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The Factors and Challenges affecting Digital Economy in Malaysia

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Abstract

Malaysia is one of the most avid countries in online shopping just behind Indonesia, the largest e-commerce market in ASEAN. In 2020, the Malaysia Digital Economy Corporation's (MDEC) expectation to hit 20 per cent growth in e-commerce contribution to the digital economy can be achieved as the COVID-19 pandemic has given a huge boost to digital adoption among entrepreneurs. However, many SMEs do not move fast enough to recognize the changing habits and preferences of their consumers. As a result, they do not evolve their business model to adapt to the changes. The purpose of this paper is to conceptually identify and explain the factors and challenges that affecting digital economy in Malaysia.

Keyword: Digital Economy, E-Commerce, Technology Adoption, SMEs challenges.

Introduction

With the advancement of technology nowadays, mother earth has embraced the globalization of technological innovation and communications, which turns the 21st century into The Digital Age. From little kids, adolescents, teenagers, adults, all the way to the elderly, it is no surprise that everyone now owns a smartphone on their hands (Salganik, 2019). Our daily life norms like shopping, communicating, and socializing are now heavily digitalized. Hence, the digital economy becomes one of the new trends in the business world (Rashid *et al.*, 2017).

The concept of the digital economy is developing expeditiously worldwide as it can help in increasing innovation, efficiency, productivity and improving livelihoods (UNCTAD, 2019). Digital economy, which is a wide range of economic activities, commercial transactions, and professional interactions that uses digital information as their main component of operation and production. With the help of the internet and other various digital technologies like cloud computing, big data analytic, Internet of Things (IoT), and Artificial Intelligence (AI), the digital

economy creates benefits and efficiencies that could contribute to the economic growth of a country (Kylasapathy, Hwa & Zukki, 2017).

Due to the improvement of technology around the world, digital communication has also become very common in Malaysia. It can be seen by the improvement of the living lifestyle of Malaysians. For example, 20 centuries, the internet was still uncommon, long distance communications are very difficult as Malaysians can only communicate through a letter, face to face or 2G telecommunication (Rosmani, Mutalib & Sarif, 2020). However, today, Malaysians can communicate with more efficient regardless of distance or time with 5G and internet access (Mahdi *et al.*, 2020). Many telecommunication firms are started to expand their market and product line to improve internet services instead of phone call services.

Literature Review

In 2016, the digital economy was a notable contributor to the overall economy, it accounted for 6.5 percent of current dollar Gross Domestic Product (GDP), 6.2 percent of current dollar gross output, 3.9 percent of employment, and 6.7 percent of employee compensation. (Mat & Ya'akub, 2019). Based on mid-term review of the Eleventh Malaysia Plan 2016-2020, the share of e-commerce to GDP was targeted at 20.8 per cent by 2020 (Mat & Ya'akub, 2019). Malaysian consumers are increasingly going online to shop, these changes within the environment and its surroundings are directing people toward adopting new, different, and unique things (Perumal *et al.*, 2019).

Malaysia ranked as second Southeast Asia most digital advanced country, below a ranking of Singapore on Huawei's Global Connectivity Index (Hasan, 2020). Malaysia's banking and e-commerce sectors are among the most evolved in the region, ahead of Hong Kong, China, and Singapore (Hasan, 2020). The digital economy contributes to a fifth of Malaysia's economy, worth more than RM270 billion (Hasan, 2020). In 2020, due to the COVID-19 pandemic, lots of firms could not operate their business properly and some are even forced to shut down their businesses due to the movement control order (MCO) (Omar, Ishak & Jusoh, 2020). Fortunately, most of the business owner evolve and adapt to the new normal and establish their business via e-shop or internet access (Seetharaman, 2020). They started to shift their businesses from physical to virtual and advocate the awareness and rebranding their business with the usefulness of digital technology.

Factors that drive the digital economy in Malaysia:

1 Budget 2020

According to Leng, Budget 2020 is a boost for the technology industry in Malaysia (2019). As the technology industry is getting more attention from the government, it will activate and boost the digital economy by improving digital content, enhancing digitization, and encouraging e-commerce.

Furthermore, the digital economy is developing rapidly in Malaysia because the budget gives capitals and capabilities that the SMEs and enterprise needs (Leng, 2019). In this situation, SMEs and enterprises can develop their workforce skills such as training and educations for their workers. Besides, the government wants to enhance the digital economy in Malaysia by improving the physical and digital infrastructure. This action is considered as the IR4.0 revolution. As the digital infrastructure is improving, they predict that the digital economy can contribute RM40 billion to Malaysia's GDP by 2021 (World Bank Group, 2018).

