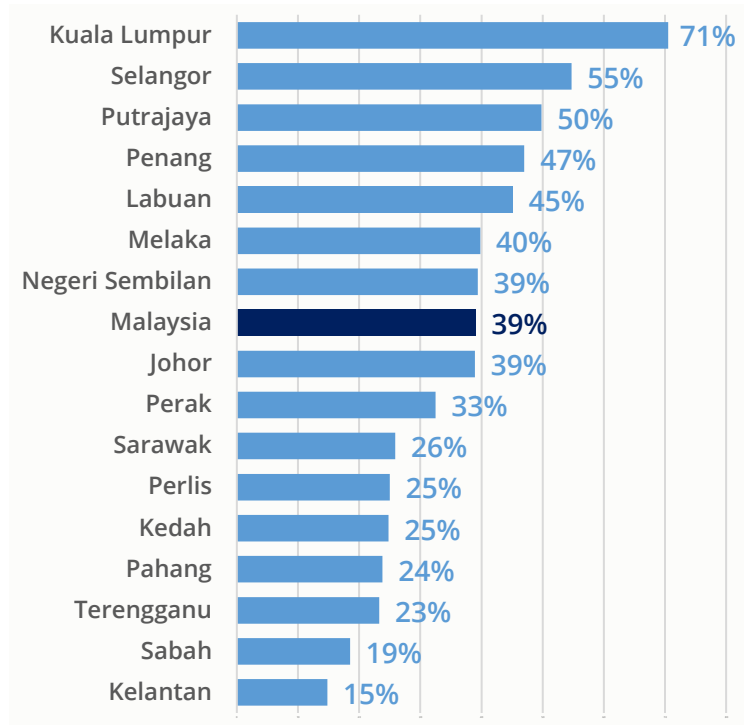
Adoption of technology, non-public sector businesses (%)



Source: MCMC Broadband Demand Survey 2019, World Bank; Alphabet

Access to digital infrastructure varies greatly across states

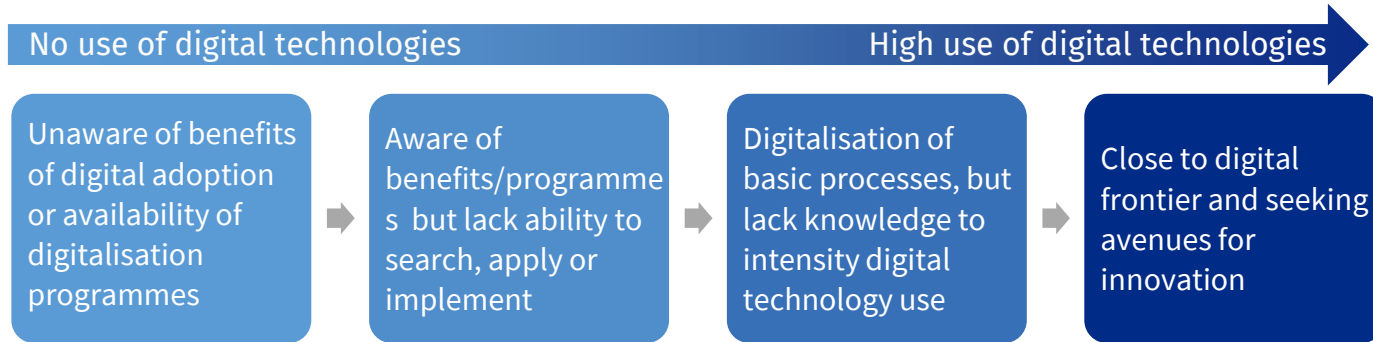
Fixed broadband penetration rate by region/state, 1Q2021



Source: MCMC Broadband Demand Survey 2019

Awareness and skills deficits amongst businesses exist on a continuum

The digital adoption continuum



Financing, cost and credit constraints continue to hinder digital progress

Issues and challenges

MSMEs face...

