

Digitalisation & IT Sector Brief  
**MALAYSIA**



## COUNTRY OVERVIEW

Malaysia lies on the southernmost tip of the Southeastern peninsula and occupies the northern quarter of Borneo, the only country in ASEAN which straddles both the mainland and islands which make up this region. Peninsula Malaysia, including the capital Kuala Lumpur, borders Thailand to the north and Singapore to the south. Borneo Malaysia, which includes the states of Sarawak, Sabah and the island of Labuan, lies adjacent to Indonesia to the south and surrounds Brunei in the north, while the Philippines islands of Palawan and Mindanao lie a short distance east across the Sulu Sea. As such, Malaysia lies in the very centre of the ASEAN region.

More than 80 per cent of Malaysia's 32 million people live in Peninsula Malaysia, mostly in and around Kuala Lumpur and the wider Klang Valley area, home to 7.6 million people. Only Singapore and Brunei have a higher urbanization rate than Malaysia in the ASEAN region. Sabah and Sarawak in east Malaysia remains less urbanized – the state's largest city Kuching has a population of 325,000 people.

Malaysia maintained a high level of economic growth during the previous decade, reaching close to 6 per cent a year based on an export industry that has evolved and moved into value-added industries including automobiles and microchips for mobile phones and computers. After Taiwan, Malaysia ranks among the largest semiconductor producers in the world, accounting for 7 per cent of global chip trade.

Malaysia witnessed a slowdown of its export-driven economy following the outbreak of Covid-19 as factories shut, causing a supply bottleneck in the semiconductor industry in particular. The resulting downturn meant that the overall economy contracted 5.6 per cent in 2020, the country's first economic recession in more than a decade. Nonetheless, Malaysia's recovery has been rapid as factories have faced fewer restrictions during 2021. Economic forecasts for the year suggested growth of up to 4 per cent, signaling a reversal of the economic losses caused by the Covid-19 pandemic during 2020.

Economists are optimistic that the Malaysian economy would rebound significantly in 2022, should the outbreaks of the COVID-19 pandemic be contained and lockdowns are enforced in dire situations only. As of 2021, full vaccination rates reached above 80 percent across the adult Malaysian population.



## SECTOR OVERVIEW

After Singapore, Malaysia ranks as the most connected country within ASEAN – in late 2020 and the first part of 2021, mobile data consumption expanded more than any other country in the region. This surge coincided with Covid-19 lockdowns in Malaysia amid reports that download speeds were stagnating, prompting the government to begin a new digitalisation drive which forms part of its bridge strategy towards greater connectivity and 5G rollout. Renewed focus on connectivity in Malaysia has coincided with the pandemic and efforts to position the country as a key digital hub in the region. This in turn has resulted in a surge of foreign and domestic digital firms setting up in Malaysia, particularly in Kuala Lumpur, with ride-hailing, Proptech and e-finance among the digital sectors witnessing strong expansion.

### General characteristics and trends

- **Government prioritisation:** In 2020, the government launched a new digitalisation program called 'Jendela' which aims to both increase the number of Malaysians connected as well as internet speeds amid reports download rates in particular, had begun to stagnate during the pandemic. A key aim of the government programme was to extend internet access into areas of the country which have not kept pace with digitalisation, particularly rural areas of Sabah and Terengganu, the latter among the least connected areas of peninsula Malaysia. Jendela was launched in part with SMEs in mind and means that small businesses will benefit from faster and less interrupted internet services which will for the first time extend into every corner of the country.
- **Migration to cloud services:** A key pillar of the government's renewed focus on digitalisation includes its 'Cloud First' strategy which will see the migration of about 80 per cent of all public data to hybrid cloud systems by the end of 2022. As part of this drive, the government has given approvals to companies including national service provider Telekom Malaysia as well as multinationals such as Amazon and Google. Their entry coincided with a new Cloud services licensing system which was due to come into effect in Malaysia at the start of 2022. Market estimates in the near term suggest that the cloud computing market would expand by about 13 per cent annually up to 2025, in turn creating new opportunities for cloud-computing sector SMEs and startups to benefit from falling cloud storage rates.
- **Faster Internet:** Internet speeds that had stagnated by early 2020 have started to climb again. By the end of 2021, Malaysia was due to completely phase out 3G services with 4G becoming the basic standard with near 100 per cent coverage expected by the end of 2022. At the end of 2021, the government announced that it would offer wholesale 5G packages to the telcos sector for free, marking a sudden U-turn amid concerns that high costs were slowing down internet rollout which will be 20 times faster than 4G. The government's decision on 5G is now expected to accelerate 5G rollout, in turn further boosting internet speeds in Malaysia. The advantages for small businesses are expected to be significant with video-conferencing and faster download speeds allowing even more enriched content, greater customer access and fewer instances of dropped connections.
- **Lower connectivity costs:** Malaysian telecom providers have in recent years ranked among the most profitable in the world. However, a new government-owned wholesale 5G network provider launched in mid-December 2021 to supply to the private sector was expected to result in reduced costs. Estimates suggest that data costs for the end consumer would halve in Malaysia as a result of the country's 5G strategy. This in turn was expected to bring the cost of connections in line with other Malaysia's neighbours including Thailand which rank towards the cheaper end of the global spectrum. SMEs are therefore expected to see fixed-line and mobile internet connections costs per unit fall in the medium-term, meaning start-ups in particular, should benefit from more cost-effective market conditions.



