E-commerce Expansion in Malaysia

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Introduction

- The roots of Malaysia's interest in e-commerce can be traced back to the Information, Communication and Technology (ICT) plans
- National e-commerce Strategic Roadmap (NESR 1.0) in a bid to embrace e-commerce as a driver for growth.
- After 2020, the government launched the NESR 2.0 in 2021 to further intensify e-commerce adoption and growth; enhance ecosystem development; and strengthen policy and regulatory environment. NESR 2.0 is operationalized from 2021 to 2025.
- Increase the contribution of e-commerce to the Gross Domestic Product (GDP) and to assist SMEs' participation in international leading market places for exports
- Digital Free Trade Zone (DFTZ) launched in 2017
- Chapter aims to examine the nature of e-commerce in Malaysia, including cross border e-commerce and its drivers as well as to identify the main challenges in moving forward.



Malaysia's Digital Economy and Nature of Ecommerce

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- The contribution of ICT to GDP has grown from 16.5% in 2010 to 19.1% in 2019 (Figure 1).
- The share of e-commerce in non-ICT industries has grown steadily from 3.6% in 2010 to 6.2% unlike the share of ICT which fluctuated over time. In 2019, its share is the same as in 2010 (12.9%).

E-commerce Income, 2015-2019, Billion

25



19.1 18.2 18.3 18.7 20 17.8 17 16.5 16.4 15.9 15.9 Percentage % 15 13.412.9 13.1 13.2 12.9 12.712.4 11.9 12 11.7 10 4.7 4.6 4.4 42 5 3.6 0 2011 2010 2012 2013 2014 2015 2016 2017 2018 2019 Axis Title

ICTGDP e-Commerce of non ICT industry ——Contribution of ICT

- Ecommerce income is mostly domestic; share of international is small; no distinction between exports and imports
- Although manufacturing dominates domestic income, international income in services is larger than manufacturing



Domestic International

Malaysia's Digital Economy and Nature of Ecommerce



■B2B ■B2C ■B2G

- E-commerce is dominated mainly by B2B, followed by B2C and B2G
- Manufacturing is dominant in B2B while services is dominated by B2C with a higher share of B2G compared to other sectors.



Malaysia's Digital Economy and Nature of Ecommerce



- The imposition of MCO to control the Covid-19 pandemic in 2020 and work-from-home restrictions increased the demand for e-commerce activities.
- E-commerce income grew by 22.8% annually from RM675.4 billion in 2019 to RM896.4 billion in 2020.
- Share of e-commerce in Malaysia's ICT economy is expected to increase in 2020 and beyond, due to digital consumption habits that have increased and developed over the Covid-19 pandemic period, and which is expected to continue as a new way of life.



Malaysia's Digital Economy and Nature of E- commerce	Merchant	Monthly Web Visits	App Store Rank	Play Store Rank
	Shopee	57,566,700	1	1
	Lazada	14,290,000	2	2
	PG Mall	6,976,700	9	n.a.
	Zalora	1,100,000	3	5
	GoShop	425,600	6	3
	eBay	287,900	7	7
	Decathlon	262,100	n.a.	n.a.
	Qoo10	259,100	17	9
	Applecrumby	239,700	n.a.	n.a.
	Sephora	225,200	5	6
	Applecrumby Sephora	239,700 225,200	n.a. 5	n.a. 6



Drivers of Ecommerce growth

Firm level and country level studies

Figure 9.5: Key Enablers of E-commerce Growth in Malaysia

Economy

 Economy GDP per capita, geography, demography, urbanization, and digital talent

Environment

• Cosmopolitanism, readiness for ecommerce, barriers to e-commerce

Info Infrastructure

Availability of broadband, speed, and cost

E-commerce Growth



Cross-country comparisons: Malaysian in ASEAN



Figure 5: GDP per capita (constant 2015 US\$), 2014-2020

- GDP per capita of Malaysia is second among the ASEAN-6 for the period shown, indicating that Malaysia has a larger potential for ecommerce growth since a larger market size will provide market opportunities and profit potential for e-commerce.
 - Malaysia is the fourth smallest country in terms of land area, behind Singapore, the Philippines and Vietnam.
 - Geographically, archipelagic states like the Philippines and Indonesia pose severe logistic challenges for e-commerce, especially in last-mile logistics. Malaysia's geography is less challenging for logistics as it only has two significant regions, namely Peninsular Malaysia and East Malaysia.

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Cross-country comparisons: Malaysian in ASEAN



Figure 6: Urban population (% of total population), 2020

- Higher population density will lower logistics and infrastructure costs, thereby offering greater advantages for e-commerce. Malaysia's urban population as a percentage total population is the second largest among theASEAN-6, in 2020 (Figure 6)
- Age is another contributory factor in on-line shopping. Individuals in the 25-64 age group are found to be the largest on-line shopping age for Indonesia and the Asia-Pacific
- For the share of the 25-64 age group in total population, Singapore has the largest share (63%), followed by Thailand (57.3%) and Vietnam (55.3%) (Figure 7).