- Unstable cash flows,
- A lack of available resources
- low credit availability
- High and rising digital costs

The impact of Covid-19 on MSME digitalisation is complex

Driving and conflicting factors

>>> Driving factors

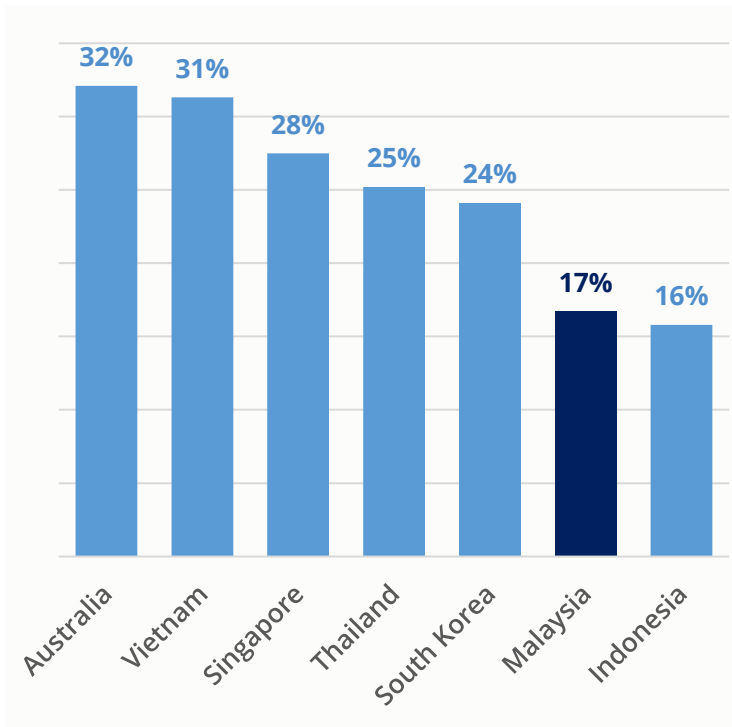
- **Covid-19 has necessitated digital adoption.** Globally, pandemic has accelerated digitalisation of businesses by 3-4 years
- **Covid-19 has intensified the government's focus on digitalisation.** Allocations to the various government MSME digitalisation programmes (e.g. SBDG, SAG) have increased.

<<< Conflicting factors

- **MSMEs faced large revenue shocks from Covid-19.** Many MSMEs diverted time and funds away from deployment of new technologies into survival
- **MSME digitalisation driven by survival not innovation.** MSME deployment of advanced technologies have slowed significantly
- **MSMEs facing revenue declines unable to meet minimum revenue conditions** for some government digitalisation programmes

Only 17% of businesses are owned by women in Malaysia...

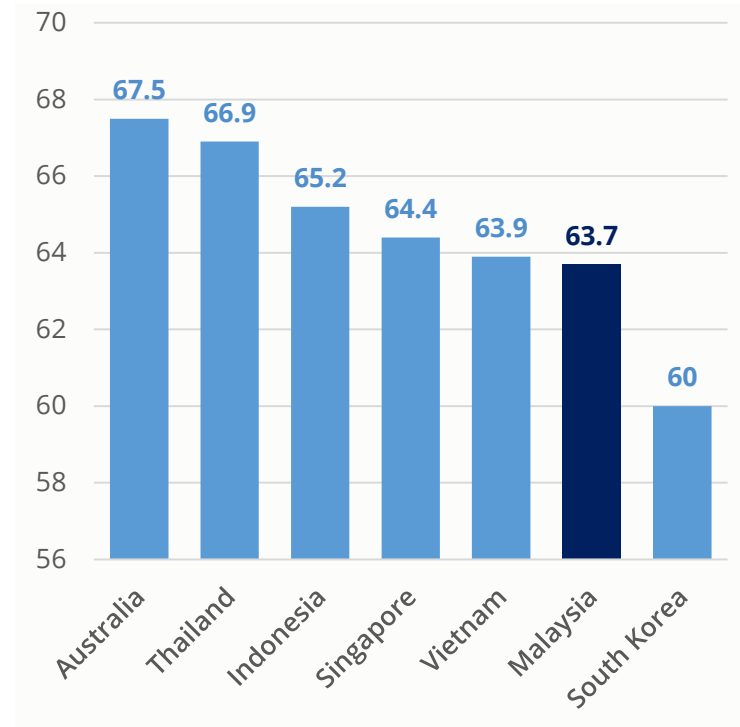
Women as % of total business owners, 2018



Source: CEOWorld, Mastercard Index of Women Entrepreneurs (MIWE)