## MAIN PRODUCTS, SERVICES, AND SEGMENTS

### Ride-hailing services

Although the market is dominated by Indonesia and Singapore-based Grab which took over Uber's regional operations in 2018, about 40 different companies are operating in the sector, many of them local companies operating in major cities or regions.

In August 2021, Malaysian low-cost Airline AirAsia launched its own ride-hailing service, named AirAsia Ride, which focuses mostly on picking up passengers within the Klang Valley area for rides to and from the Kuala Lumpur International Airport.

The proliferation of ride-hailing services means that intracity transportation has become more affordable in Malaysia while also differentiating the market into various segments. Some companies in the sector focus solely on the tourism industry or limousine services for executives.

### Digital Assets

Developments in the digital asset space offer both opportunities and challenges to Malaysia. Recognising this, Malaysia is pursuing a pragmatic and prudent approach to promote innovation, while ensuring the attendant risks are adequately mitigated. Similar to the stance undertaken in most countries, digital assets such as Bitcoin are not recognized as legal tender and not a regulated payment instrument by Bank Negara Malaysia (BNM). Currently, most digital assets are not suitable to be used as a payment method due to various limitations including high price volatility, vulnerability to cyber threats, lack of scalability and high environmental impact. In this regard, BNM has issued cautionary statements from time to time to remind the public to carefully evaluate the risks when dealing in digital assets.

Meanwhile, in the context of the Malaysian capital market, the Securities Commission Malaysia (SC)'s strategy relating to digital assets started as early as 2019, placing Malaysia among the first few countries in this region that introduced a specific regulatory framework to allow the trading of digital

currency and digital token. The SC has put in place a robust regulatory framework where in Malaysia, digital assets are recognised as securities if they meet the conditions laid out in the Capital Markets and Services (Prescription of Securities) (Digital Currency and Digital Token) Order 2019. The SC recognises that blockchain, the underlying technology of a cryptocurrency such as bitcoin, can be used as an investment opportunity as well as all serve as an alternative method for fund raising. It is also premised on the need to encourage and facilitate innovative investment and financing solutions in Malaysia to meet market needs. Additionally, the framework aims to provide appropriate safeguards to ensure investor protection and market integrity.

The SC has also issued several guidelines to regulate the trading of digital assets, facilitate the issuance of digital assets as a fundraising and investment instrument, and to provide for the introduction of digital asset custody services. These include the Guidelines on Recognised Market to regulate digital assets trading and Digital Assets Exchange (DAX) operators; and the Guidelines on Digital Assets to regulate the Initial Exchange Offering (IEOs) as well as Digital Asset Custodians (DAC).

To foster collaboration, BNM has entered into coordinating arrangement with the SC to clarify areas of oversight and ensure digital asset activities comply with the laws under the purview of both regulators.