The rising of the digital economy in Malaysia is creating more job opportunities for the citizens of Malaysia and attracting more investments from foreign companies. As the e-wallet and cashless economy are encouraged, the SMEs and small enterprise can have an easier situation in managing their cash without the cost, risk, and burden of cash (Ishak, 2020). Budget 2020 will push the digital economy growth in Malaysia and aimed to be the high-income country with the digital-first economy (Leng, 2019).

2 Digital Free Trade Zone (DFTZ™)

The first country to launch the digital e-services platform in Southeast Asia is Malaysia. In 2016, Malaysia has newly introduced Malaysia's e-commerce roadmap (Salleh *et al.*, 2020). However, to strengthen and enhance it, Malaysia has initiated the Digital Free Trade Zone (DFTZ™) in November 2017 with the collaboration of Malaysia Digital Economy Corporation (MDEC) and China's Alibaba Group (Yean, 2018).

DFTZ™ is an approach to increases the exponential growth of cross-border e-commerce doings and enables the local business especially Small and Medium Enterprises (SMEs) to operate their trading by exporting their goods to global marketplaces easily (Lasuin, Omar & Ramayah, 2017). Consequently, the cross-border trade will be seamless in Malaysia as Malaysia will be a leading logistics centre in the global marketplaces. To conduct this DFTZ™, e-fulfilment hub, e-services platform and satellite services hub will be offered under both virtual and physical zones (MDEC,2021a). Firstly, e-fulfilment hub is going to provide fulfilment service like warehousing, labelling, and others to SMEs for exporting their products globally with ease (SME Corp, 2021). Therefore, global marketplaces can acquire products from Malaysia's sellers with low barriers.

Besides, e-services have provided a platform to administer the processes and operation of cross-border trade such as cargo clearance (MDEC, 2021a). With this platform, DFTZ™ users can go through the cross-border trade with the digital connection of global e-commerce companies' online services and the Malaysian public sector system (MDEC, 2021a). In cross-border trade, satellite services hub will act as a digital platform that provides insurance services, financing services and other services for local and global e-commerce users. With these services and platform under the DFTZ™, it will benefit all SMEs and other local businesses in cross-border trading with the growth of the internet ecosystem and the digital economy.

3 Fintech Sector and E-Commerce

In Malaysia, the Fintech Sector is growing strong throughout these years. Almost 200 companies are producing and improving fintech services in the Malaysia market (IMF, 2020). For instance, the most significant services are e-payment and mobile wallet such as Grab, Touch' N' Go, Boost, Iflix and Fave (Ishak, 2020).

Malaysia is strengthening its position as a major player in the FinTech industry. MDEC has helped launch several initiatives in partnership with various industries (2021b). For instance, The Orbit is a co-working space that serves as a nexus point for the local and foreign FinTech players, allowing start-ups to interact with industry leaders to ease solution development and early market entry. To stimulate Malaysia's FinTech industry, MDEC has launched Accelerator initiatives to provide FinTech start-ups with opportunities for local and foreign investments (2021b). The initiative also offers start-ups with the opportunity to collaborate with the local industry.

Besides, the government has established Malaysia Digital Hub which is built for facilitating the entrepreneurs or SMEs in getting support such as intellectual property protection, market access and fintech technologies (MDEC, 2021c). It is very important for the digital economy because it brings a better opportunity to connect the local business companies with ASEAN through the global digital ecosystem.

E-commerce refers to the buying and selling of products over the Internet, and the services that support such activity, including marketing, development of online sales platforms, delivery services, and more (Mat & Ya'akub, 2019). The chief executive officer of MDEC stated that e-commerce is the vital and fundamental component which allows a company to grow faster. E-commerce acts as a catalyst in boosting the development of the digital economy in Malaysia (Kylasapathy, Hwa & Zukki, 2017). With the coordination of fintech services and e-commerce, the digital economy will be facilitated along with the whole business processes from supply chain to market distribution.

In short, e-commerce and fintech have shown their importance in developing the digital economy as they are the components that help the companies in Malaysia getting stronger and bigger.

Challenges of establishing a digital economy in Malaysia

In Malaysia, to establish a completely digital economy, some challenges need to be overcome. Lack of new technology innovation, new customers, new regulations, global threats is some of the examples for the challenges that will be faced in establishing the digital economy in Malaysia (Leu & Masri, 2019).