...as Malaysia scores low on having women-friendly business conditions

Mastercard Index of Women Entrepreneurs 2020 score



Source: CEOWorld, MIWE 2020

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02 Digitalisation of MSMEs

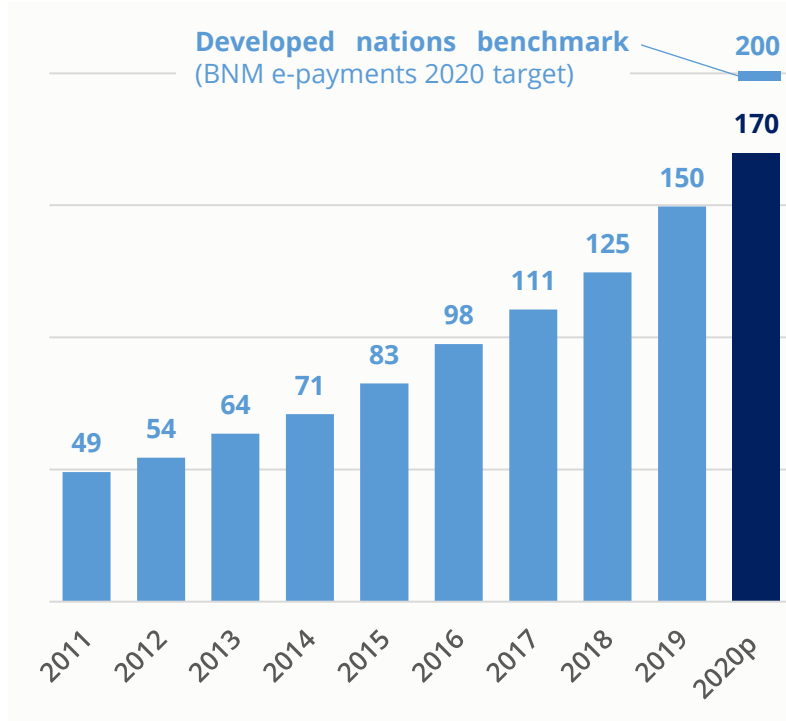
03 Digital payments



04 Policies for the future

Total e-payments transaction volumes in Malaysia have been rising, but not by enough to meet targets

E-payment transaction volume per capita, Malaysia



Source: Bank Negara Malaysia Financial Sector Blueprint

	2020 target	2020 actual	Status
E-payment transactions (per capita)	200	170	Not achieved
Debit card transactions (per capita)	30	15	Not achieved
EFTPOS terminals (per 1,000 inhabitants)	25	23	Not achieved

Obstacles to the expansion of digital payments

Issues and challenges

1. Regulatory and policy environment

- Degree of regulatory burden/red tape
- Competitive environment



2. Digital and financial access

- Financial inclusion
- Access to devices and mobile/broadband internet



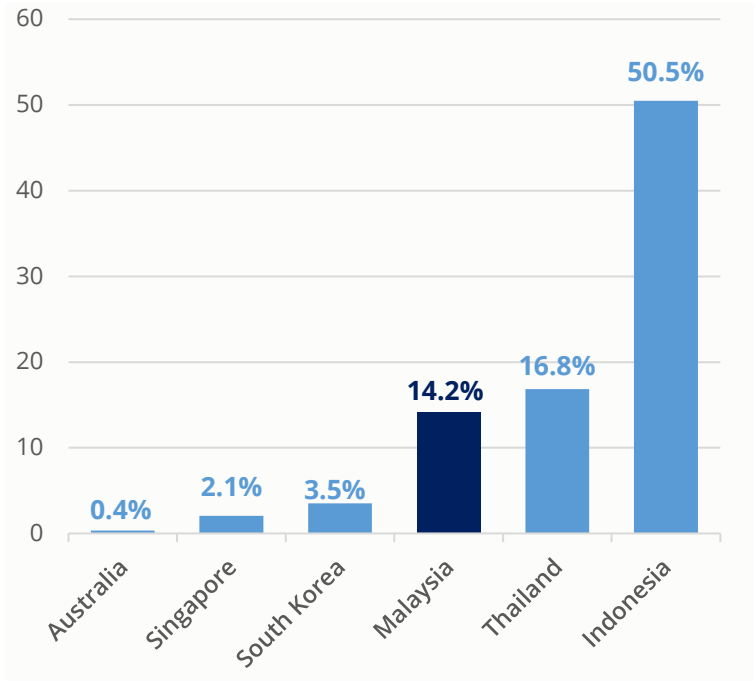
3. Demand-side factors

- Ubiquity and reliability of digital-payment systems
- Level of e-commerce adoption