In early 2020, amid the onset of Covid 19, DAX exchanges such as Luno Malaysia and Tokenzie reported average daily trading increased by one third. Luno Malaysia said it tripled its customer base to 600,000 people in the year up to November 2021. At 31 December 2021, over 750,000 accounts have been opened in Malaysia for trading of digital assets on DAX, with a total traded value of close to MYR 21 billion for the year 2021. To date, investors can trade Bitcoin, Ethereum, Ripple, Litecoin and Bitcoin cash on DAX.

## Proptech

The Property technology or Proptech sector has witnessed explosive growth in Malaysia in recent years, even before the onset of the pandemic. Malaysia ranks second in ASEAN behind Singapore in terms of its total number of Proptech firms, which roughly doubled in the past two years. The Malaysia Proptech Association recorded nearly 60 members by the end of 2021.

Malaysia has scored several significant coups in the regional Proptech industry in recent years with the large Chinese online agency Juwai IQI announcing it would establish its global R&D headquarters in Kuala Lumpur in early 2021 amid plans to hire more than 1,000 staff locally. Malaysia's capital was already home to the largest Proptech firm in Southeast Asia, Property-Guru.

Property agents reported a significant spike in virtual viewings as the country suffered a series of lockdowns in 2020, with many recording rising numbers of buyers purchasing property 'sight unseen'. The proliferation of Proptech companies in Malaysia has created opportunities for start-ups, particularly those seeking collaboration with or venture capital from larger players in the industry.

## Digital Advertising

Malaysia has been relatively slow to adopt digital channels for marketing. Banks in the country were recently found to spend only one-third of the Asian average on digital marketing. However, the sector is rapidly expanding as Malaysians have come to spend more time on the web, using phone apps and purchasing products online. Digital marketing spending was expected to accelerate by about 8 per cent per year over the next few years, with Malaysia ranking alongside the countries with the highest anticipated spend growth in 2020.

The opportunities for digital marketing start-ups and foreign entrants into Malaysia's digital marketing sector are significant, given that the advertising industry has reported a net deficit in terms of qualified individuals in relation to the demand for new hires in 2021. With growth set to expand in the industry, Malaysia is likely to open up new opportunities in this field.



## REGULATION

Malaysia has among the most developed legal apparatus in the ASEAN region in relation to the digitalisation and IT sector. This is because the internet came into use in the country in the mid-1990s, earlier than in many other countries in the region. New businesses, particularly those from outside of Malaysia, should therefore make themselves aware of the relevant rules and regulations which could affect business operations in the country.

### Legal requirements

The main regulator for online retail in Malaysia is the Ministry of Domestic Trade and Consumer Affairs (MDTCA). The ministry oversees the SSM BizTrust, which is a standard for online businesses that confirms they are properly registered and regulated to operate. MDTCA has recently partnered with the e-commerce platform Lazada Malaysia to give backing to local SMEs to sell their wares on Lazada, one of the largest e-commerce sites in the country.

A Personal Data Protection Act was passed in Malaysia in 2010 which represents the main legislation regulating use and storage of online data by digital businesses. The Consumer Protection (Electronic Trade Transactions) Regulations 2012 represent the main legal requirements for e-commerce businesses operating in Malaysia and include provisions that guarantee consumer rights to receive order confirmations, reliability of information of a product sold online and other overarching rules which regulate price and terms and conditions.

Malaysia has applied antitrust regulations to some digital companies in recent years, notably in the ride-hailing sector and digital marketing. The Malaysia Competition Commission (MyCC) is the main body that oversees anti-competitive actions across the economy. The MyCC does not only regulate mergers and acquisitions but also activities that can apply to SMEs including restrictive behaviour concerning digital marketing deemed anti-competitive. Its powers include the ability to issue fines to businesses.

### Taxes

In 2019, the Inland Revenue Board of Malaysia (IRB) publicized clearer guidelines on the tax regime for online businesses which included the basic principle that online and offline transactions should be taxed at the same rate. A new tax regulation was enacted for digital services provided by registered overseas service providers in Malaysia in 2020. The new tax, effective from the start of 2020, was set at a rate of 6 per cent for digital services which were defined as any service "which cannot be obtained without the use of information technology".