Figure 7: Population by Age Group.



Population ages 0-14, total (% of total population)
 Population ages 20-24, total (% of total population)
 Population ages 25-64, total (% of total population)
 Population ages 65 and above (% of total population)

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Digital Talent & Environment

- Huawei's Digital Talent Development Maturity Score (Huawei 2021). Index is based on:
 - (1) digital talent related policies and initiatives availability;
 - (2) agencies and ministries collaboration to drive policies and initiatives;
 - (3) value of digital talent development investment as a percentage of government expenditure;
 - (4) development and active involvement in public-private partnerships for digital talent development; and
 - (5) current and future digital talent employment as a percentage of workforce, is used to assess Digital Talent.
 - The index has a scale of 1 to 10, with 1 being the lowest and 10 the highest.
- Singapore leads in terms of DTD maturity with a score of 8.4, and it is followed by Malaysia (5.0), Thailand (4.8), and Vietnam (3.6)
- **Cosmopolitanism** matters in e-commerce development as it indicates the willingness of an individual to go beyond the boundaries of one's community to engage in different cultural experiences.
 - Consumers with cosmopolitan values will be more willing to open up to cross-border consumption, and experience global brands and products, as available in cross-border e-commerce.
- Kandogan (2019), found that Malaysia is open to cosmopolitanism, but Indonesia, the Philippines, and Thailand veer towards ethno-centrism. It should be noted that Singapore and Vietnam are not included in the sample.



E-commerce Readiness

Figure 9: UNCTAD B2C e-commerce Index value



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- UNCTAD's B2C e-commerce index, which measures an economy's preparedness to support online shopping is shown in Figure 9.
- All countries have improved in their index value over time.
- For both years, Malaysia is ranked behind Singapore but ahead of the other ASEAN member states for this index indicating that Malaysia is more prepared than her ASEAN neighbours, with the exception of Singapore.
- Malaysia's changes in scores for the three indicators used to construct the B2C indicator shows that the biggest improvement is found in the share of individuals with an account, while the smallest change is secure internet servers per million population, which also has the lowest score out of the three indicators in 2020 (Figure 10).



Malaysia

Restrictions in Digital Trade

- For this, the Digital Trade Restrictiveness Index (DTRI) is used, as it measures how countries in the world restrict digital trade. The overall DTRI ranges from 0 (i.e. completely open) to 1 (i.e. virtually restricted) with increasing values representing higher levels of digital trade costs for businesses.
- The DTR Index shows that Malaysia is more restrictive compared to Singapore and the Philippines (Figure 11). Malaysia is less restrictive than the Philippines for one dimension, namely fiscal restrictions and market access.
- Of the four dimensions, Malaysia is most restrictive in the establishment dimensions.

Figure 11: Digital Trade Restrictiveness Index (DTRI), SEA





Info Infrastructure: Table 3

Countries	Internet penetration rate, 2021	Individuals using the Internet (% of population), 2020	Fixed broadband download speed, June 2020 (Mbps)	Cost per MB, 2020, USD*
Indonesia	76.8	53.7	21.3	\$0.56
	80.0	90 C	04 5	ćo 24
Malaysia	89.0	89.6	81.5	Ş0.24
Philippines	81.9	46.9	23.7	\$0.75
Singapore	87.7	75.9	208.2	\$0.04
Thailand	83.6	77.8	171.4	\$0.12
Vietnam	77.4	70.3	57.5	\$0.17

- Malaysia, among the ASEAN-6, has the best info infrastructure for supporting e-commerce in terms of internet penetration and individuals using the internet.
- Fixed broadband download speed is faster in Singapore and Thailand. Likewise, cost per MB is higher in Malaysia relative to Singapore, Thailand and Vietnam.
- In 2020, Malaysia still lags behind Singapore and Thailand in terms of speed and cost.
- Shift in demand with the reduction in costs as well as work-from home (WFH) requirements from the Covid pandemic, worsened download speeds and reliability as telcos have not kept up with investments in network capacity.
- Hence, the quality of info infrastructure in terms of speed and cost is still less attractive compared with some other AMS.



Cybersecurity and overall Malaysia's position in ASEAN

- The 2020 ITU Global Cybersecurity Index ranks:
 - Singapore number 1 in terms of capacity to manage cybersecurity, in the Asia Pacific, followed by Malaysia (2), Indonesia (6), Vietnam (7), Thailand (9) and the Philippines (13) (ITU 2021).
- Overall, Singapore's environment leads in the region, for facilitating ecommerce growth, followed by Malaysia, except in restrictiveness where it is behind Singapore and the Philippines and Thailand for some dimensions.



