



社会经济研究中心
SOCIO-ECONOMIC
RESEARCH CENTRE

QUARTERLY ECONOMY TRACKER
(APR-JUN 2021)

Malaysia's Recovery Path:
Realistic vs. Hopeful

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Outline



GLOBAL RECOVERY CONTINUES AMID UNEVENLY



MALAYSIA'S RECOVERY PATH DISRUPTED



RCEP: A CATALYST FOR THE RECOVERY

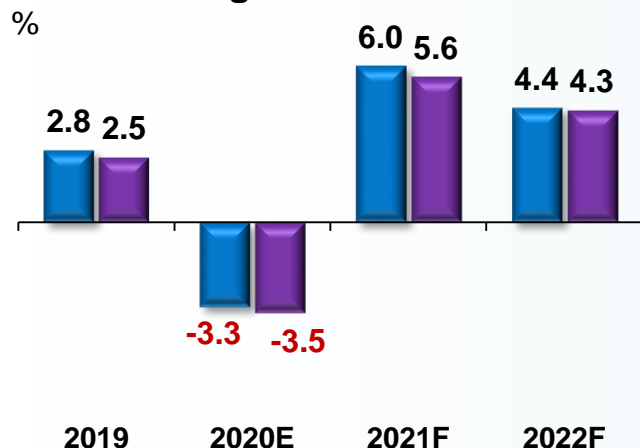
Global Economic Recovery Remains on Track

- **Global recovery continues, albeit normalising to a moderate pace in 2H 2021**
- **The divergence in recovery paths across countries due to a varying pace of vaccination**
- **Market focus: Inflation risk; the Fed's tapering of assets purchase and interest rate normalisation**



Global economy advancing but the pace of recovery varies

Global GDP growth %



Fast vaccination vs. spreading of new virus variants



Prolonged pandemic vs. returning of economic normalcy

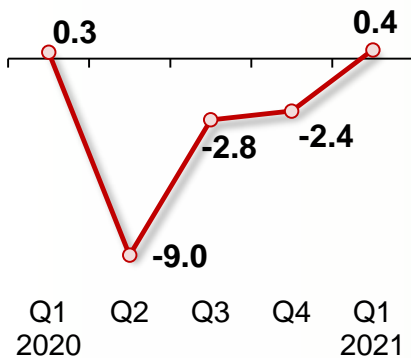


Heightened inflation expectations; higher commodity prices; rising cost of raw materials vs. the timing of the Fed's tapering assets purchase and interest rate normalisation

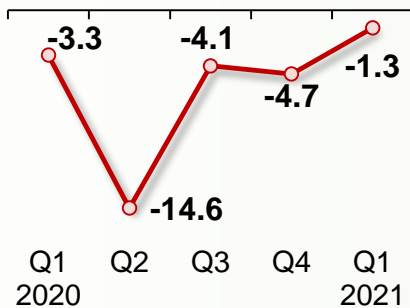
GDP growth of major economies

%, YoY

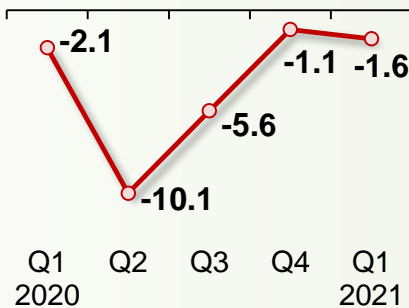
United States



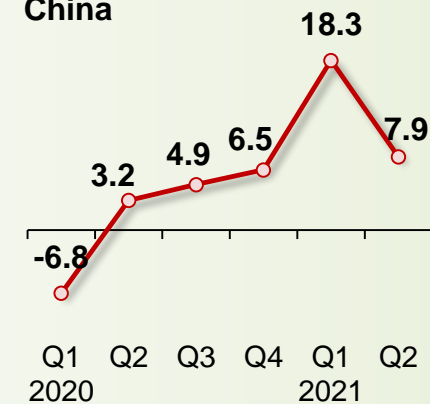
Euro area



Japan



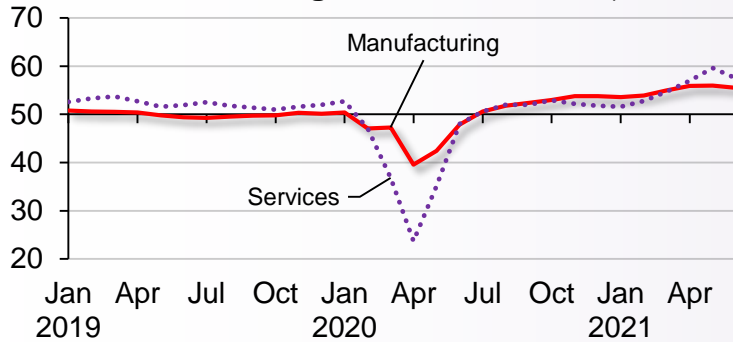
China



Source: Officials (unadjusted data except euro area); International Monetary Fund (IMF); World Bank (WB)

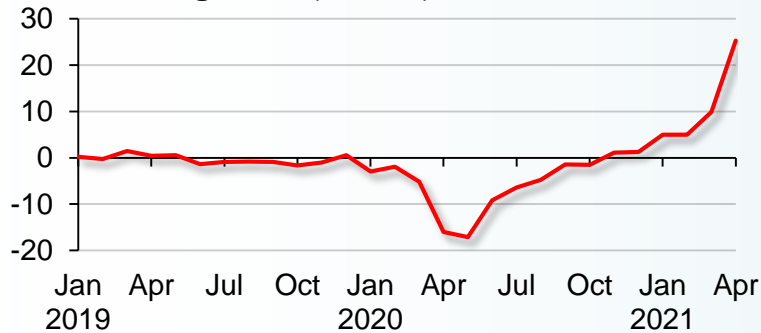
High frequency data indicate continued global expansion

Global manufacturing and services PMI (50=threshold)



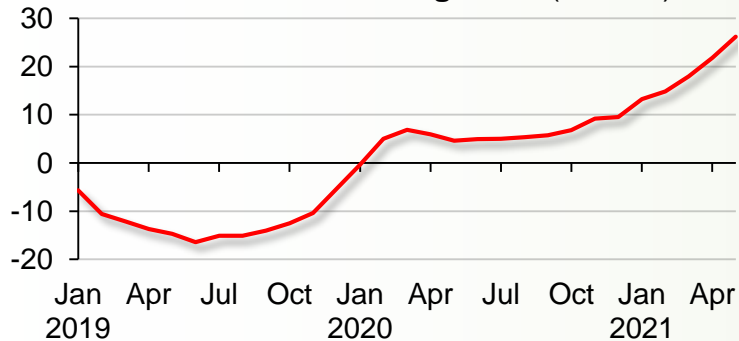
- Solid upswing in global economic and business activities
- Gradual reopening of economic and social sectors
- Pent-up consumer demand and revived business spending

Global trade growth (% YoY)



- Easing supply bottlenecks and demand disruptions have helped to fuel industrial output and trade expansion
- WTO expects world merchandise trade volume to increase by 8.0% in 2021 and 4.0% in 2022

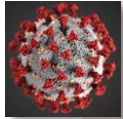
Global semiconductor sales growth (% YoY)



- Technology and semiconductor upcycle – driven by faster speed of digitalisation and 5G technology development
- The World Semiconductor Trade Statistics (WSTS) revised its semiconductor sales growth projection upward to 19.7% in 2021 and 8.8% in 2022

Source: Markit; CPB Netherlands; SIA

Risks to derail the global recovery



1 Spreading of new virus variants that are more virulent, deadly, and resistant to vaccines



2 Inequitable vaccines distribution, causing uneven vaccination, especially in emerging and developing economies



3 Higher inflation risk could trigger sooner than expected monetary tightening, resulting in financial volatility



4 Financial system vulnerable to a sudden increase in the US interest rate. Pose financial risks to emerging economies that having high foreign currencies debt burden



5 Premature withdrawal of fiscal support amid keeping the elevated debt sustainable



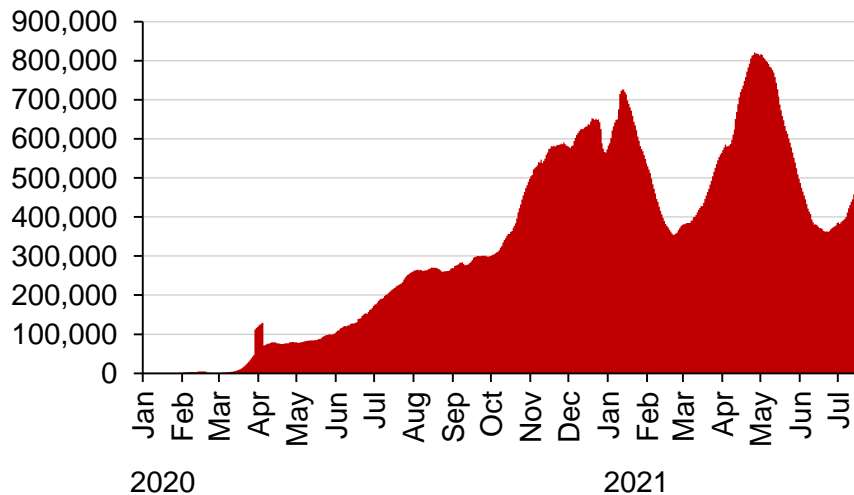
6 Rising poverty and disproportionate income distribution, especially the vulnerable groups



7 Escalating conflicts between the United States and China

Global daily new COVID-19 cases

7-day moving average



Source: WHO

Malaysia's Recovery Path Disrupted by Lockdown and Rising Infections

- Rising infection cases have compelled stricter containment measures
- Race time against speeding up vaccination and the containment of new virus spread
- Deeper and longer scarring effects
 - Pent-up demand deferred
 - Uneven growth in economic sectors



The number of new cases and deaths will start to decline upon reaching 30%-40% of fully vaccinated