## MARKET ENTRY

### Setting up a business in Malaysia

Malaysia ranks very highly on the global index on ease of doing business, lying just outside the top ten countries globally and only behind Singapore within ASEAN. It typically only takes between two to three weeks to register a new business, almost half the average for the Asia Pacific region. For most industries, there is no minimum capital requirement, and Malaysia scores very highly for protecting minority investors meaning that small investors and SMEs with local partners can expect excellent treatment. Since 2016, local ownership is no longer a requirement for business registration. However, at least one director must reside in Malaysia.

Foreign individuals or companies wishing to establish themselves in Malaysia typically have five main structures to choose from: a locally incorporated company, a foreign-owned company, a private limited company, a representative office, or a Labuan company. The latter applies to Labuan, a group of seven islands off the northern coast of Sabah and Brunei which operates under separate laws to the rest of Malaysia in regard to financial affairs.

### Registration bodies

The Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia or SSM) is a government body under MDTCA that represents the main business registration body in Malaysia. SSM registration can mostly be conducted online. New businesses will also have to run checks through SSM before being able to confirm a new business name to make sure the same name is not already in use.

The Malaysian Investment Development Authority or MIDA, is the principal state body that promotes investment in manufacturing and services. MIDA offers investment advice to local and foreign businesses, including details on trade promotion and incentives programs.



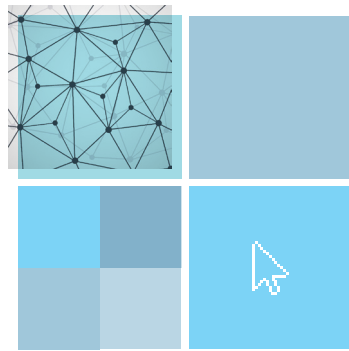
## RECOMMENDATIONS AND TRENDS

- Further government support: Phase 2 of the government's Jendela connectivity plan was due to start in 2022 and run until 2025 with plans to support rural internet use through wireless local loops. The bulk of the program will now switch to support for 5G services and the phasing out of slower internet protocols which in turn means that internet surfing and download speeds look set to increase further in the short to near term. A key feature will be plans ensuring at least 83 per cent of homes and businesses in the country reach speeds of 1 gigabit per second or 1,000 Mbps, roughly eight times faster than the current world average for fixed-line services.
- Under the PENJANA initiative, MyAssist MSME is an online one-stop business advisory platform, to assist SMEs in their business-related problems and issues through the provision of business advisory and information, digital marketing opportunities and guidance, technology and business innovation support facilitation, business matching services, and various channels of online initiatives that are linked to implementing agencies.
- Less red tape: The central government has launched a program designed to tackle red-tape curbs on business efficiency as part of its pro-business and recovery measures. Named 'MalaysiaMudah', the initiative which is being led by the Economic Action Council and Malaysian Productivity Council, seeks to solicit opinions from business owners in the country. The program aims to further lower business costs and remove obstacles to starting a new business, including registration processing delays, restrictions on foreign ownership in certain sectors, in a country that already ranks among the most straightforward for starting a new enterprise. SMEs and new business owners can expect a more streamlined setup process and possible further reductions in the time required to establish a company in Malaysia.
- Easing travel restrictions: Despite new variant concerns, Malaysia was in the process of opening up international travel by the end of 2021. From mid-October 2021, authorities permitted fully vaccinated individuals to travel within Malaysia without the need for a police permit. A travel lane was also opened with Singapore at the end of November 2021, and a few weeks later discussions with Brunei commenced regarding the possibility of opening the land border between the two countries.

As the main low-cost air hub in Southeast Asia, Kuala Lumpur saw a growing number of flights resume during the latter half of 2021, and this trend is expected to continue into 2022, offering local and foreign SMEs greater scope to seek out market opportunities and business in person.

- Digital payments: Few sectors are growing as rapidly in Malaysia such as the digital and e-payments industry. The usage of digital payment services has grown significantly from 2020 to 2021 – accelerated further by the recent pandemic – with the transaction volume continuing to record double digit growth of 29% in January to November 2021, more than double the growth rate recorded in the corresponding period in 2020 (January to November 2020: 13.4%). This trend is likely to sustain supported by the concerted efforts to advance digital payments development. The wider focus on digitalisation in Malaysia looks set to further propel the industry, making Malaysia an ideal destination for tech start-ups and SMEs.





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