1 New Technologies and New Customers

The digital economy is starting to grow rapidly in the market of Malaysia in the recent few years. However, not every business or company is into this technology as they do not acquire the abilities and skills to step into this fast-evolving technology. In the digital economy, there is still a lack of experts who have the knowledge and skills in science, technology, engineering, and mathematics (STEM) as there is a downtrend of students taking up STEM subjects (Kaur & Raman, 2020). As a result, there exist workforces that are less adaptable to this digital economy.

Besides, establishing a new technology means that customers will also have to learn how to adapt to this technology. In this context, the older generation with limited education and people who live in rural areas with low levels of literacy will face huge difficulty in accessing the new technology (E-commerce for the elderly, 2016). Currently, in Malaysia, there are already multiple online payment accounts that are trending such as GrabPay, TNG eWallet, Boost eWallet and WeChat Pay (Ishak, 2020). However, most of the older generation and people with low capability still have not accessed or used them regularly using (Soh *et al.*, 2020). For Malaysia to go completely digitalised, the government and the company will have to invest more time to onboard those new customers and not only do their employees have to know about the digital economy, but they must fully understand the concepts of password security, two-factor authentication, e-wallets, etc (Rahmana & Senusia, 2019).

In short, there is still a shortage of people skilled in this new technology who can support and contribute to the widespread of digital economy technologies. Besides, new customers with traditional mind-set or limited capability are not ready to adapt to this new technology or hinder

to use of the new services and technologies. Hence, these are among the most common challenges in establishing the digital economy in Malaysia's market.

2 Rise of Cybersecurity Threats or Crimes

In this era of globalization, payment without cash will become a reality soon. However, the digital economy such as the constellation of interconnected e-wallets, social media and mobile banking has created conditions in which cybercrime is thriving in Malaysia. Cybercrimes emerge as a threat to this digital economy technology in the current scenario. To steal money from people's e-wallets, new technology has surfaced in which hackers and fraudsters are using phishing (Leu & Masri, 2019).

Besides, crimes like hacking information on credit cards and other private information are one of the huge threats for digital businesses. For example, according to the Star, cybercrimes involving losses of RM67.7 million in 2,207 cases were reported in the first three months of the year 2019 (Bernama, 2019a). As a result, people will feel troublesome if they were to accept cashless payment, especially those who get used to cash transactions with their payment because they are worried that they might be one of the victims of digital crimes.

3 Job Losses

One of the challenges in establishing the digital economy is job losses in Malaysia. Humans will be replaced with machines to achieve higher labour efficiency once implementing a completely digital economy in Malaysia (Kylaspathy, Hwa & Zukki, 2017). Although there are still certain jobs that require man force to operate, however since the technology is new, a reskilling program or exercise must be implemented to enforce the new knowledge and skills in employees. According to Malay Mail, the ex-Minister of Education, Mr Maszlee mentioned that lack of digital skills leading to youth unemployment was high (Bernama, 2019b). As a result, the government had to cooperate with other institutions to overcome this problem by organizing the reskilling program. Again, a huge cost is required to implement such a program, for example, to invest in new equipment and infrastructure.

Therefore, it becomes more important that digital technology is reshaping business models and organization and making "soft skills" such as information processing, communication and problem-solving. However, it seems that many people do not have such skills in the digital world (Kylaspathy, Hwa & Zukki, 2017). As a result, this technology is likely to create dislocation and disappearance of existing jobs which will be replaced by new jobs or machines required by the new digital economy technology.

Conclusion

In conclusion, with smartphones now being attached to the daily lives of society, many industries heavily depend on the growth of e-commerce as it is the most important contributor to the digital economy. Information is now borderless, quicker, and easier with the help and implementation of Budget 2020, Digital Free Trade Zone and Fintech Sector.

However, this does not come without challenges as most parts of the country are still computer illiterate, being unable to accept and adapt to the technological changes and remain their traditional mindsets. In addition to that, with digital technology comes new cyber threat dangers that society must be wary of. Also, if the country's economy were to be fully digitalized, there exists a risk of an increase in the unemployment rate of Malaysia.

While digitalization brings various economic potentials, it might also be troublesome to certain societal segments and businesses. Therefore, to be a developed country in the digital age, a balance needs to be achieved between the economic merits of the new era and the challenges beneath it.

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