More than 30% of Malaysia's population have taken at least one dose

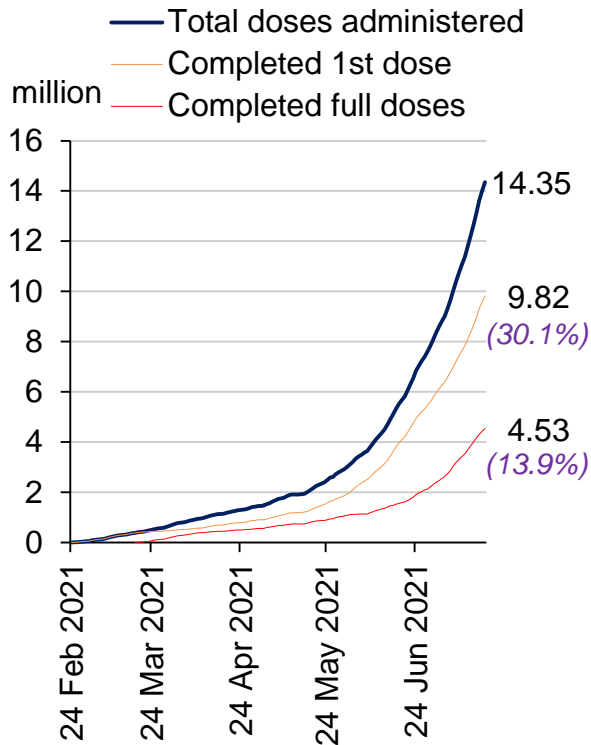
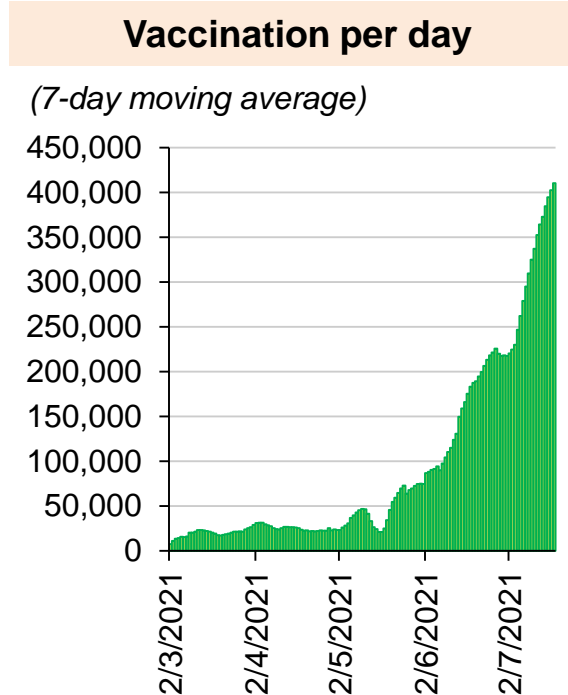
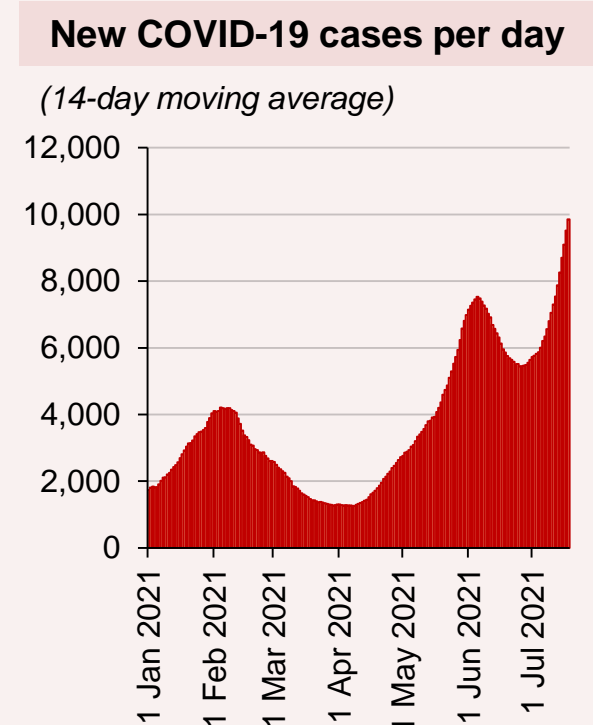


Figure in parenthesis indicates % of population
Data as at 18 July 2021

The number of vaccination per day has accelerated



But, new COVID-19 cases continue to rise higher



Source: JKJAV; MOH; WHO

Forecast of vaccination progress timeline

Malaysia

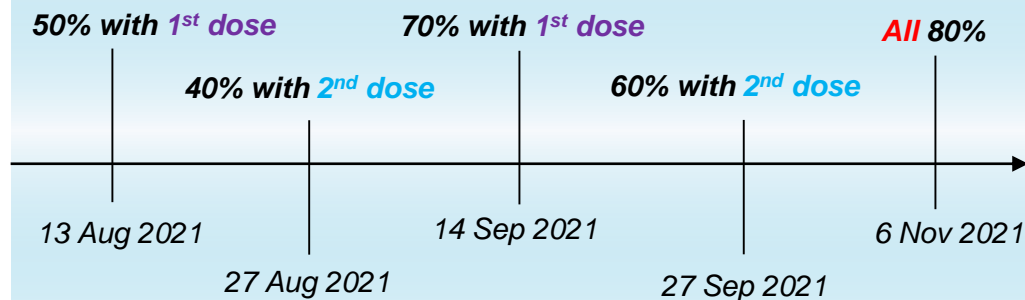
As of 18 July 2021

Doses administered	Doses (Million)	% of population
1 st dose	9.8	30.1%
2 nd dose	4.5	13.9%

Assumptions:

- 500,000 in July 2021 - About 460,000 on 15 Jul 2021
- 450,000 in August 2021 - Assume moderating pace
- 350,000 in September 2021 - Assume moderating pace
- 200,000 thereafter - Assume slow reaching out

Normal case (7-day moving average)



General assumption for forecast

Apply average daily growth rate of 3.0% with 60:40 on 1st dose and 2nd dose currently
 Assume 50:50 on 1st dose and 2nd dose upon reaching 40% of population for 1st dose
 Assume 50:50 on 1st dose and 2nd dose upon reaching 50% of population for 1st dose
 Assume 50:50 on 1st dose and 2nd dose upon reaching 60% of population for 1st dose
 Assume 30:70 on 1st dose and 2nd dose upon reaching 70% of population for 1st dose
 Assume 0:100 on 1st dose and 2nd dose upon reaching 80% of population for 1st dose

Klang Valley*

As of 18 July 2021

Doses administered	Doses (Million)	% of population
1 st dose	3.9	45.9%
2 nd dose	1.2	14.6%

Assumptions:

- 272,000 from July 2021 to 15 August. 272,000 capacity as announced under Operation Surge Capacity
- 150,000 after 15 August or upon reaching 70% of population received at least one dose, whichever come earlier, assuming difficult to reach out the remaining people

Normal case (7-day moving average)



General assumption for forecast

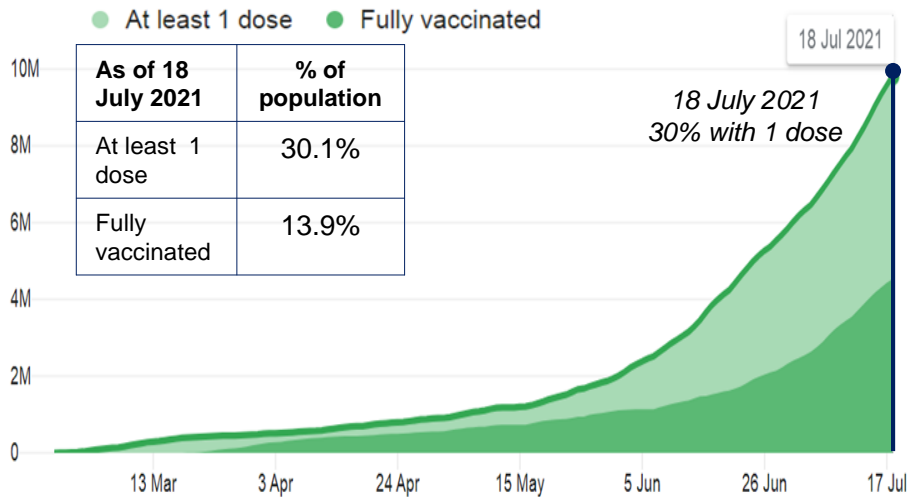
Apply average daily growth rate of 3.9% with 70:30 on 1st dose and 2nd dose currently
 Assume 50:50 on 1st dose and 2nd dose upon reaching 50% of population for 1st dose
 Assume 40:60 on 1st dose and 2nd dose upon reaching 60% of population for 1st dose
 Assume 30:70 on 1st dose and 2nd dose upon reaching 70% of population for 1st dose
 Assume 0:100 on 1st dose and 2nd dose upon reaching 80% of population for 1st dose