There are large pockets of unbanked individuals in Malaysia

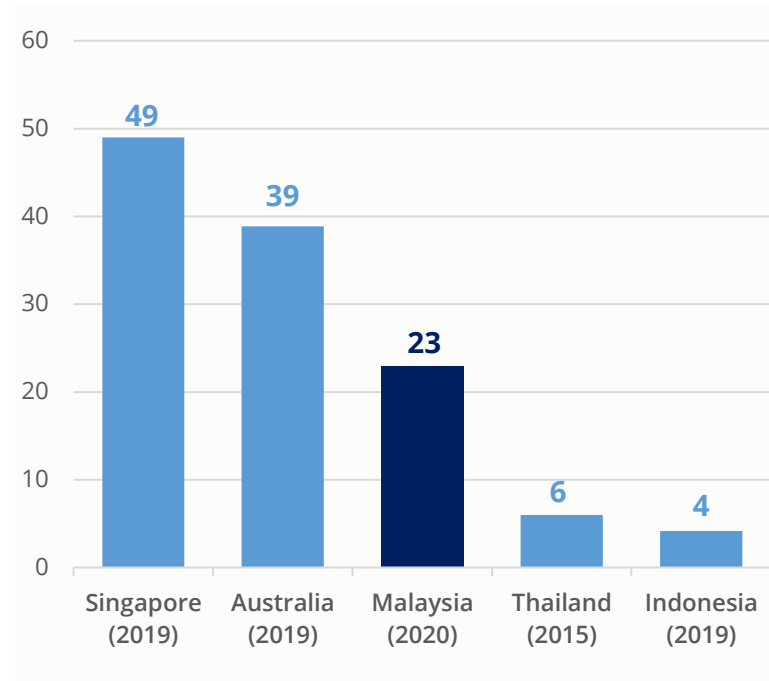
% of population without an financial account, 2017



Source: Bank Negara Malaysia Financial Sector Blueprint
Note: *% of population aged 25+, account ownership at a financial institution or service provider

Malaysia's EFTPOS density still lags far behind those of high-income nations

EFTPOS terminals per 1,000 inhabitants



Source: BNM, Bank of International Settlements, World Bank

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04 Policies for the future



● Improving logistics performance and customs procedures

- > **Border processes:** Fully digitalising customs border processes and moving towards paperless trade
- > **Transport logistics:** Increasing investment in improving connectivity and congestion around key transport hubs, improving rail-based freight, enforcing cargo limits and road safety

● Regional integration and free trade agreements

- > **Digital integration:** Deepening digital integration within the region (ASEAN/APEC) outside of just financial integration. This includes accelerating implementation of existing initiatives (e.g. AAEC, ASW, ACTS, APEC cross-border privacy rules)
- > **Digital trade agreements:** Explore digital partnership agreements (next-generation FTAs) and ratify CPTPP (digital commitments under CPTPP amongst the most ambitious) to strengthen digital trade, provide certainty for investors, and grant MSMEs greater access to global markets

● Improving federal-state cooperation and reducing duplication

- > **Reducing duplication and fragmentation:** Deeper coordination between federal and state ministries and agencies would boost the impacts and reach of digitalisation programmes and reduce information gaps and compliance barriers among MSMEs.
- > **Increasing federal-state digital policy collaboration:** Federal policymakers could deepen collaboration with state agencies, particularly via working through the latter instead of just alongside them.

● Consolidating programmes and establishing a one-stop digitalisation platform

- > **Reducing exclusion errors:** Centralise and simplify application processes while allowing tailored hand-holding across all programmes will reduce exclusion for smaller, less-capable firms.
- > **Data sharing, programme evaluation:** Consolidation of programmes under a one-stop platform will encourage greater cross-agency sharing of recipient databases and enable monitoring and evaluation

● Promoting a gender-inclusive digital economy

- > **Digital policy:** In MyDigital there are no policy initiatives listed to address gender related issues. Establishing concrete and measurable targets would increase accountability and enable evaluation.
- > **Labour markets:** Investing in labour market policies that afford more equal greater economic opportunities such as publicly funded universal paid family leave policies and ensuring universal access to quality childcare.
- > **Skills:** Providing more publicly-funded capacity building initiatives like digital skills workshops and entrepreneurship workshops (including in schools) for women can reduce the digital gender gap and empower women entrepreneurs.

● Strengthening data protection and privacy

- > **PDPA update:** In line with MyDigital's target to review the PDPA by 2030, there is room to update the PDPA with regard to principles, scope, rules and enforcement of the law.
- > This could include updates to expand the scope to cover non-applicability to non-commercial sectors, adding rules and strengthening civil recourse and enforcement mechanisms.

Thank you

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