Challenges & Policy Implications

- In the DTRI, Malaysia had the highest score (more restrictive) for establishment restrictions, which can be in the form of equity requirements or the market structure of various services sub-sector that can affect the growth of the ecommerce market.
- Need for market access has pressed for the inclusion of increasing digital commitments in free trade agreements. All three factors can affect the future development of e-commerce in the country.
- Equity Constraints
- The e-commerce ecosystem covers mainly services such as telecommunication services, marketing, platform players, logistics (including all modes of transportation), warehousing, distribution and e-fulfilment centres as well as real estate.



Equity Constraints: Table 4. OECD FDI Regulatory Restrictiveness Index, 2020

Sectors	OECD Average	Indonesia	Malaysia	Philippines	Singapore	Thailand	Viet Nam	
Distribution								
	0.017	0.555	0.470	0.153	0.013	0.073	0.126	
Wholesale								
	0.017	0.355	0.370	0.065	0.013	0.073	0.045	
Retail	0.018	0 755	0 570	0.240	0.013	0.073	0 208	
Transport	0.010	0.755	0.570	0.240	0.015	0.075	0.200	
	0.204	0.515	0.296	0.655	0.129	0.378	0.522	
Communications								
	0.079	0.380	0.375	0.650	0.063	0.490	0.583	
Fixed telecoms	0.005	0.000	0.075	0.625	0.000	0 5 4 0	0 5 0 0	
	0.085	0.380	0.375	0.635	0.063	0.540	0.583	
Nobile telecoms	0.073	0.380	0.375	0.665	0.063	0.440	0.583	
Financial services								
	0.032	0.222	0.319	0.115	0.021	0.456	0.118	
Real estate investment	0 158	0 105	0 300	0 5 2 5	0 167	0 272	0 227	
Total EDI Indox	0.136	0.105	0.500	0.323	0.107	0.575	0.237	
	0.063	0.347	0.257	0.374	0.059	0.268	0.130	
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Competition

- The telecommunication sector: Natural monopoly in fixed line market and oligopoly in mobile broadband market
- The Malaysian Communications and Multimedia Commission (MCMC) as the regulator based on the powers provided for in the Malaysian Communications and Multimedia Commission Act 1998, which includes provisions for the regulation of market power in this sector, has to exercise economic regulation, by **ensuring that TM does not charge monopolistic pricing in providing access to fixed line and last mile**.
- In **oligopoly market** where tacit collusion is possible, making a collective dominant possible.
- Given that there is also common ownership with the GLICs having shares in these companies, MCMC's role as regulator has to enhance transparency in its decisionmaking through public consultations and making known the outcomes of any investigations on competition issues in this sector to ensure that there is no abuse of any possible dominant position that may emerge due to common ownership.



Digital Trade commitments and Need for better Data

- Despite the scarcity of digital data, the growing importance of such data, especially cross-border data has escalated the inclusion of digital commitments in Free Trade Agreements as countries press for greater market access, trade facilitation in the digital world and rules and regulations to govern cross-border digital trade.
- Malaysia is party to agreements with digital commitments:
- WTO Joint Statement Initiative (JSI) on E-commerce that support the continuation of the multilateral ecommerce moratorium in fostering certainty and predictability for businesses
- ASEAN-Australia-New Zealand FTA, the ASEAN E-commerce agreement, Regional Comprehensive Economic Partnership Agreement (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and on-going Indo-Pacific Economic Framework Agreement.
- These agreements have a chapter on e-commerce and the provisions in each agreement have increased over time for the parties to each of these agreements
- Cross-sectoral nature of digital commitments: not just for MITI or trade negotiators to understand alone!
- Although Malaysia is compiling data on e-commerce and the digital economy, there are still large gaps, especially firm level data which is needed for facilitating better research and providing evidence-based policy suggestions.



Conclusion

- Malaysia's e-commerce has grown over the years: Favourable factors and accelerated by Covid.
- Malaysia is relatively less well placed compared with some of her ASEAN neighbors, in terms of some of the digital trade restrictions and broadband speed and cost.
- In moving forward, Malaysia's relatively higher restrictions on establishments, is also reflected in the FDI restrictiveness index. The restrictions in establishments are in the form of equity constraints such as cap on foreign equity and Bumiputera equity requirements.
 - These requirements are not homogeneous across the different service sub-sectors that cover e-commerce. In particular, Bumiputera equity constraints are
 periodically revised, lending uncertainty for domestic and foreign investors. In the telecommunication sector, even without any equity constraints, equity
 restrictions can be imposed as conditions for licenses given out.
- Competition: In both the telecommunication sector and e-commerce platforms, there are possibilities of dominant positions, or collective dominant positions due to the nature of the market structure where there are only a small number of players or a few large players as well as a large number of much smaller players. Regulators have an important role to play in terms of ensuring consumers are protected in the digital world nor abuse of any potential collective dominant position.
- Finally, as countries move on to use FTAs to govern the digital trade, more and better data is needed to understand the magnitude of the issues and the impact of these binding commitments on the future development of digital trade and the future digital economy.

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Thank you for your kind attention