Note: Data refer to W.P. Kuala Lumpur + W.P. Putrajaya + Selangor

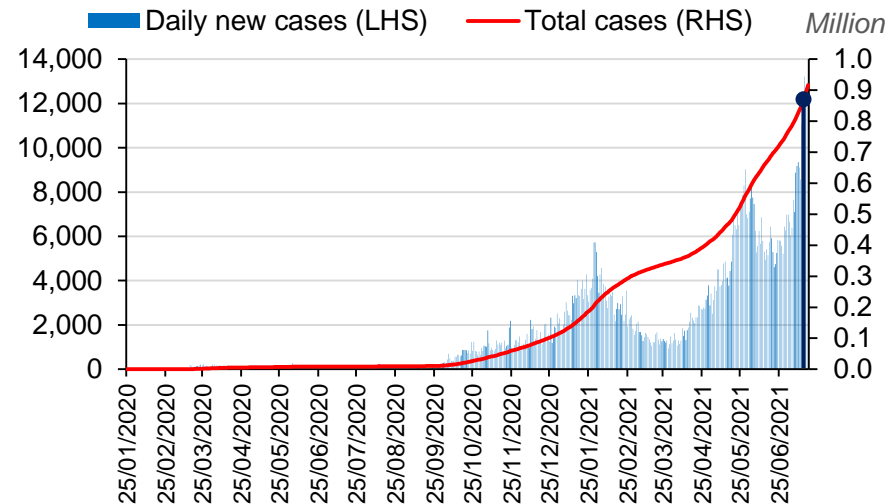
Source: JKJAV; SERC estimates

Malaysia – Vaccination vs. the COVID-19

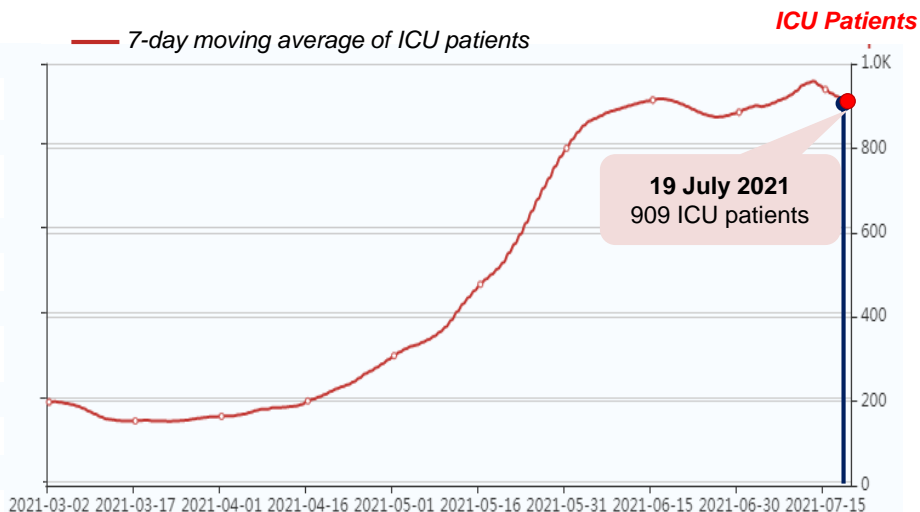
Vaccination Trend



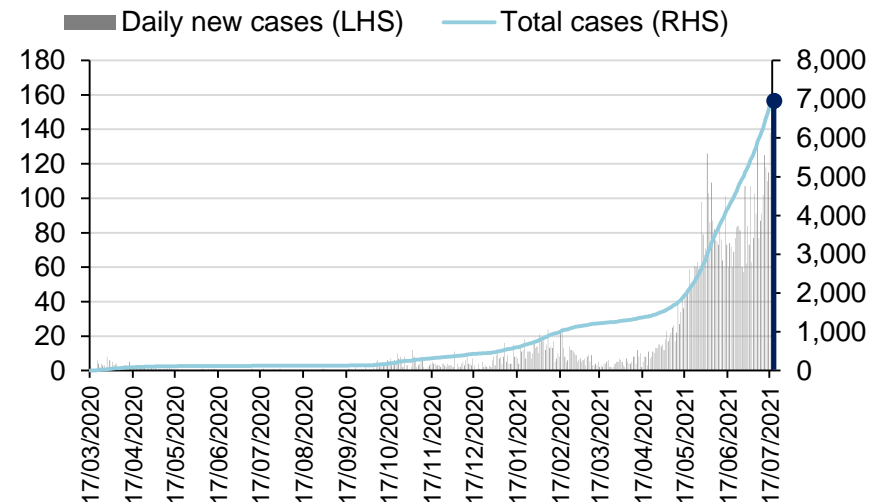
COVID-19 Case Trend



ICU Patients Trend

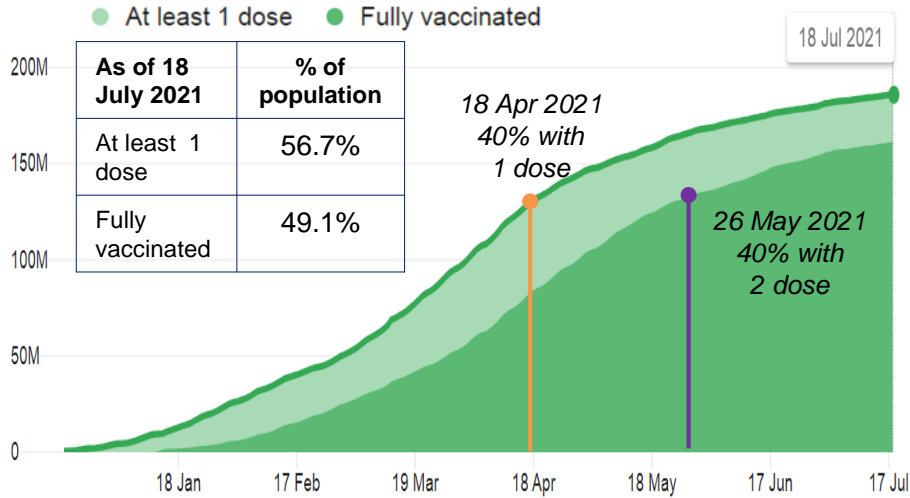


Death Case Trend

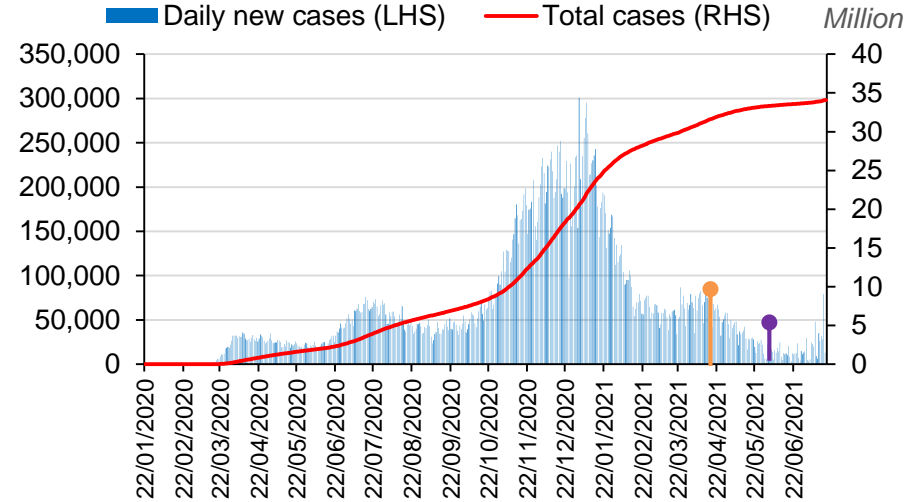


The United States – Vaccination vs. the COVID-19

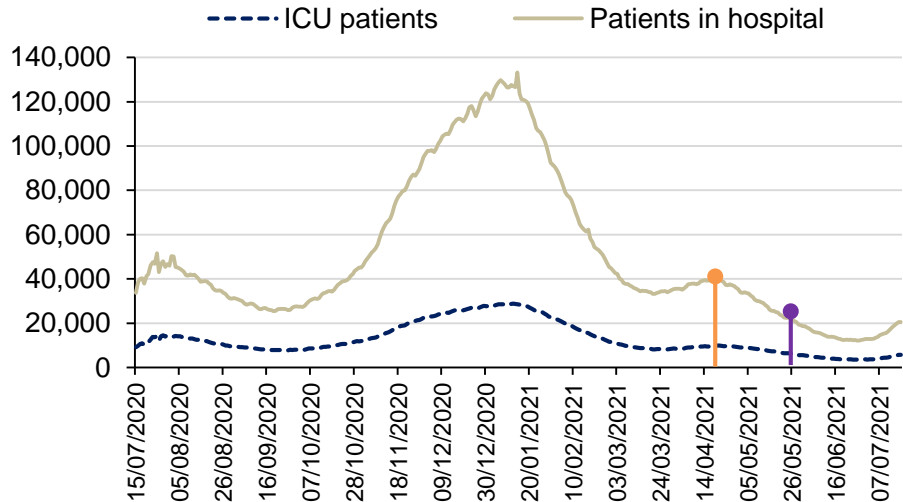
Vaccination Trend



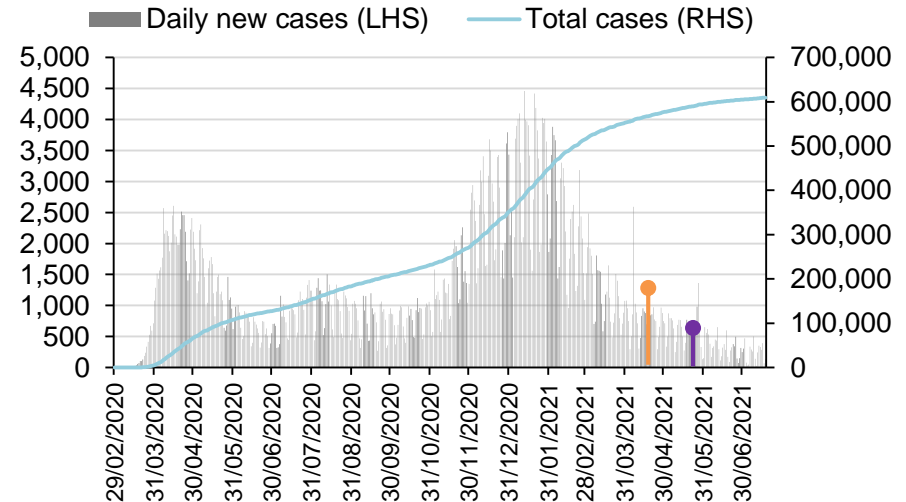
COVID-19 Case Trend



ICU Patient and Patient in Hospital Trend

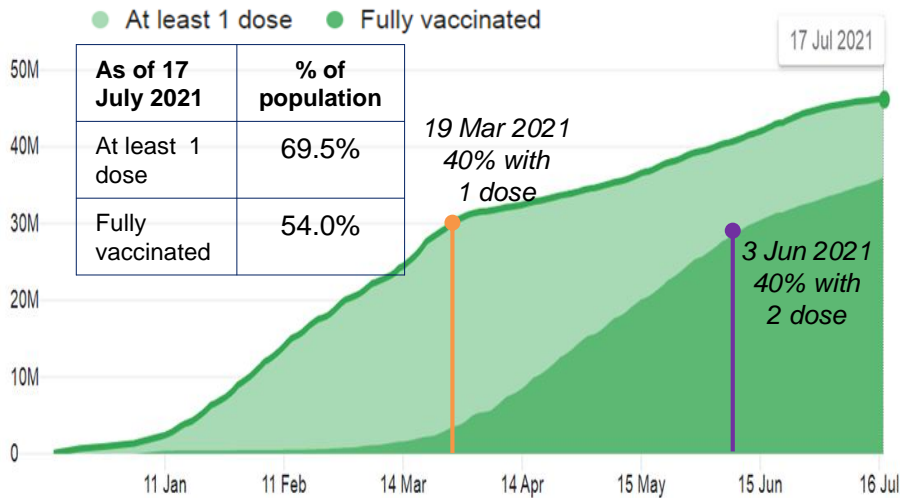


Death Case Trend

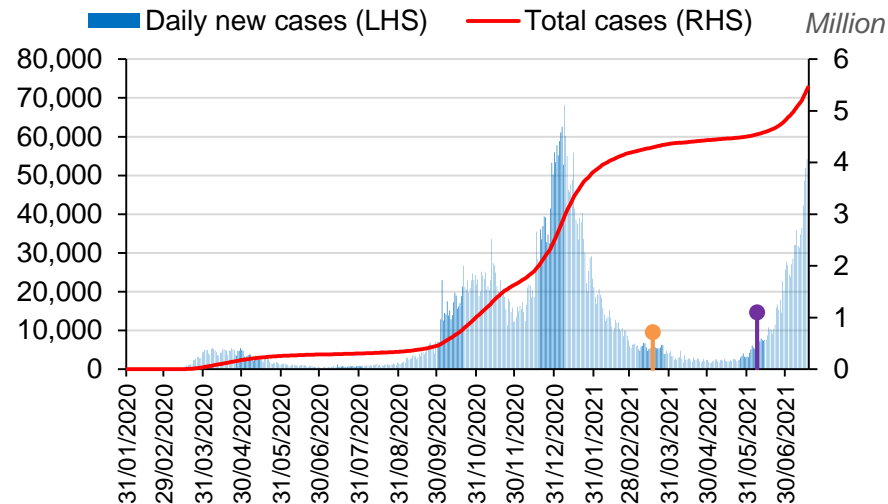


The United Kingdom – Vaccination vs. the COVID-19

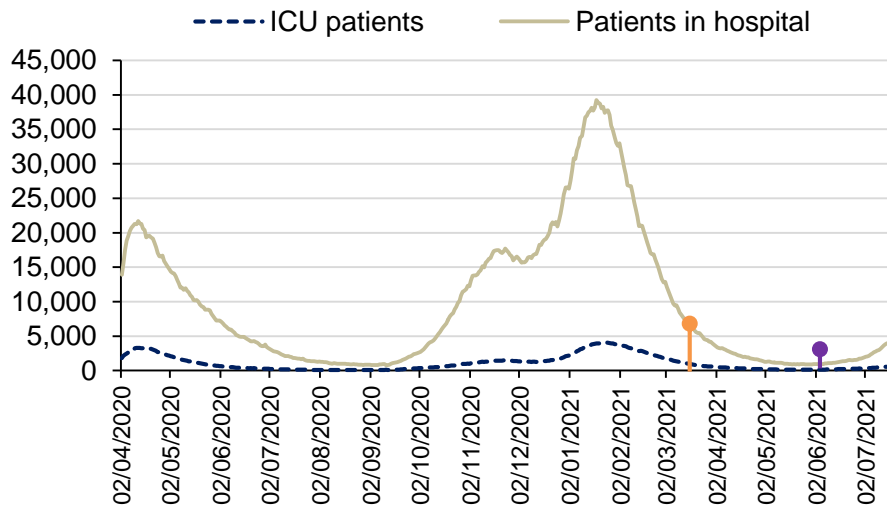
Vaccination Trend



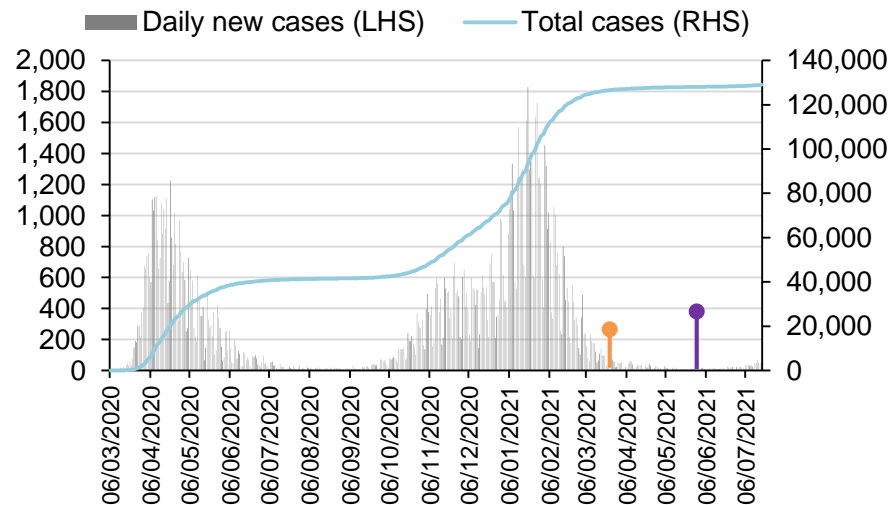
COVID-19 Case Trend



ICU Patient and Patient in Hospital Trend

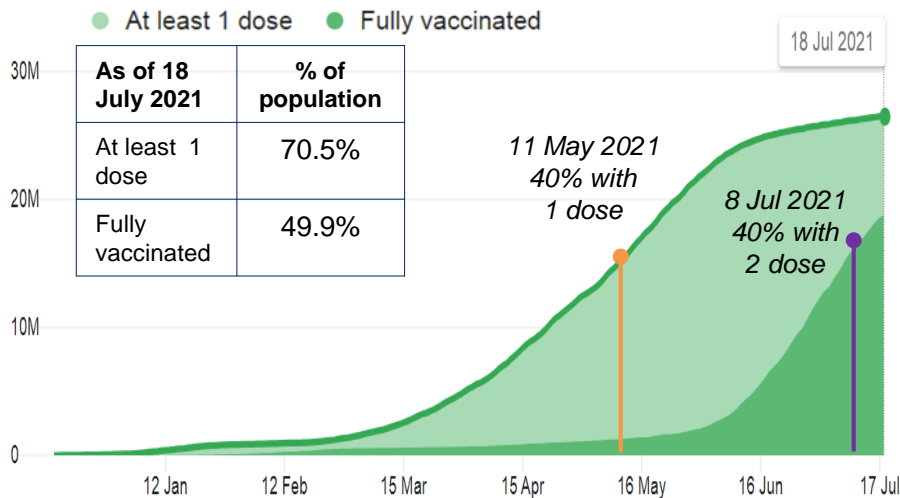


Death Case Trend

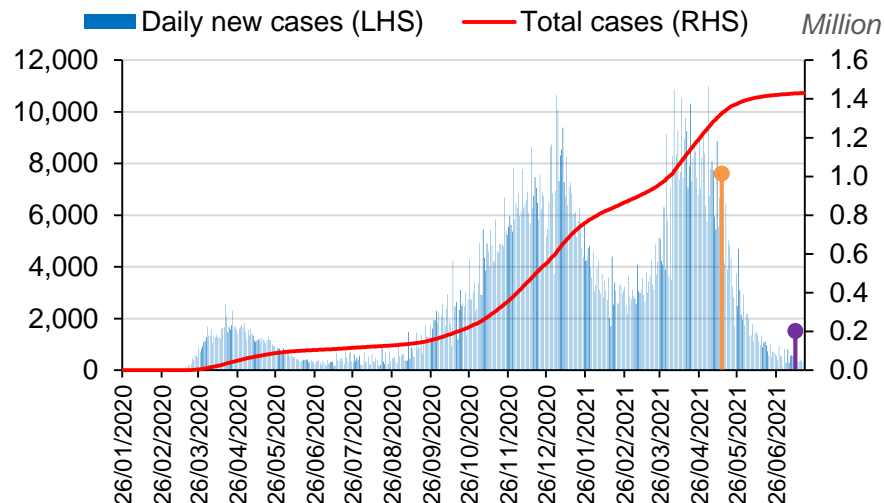


Canada – Vaccination vs. the COVID-19

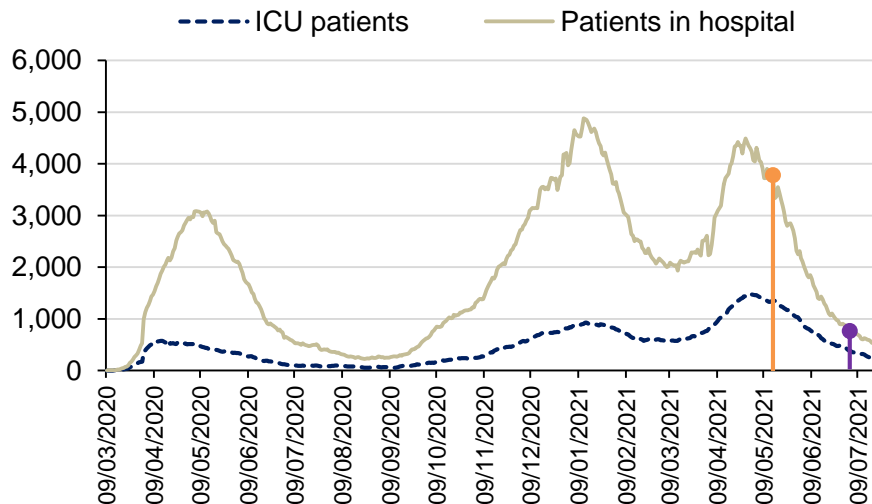
Vaccination Trend



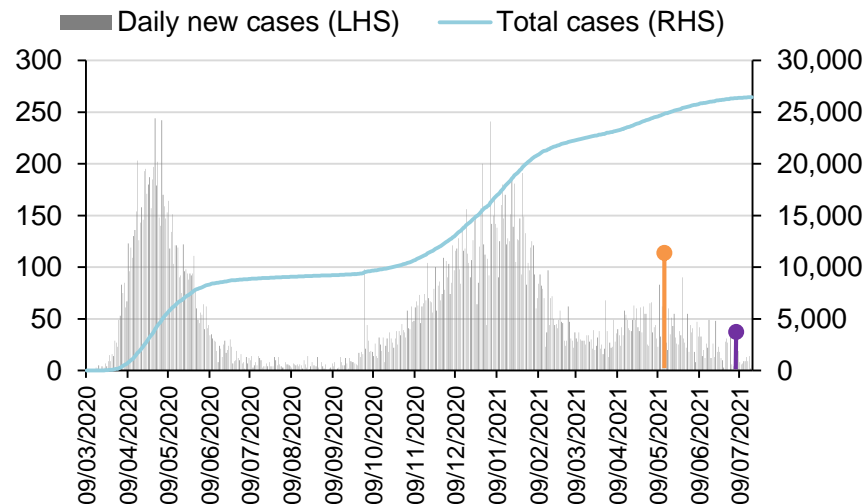
COVID-19 Case Trend



ICU Patient and Patient in Hospital Trend



Death Case Trend



Malaysia's economic stimulus and recovery packages to mitigate the COVID-19 pandemic impact since 2020

Package	Worth (RM billion)	% of 2020's/2021's GDP	Fiscal injection (RM billion)	Announcement date
1. Economic Stimulus Package (ESP)	20.0	18.4%	35.0 (2.5%)	27 Feb 2020
2. PRIHATIN Economic Stimulus Package	230.0			27 Mar 2020
3. PRIHATIN SME+	10.0			6 Apr 2020
4. PENJANA	35.0	2.5%	10.0 (0.7%)	5 Jun 2020
5. KITA PRIHATIN	10.0	0.7%	10.0 (0.7%)	23 Sep 2020
6. PERMAI	15.0	1.0%	6.6 (0.4%)	18 Jan 2021
7. PEMERKASA	20.0	1.3%	11.0 (0.7%)	17 Mar 2021
8. PEMERKASA+	40.0	2.6%	5.0 (0.3%)	31 May 2021
9. PEMULIH	150.0	9.9%	10.0 (0.7%)	28 Jun 2021
Total	530.0	36.4%	87.6 (6.0% of GDP)	

Source: Ministry of Finance; Prime Minister Department

Note: Nominal GDP in 2020 was RM1,415 billion; SERC's estimates of nominal GDP in 2021 at RM1,511 billion

Figure in parenthesis indicates % share of 2020's and 2021's GDP



Limited direct fiscal spending

Higher financing requirements have pushed the Federal Government's statutory debt level to 58.5% of GDP by end-2021 (end-March 2021:RM856.7 billion or 54.6% of GDP), leaving 1.5% points below the debt ceiling ratio of 60%.

How much money is left for spending?

Estimated money already spent and the balance to spend

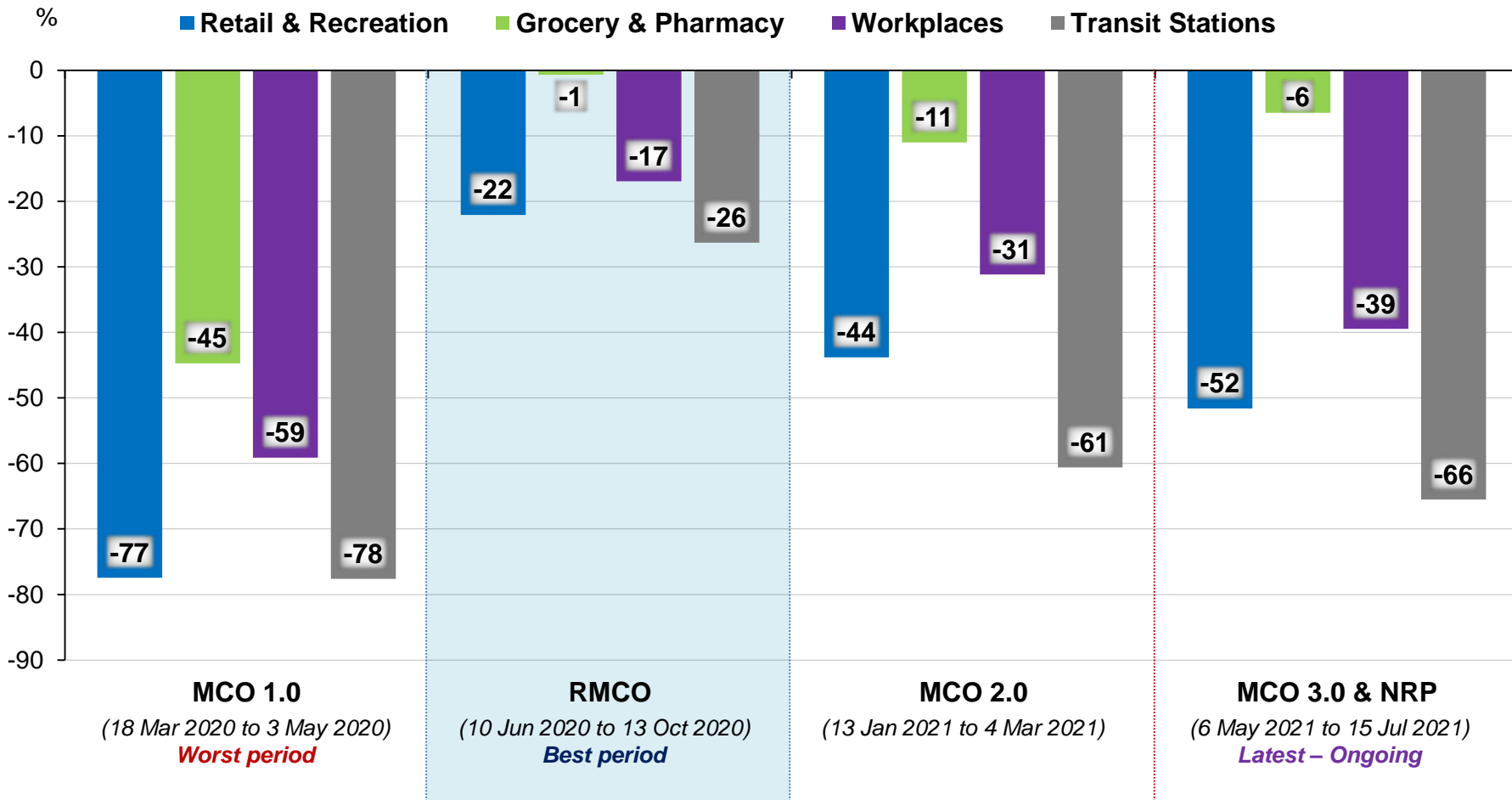
Package	Worth (RM billion)	Amount already spent (RM billion)	Balance to spend (RM billion)
Economic Stimulus and Recovery Packages	530.0	200.0	330.0
Special COVID-19 Fund	65.0	59.7	5.3
2021 Budget	322.5	222.5	100.0
Total	917.5	482.2	435.3

- Since 2020, a sum of RM482.2 billion has already been spent, making up 52.6% of total amount approved.
- Our estimation show a balance of RM435.3 billion to be spent this year.
- The Government is mulling to **raise the debt ceiling by another 5% (or RM75 billion) to 65%** if more funds are needed to meet more stimulus spending.

Source: PEMULIH speech on June 28; SERC estimates

Malaysia's mobility tracker

Average % change vs. baseline (median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)



Source: Google Mobility

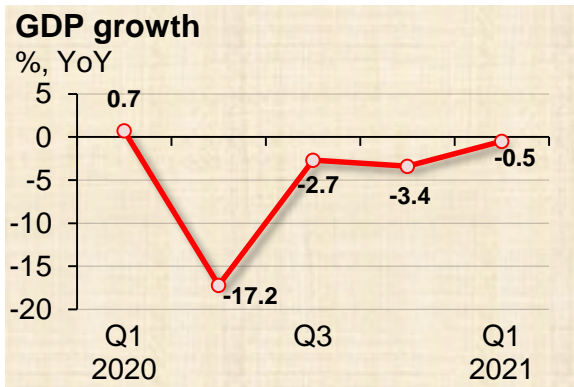
3Q (Jul-Aug) 2021 is the deciding factor

1H 2021 – AIDED BY LOW BASE EFFECTS

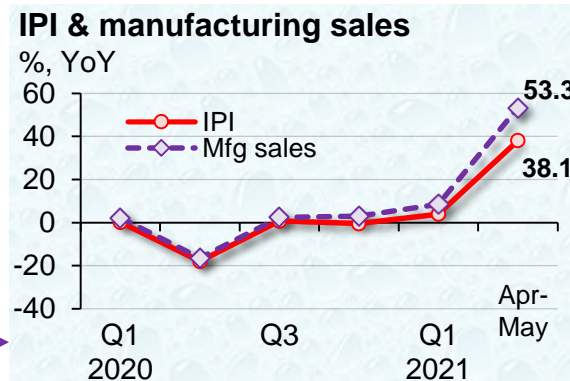
- 2Q GDP hit a temporary speedbump due to the lockdown as new virus variants cases spike exponentially
- Restricted containment measures and people mobility
- Silver lining – surging exports and manufacturing sector, albeit dampened by limited manpower capacity
- Deferred pent-up demand

2H 2021 – HIGHER VACCINATION RATES

- Favourable base effect in 2Q wearing off. 3Q remains challenging relative to 4Q (4.0%-4.5% in 2H)
- But, vaccination moves into high gear. May: 1.56m doses administered @ accumulated 3.3% of pop received complete doses; Jun: 5.08m doses @ 7.1% (+3.8% pts); Jul (1-18): 6.26m doses @ 13.9% (+6.8% pts). **Est. to reach 40% end-Aug; and 60% end-Sep**
- Containment measures to be relaxed more rapidly ▶▶ transition to safe economic reopening
- Some release of pent-up demand, albeit repairing of balance sheet and precautionary savings
- More economic, including construction and social sectors operating with higher manpower capacity
- Inter-districts-states travel; selected Green Bubble international travel (4Q 2021)

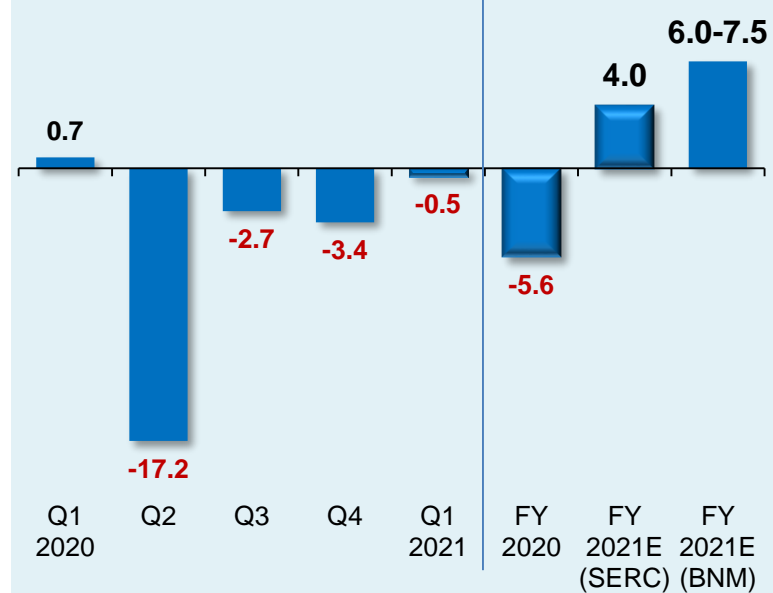


Source: DOSM

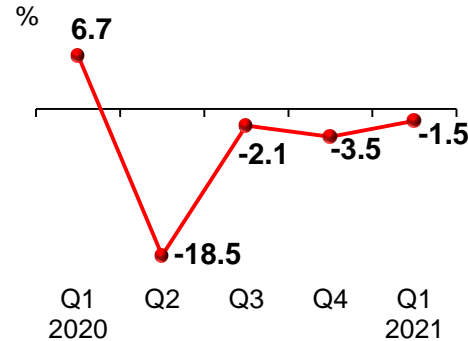


Restricted mobility inflicted deeper scarring effects on domestic economic and business activities

GDP growth
%, YoY

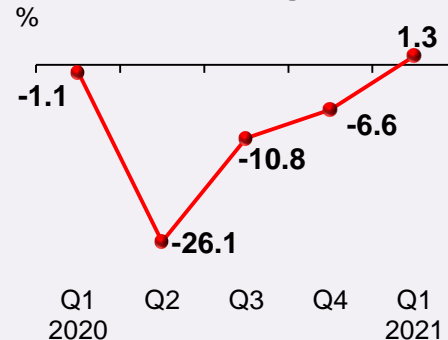


Private consumption growth



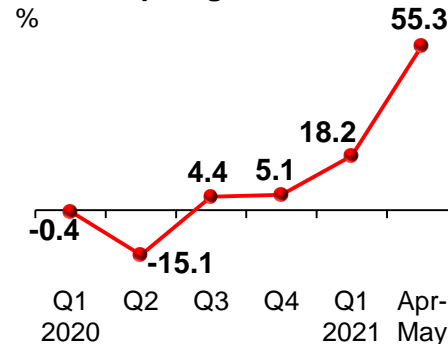
- Cautious consumer sentiment, reduced income and deferred pent-up demand
- Low interest rate and cash flow relief
- However, labour market conditions remain vulnerable to the prolonged pandemic impact

Private investment growth



- Investment outlook dented by the lockdown and renewed pandemic fear
- Export-oriented industries would commit investment while domestic industries, especially services may hold on their investment plans

Gross export growth

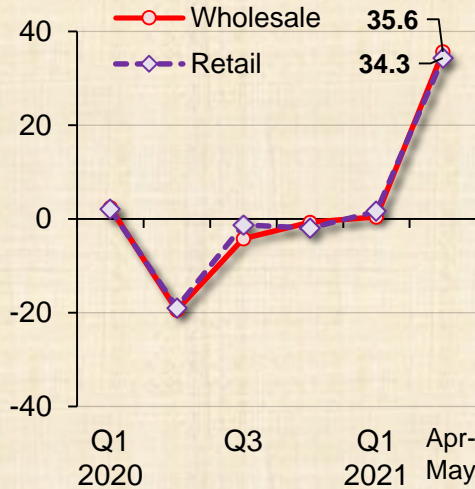


- Benefitting strongly from the recovery in global trade and supply chains
- High demand seen in electronics and electrical products, health care products, and palm oil
- Higher commodities prices helped to lift the total export value

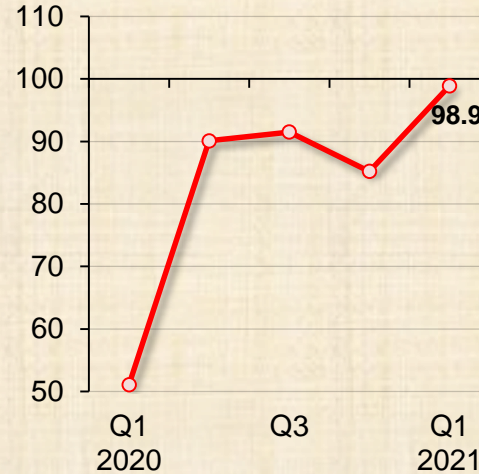
Source: DOSM; BNM

Cautious discretionary spending on weakening sentiments

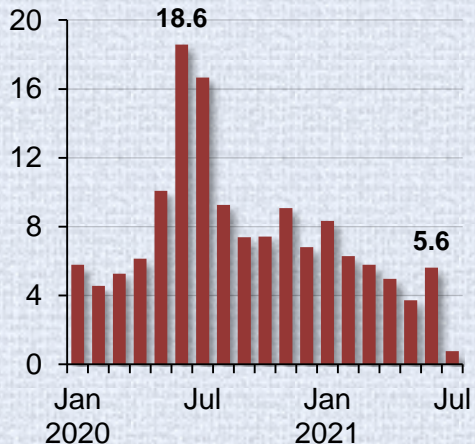
Wholesale & retail trade sales
%, YoY



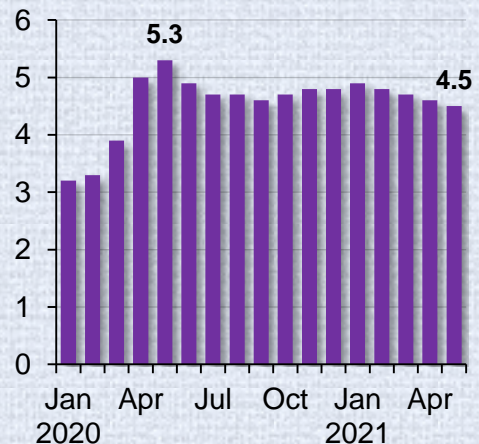
MIER CSI
100=threshold



Loss of employment (LOE)
Thousand persons



Unemployment rate
%

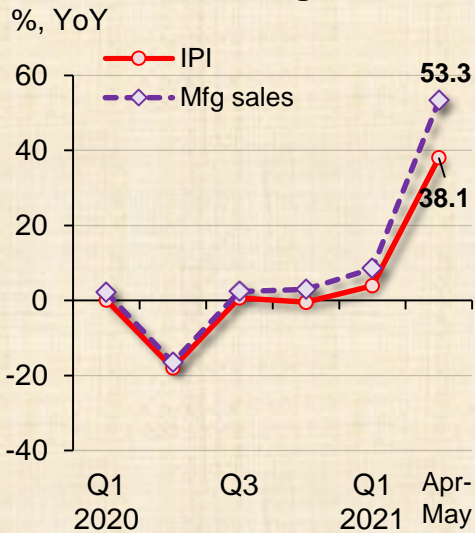


Source: DOSM; MIER; PERKESO (LOE as at 2 July 2021)

- Retail sales have normalised but would be dented by FMCO and EMCO starting in June and early 3Q 2021.
- Cautious sentiment, reduced income, restricted mobility and worried about rising infections.
- Discretionary spending lower, wearing off some potential pent-up demand previously.
- Cash handouts, EPF i-Citra and loan moratorium provide a temporary relief.
- The pace of vaccination and virus containment hold the key to ensure a sustained revival in consumer spending.
- Unemployment rate will gradually improve to an estimated 4.5% at end-Dec 2021, translating a near 720,000 unemployed persons, about 40% higher than nearly 520,000 unemployed persons pre-COVID-19.

Higher industrial output lifted by strong exports & moderate pick up in domestic demand

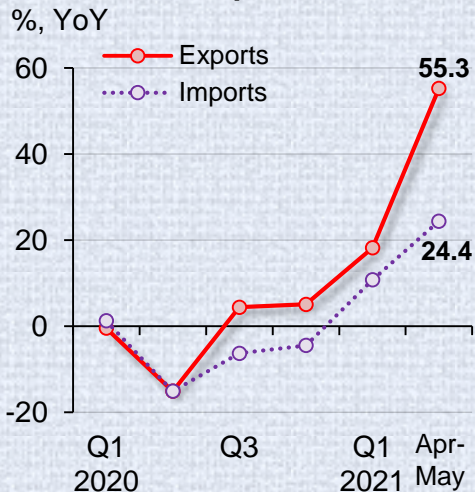
IPI & manufacturing sales



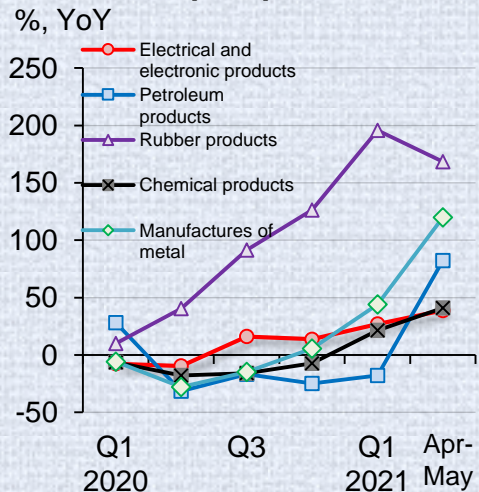
MIER BCI



External trade performance



Selected export products

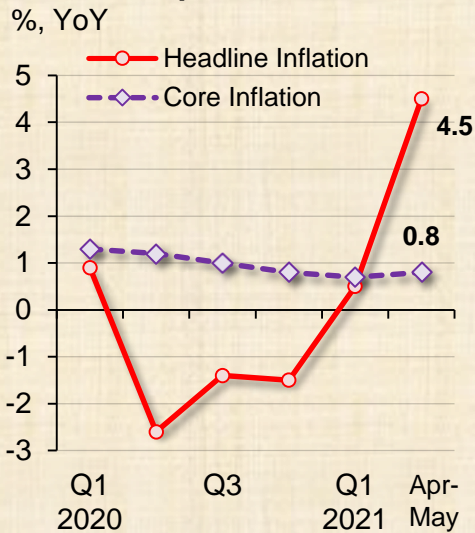


- Industrial production was underpinned by the manufacturing sector, mainly export-oriented industries. Mining output remains a drag.
- Exports continued to charge ahead, buoyed by increased global demand of electrical and electronic (E&E) products, rubber-based products, as well as palm oil and palm based products.
- Near-term growth momentum may be tempered by the limited sectors for operation and the capping of manpower capacity.
- Overall, exports are expected to grow by 15.8% in 2021 (2020: -1.4%) in tandem with a global recovery and firmer commodity prices.

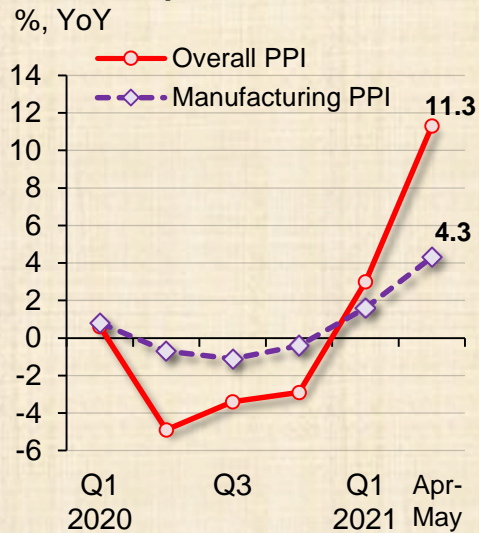
Source: DOSM; MIER

The spike in headline inflation to moderate in 2H 2021

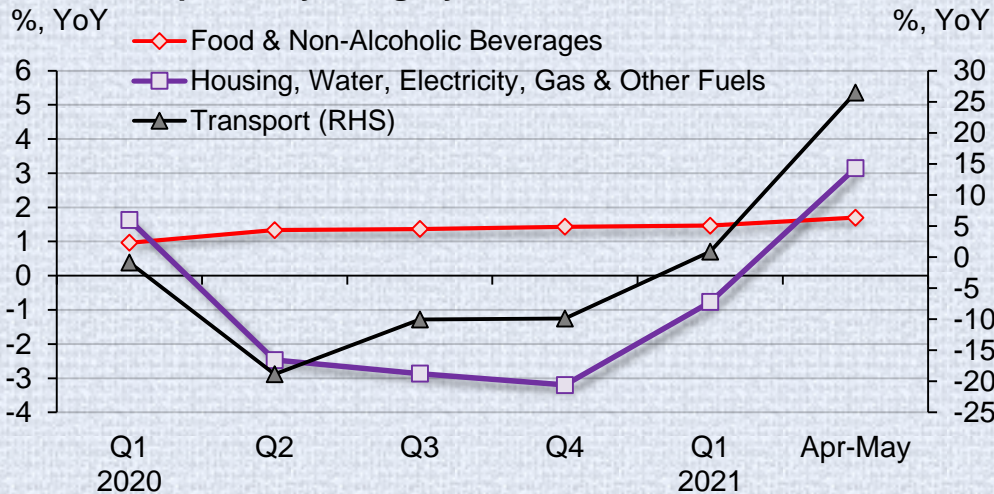
Consumer prices



Producer prices



Consumer prices by category



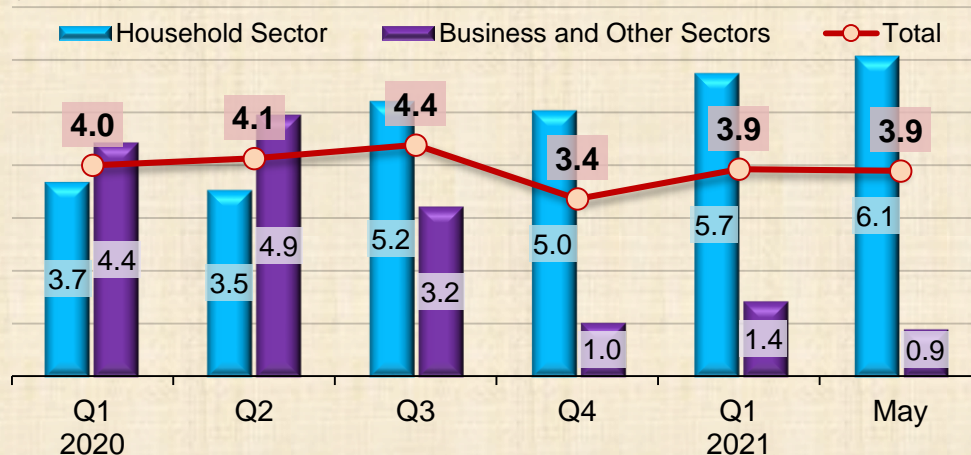
Source: DOSM

- Cost-push inflation will be calling the shots in 2021 amid still mending domestic demand.
- The spike in headline consumer price index (CPI) in 2Q from a depressed base in 2020 will be normalising in 2H 2021.
- Higher producer price index, including rising cost of raw materials may presage more increased cost of production pass-through onto consumer price inflation.
- Core inflation remained stable.
- Overall headline inflation is estimated to increase by 3.0%-4.0% in 2021 (-1.2% in 2020).

Household loans steady; subdued business loans

Loan outstanding by sector

(%, YoY)

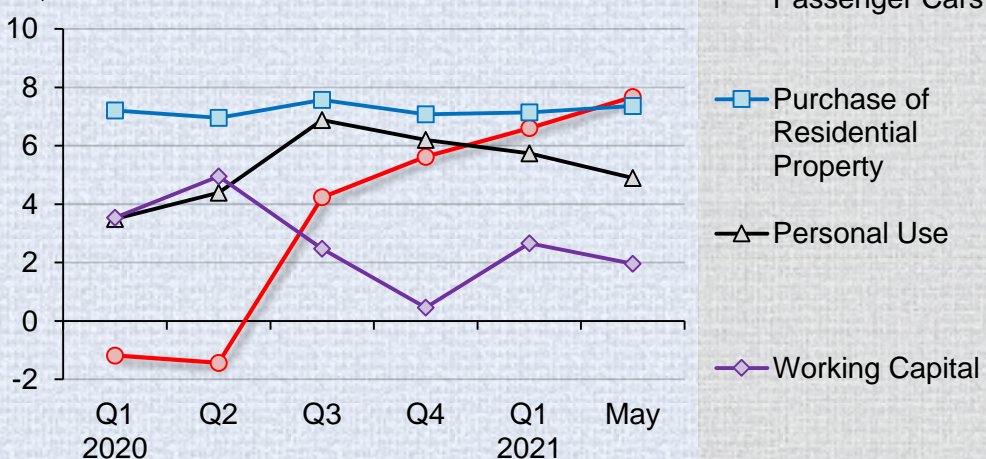


➤ Overall loan growth inching up, largely held up by the household sector for the purchase of passenger cars and residential properties. Business loans remained lacklustre.

➤ Outstanding loan for working capital remained uneven, supported by still-high loan demand in the wholesale and retail sector; slow demand in the construction sectors and muted loan growth in the manufacturing sector.

Loan outstanding by purpose

%, YoY



➤ Contracted loan demand in the agriculture, real estate, and transport and storage sectors.

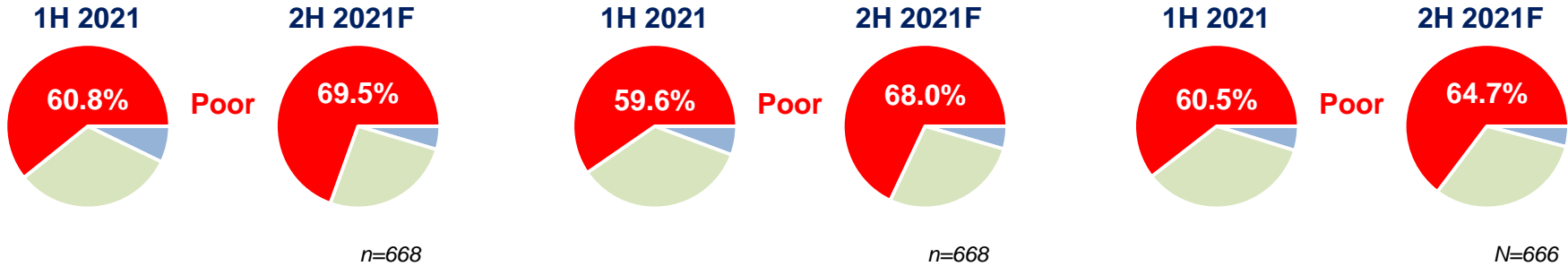
Source: BNM

ACCCIM's M-BECS: Reality check

Business Conditions

Cash Flows Conditions

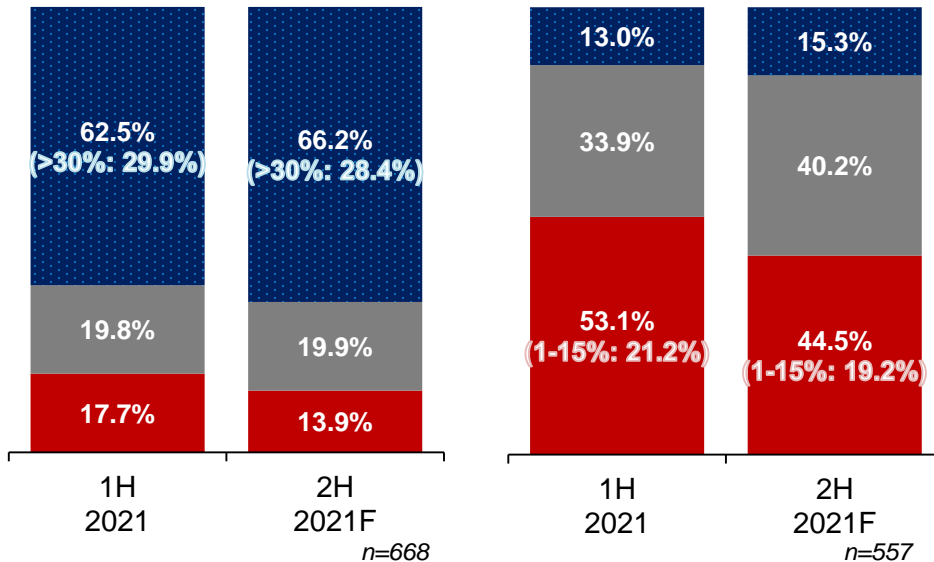
Debtors' Conditions



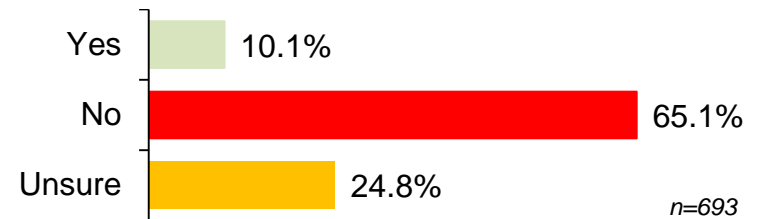
Decrease No change Increase

Overall Sales – Volume

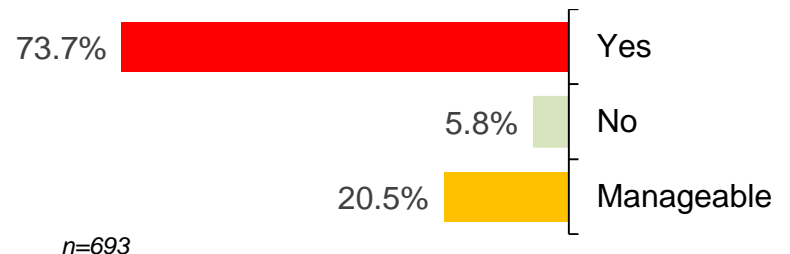
Capital Expenditure



Are you still confident of an economic recovery in 2021?



Are you still concerned about 3Cs (Cash flow, Cost and Credit)?



Source: ACCCIM M-BECS 1H 2021 and 2H 2021F

Data-driven monetary policy – Overnight Policy Rate at 1.75%



The current monetary policy remains appropriate and accommodative, along with fiscal and financial relief measures (such as loan moratorium, EPF withdrawals, and cash handouts) to cushion the prolonged pandemic impact on businesses and households.



Monetary policy has its limitation in this prolonged pandemic and renewed lockdown-induced supply and demand disruptions.



Further lowering of interest rate may not be effective to spur consumption and investment demand.

- **Households' discretionary spending** – Cautious sentiment, worried about rising infections, restricted mobility as well as concerned about job security and income prospect.
- **Businesses' loan demand** – Adopt a wait-and-see investment stance until more clarity amid lingering political uncertainty.



A reduction in interest rate can provide partial cash flow relief for borrowers. But, cash handouts to targeted households and automatic loan repayment moratorium would be handier.



With the current lockdown likely to be a temporary one, it is appropriate to reserve the monetary arsenal (a historic low interest rate) for future shocks. Hence, we expect BNM to keep the overnight policy rate (OPR) steady at 1.75% by end-2021.



Bank Negara Malaysia also needs to weigh on domestic inflation expectations, and also the implications on exchange rate and capital flows arising from the Fed's tapering of bonds purchase and the eventual increase in interest rate in 2022-2023.

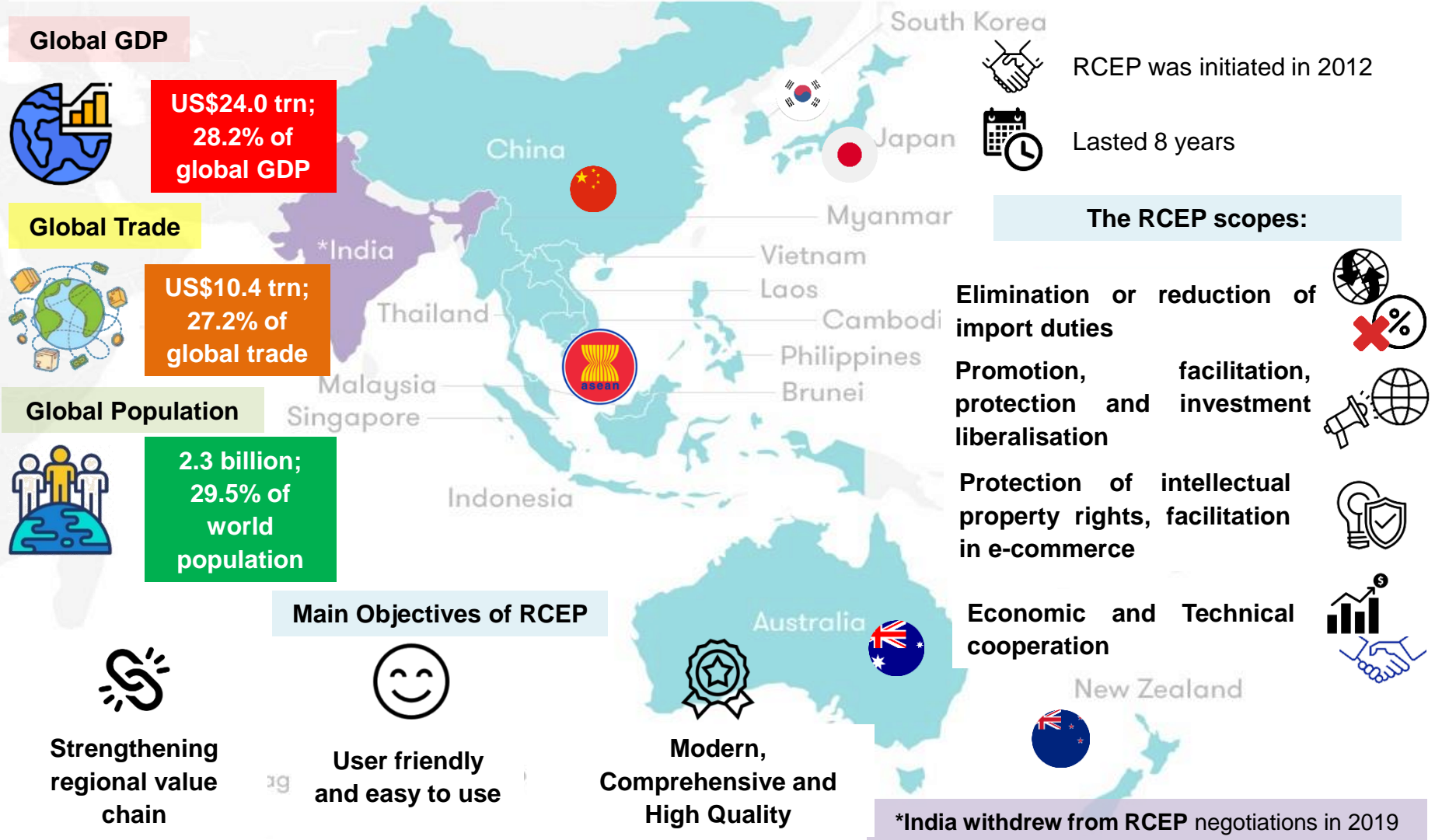
RCEP: The Game Changer, Are You Ready?

- **Malaysia is the 7th largest trading nation in RCEP-15 countries (58.0% of total trade)**
- **Fast ratification of RCEP**
- **RCEP comes with opportunities, but brace for competition**



RCEP is the world's largest free trade deal

Regional Comprehensive Economic Partnership (RCEP) consists of 10 ASEAN member countries and 5 ASEAN FTA Partner countries.



*India withdrew from RCEP negotiations in 2019

Source: MITI, World Bank; data as at 2019

RCEP members' total trade with its RCEP partners

Total trade with respective RCEP partners in 2020

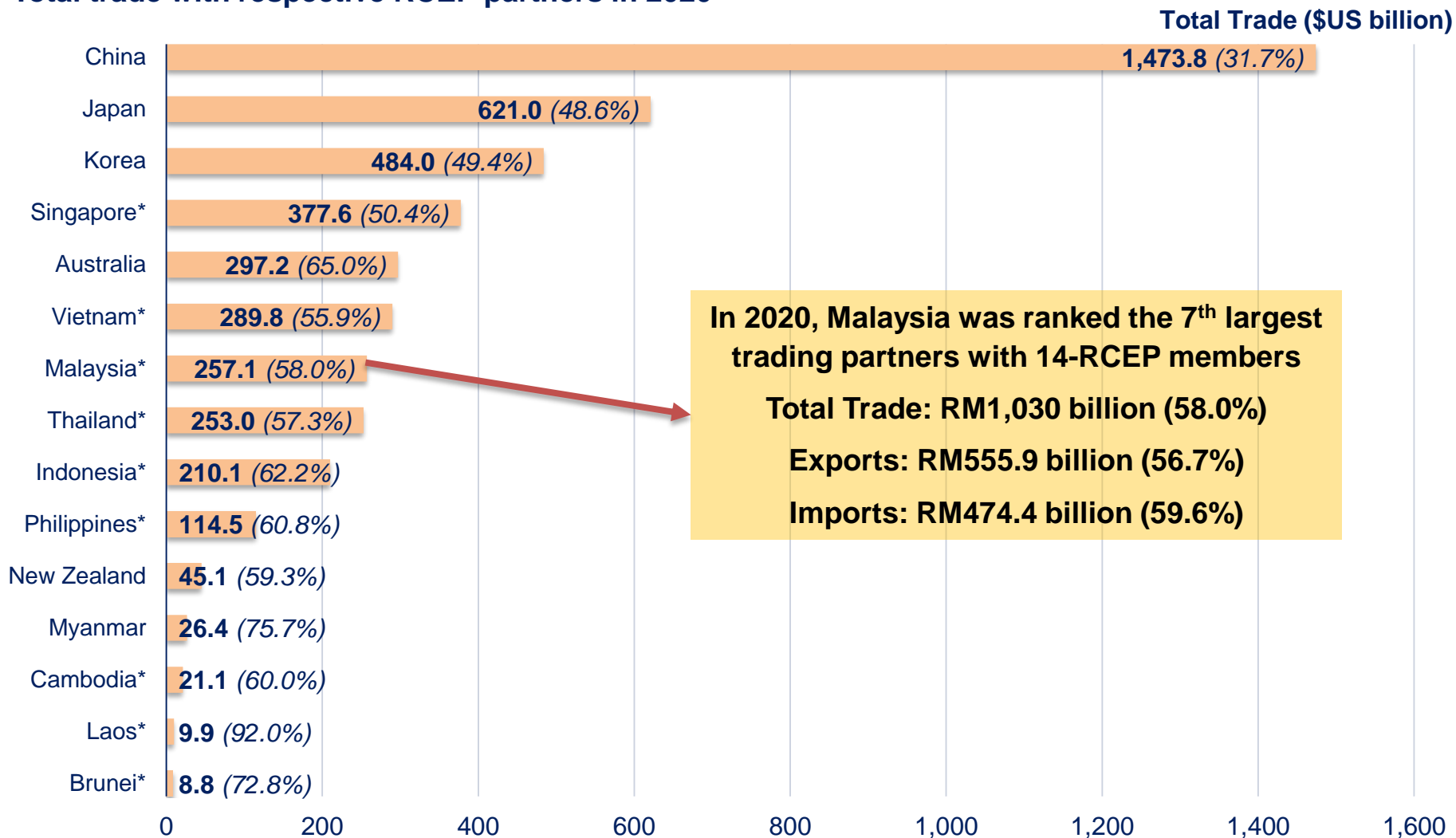


Figure in parenthesis indicates % share to total trade with world

Source: UN Comtrade; DOSM

*2019 Data

Key features of RCEP



- **Tariff reduction in at least 92% of goods among the member countries** over a period of 20 years
- Simplified customs procedures and trade facilitation
- **About 65% of the service sector** could increase foreign funding limits

- The creation of **common rules of origin (ROO)** for the entire bloc. Once implemented, RCEP countries will only require a single certificate of origin

- **For example:**

- If Country L, M and N are members of RCEP, and Country L processes the material Y1 originating from Country M into semi-finished product Y2, and then Y2 is used as raw material to produce finished goods Y3 by Country N.

- **According to RCEP cumulative rules of origin**, Y1 and Y2 can be accumulated into the value of raw materials for producing Y3, and **all of them are regarded as originating from Country N.**

- Allow companies to easily ship products between RCEP countries with ease and need to worry about the rule of origin criteria in each country or for each manufacturing step.
- A common rule of origin will lower costs for companies with supply chains stretching throughout Asia

- **Electronic Commerce** is outlined as a key sector in the Free Trade Zone.

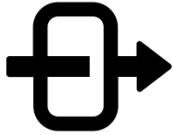
- Southeast Asia, home to 360 million internet users – 90% of whom are connected via mobile phones. E-commerce market reach US\$300 billion by 2025.



Ratify the RCEP fast to catalyst post COVID-19 recovery



- **Sending a very strong signal** to the international community that Malaysia is indeed **open for business**; **increase trade**; and **attract investment (DDI and FDI)**



- **Re-position Malaysia as an attractive and competitive place of doing business and also the preferred gateway to regional market**, and to attract more quality FDI and retain existing DDI and FDI



- The sooner RCEP enters into force, the sooner domestic and foreign businesses in Malaysia can enjoy the **benefits of RCEP from a trade and investment liberalisation. Greater uniformity and clarity on the Rules of Origin classification**



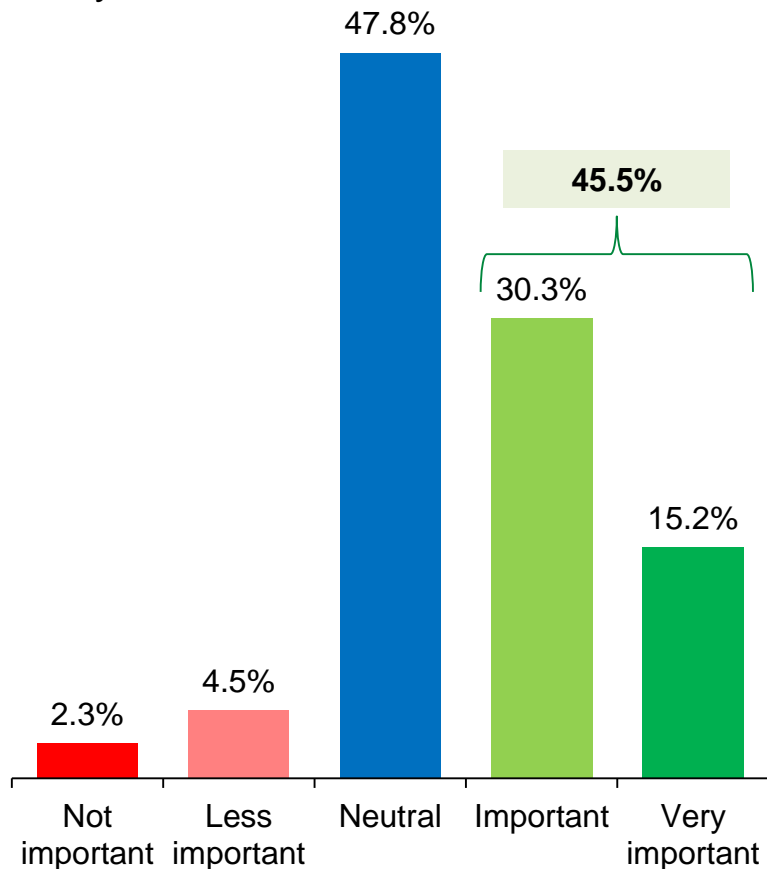
- **Government and relevant agencies must work together with the chamber and industry associations** to explain how RCEP will benefit our domestic players, especially SMEs and the man on the street.
- **Domestic policies, trade facilitation, product and market development programs** must be strengthened.



- **Standard product quality; manpower reskilling and upskilling; upgrading of industries' capabilities** via Industry 4.0 programs etc.

How Malaysian businesses think about RCEP?

45.5% of respondents rated RCEP as an important growth catalyst for Malaysia.



Top 3 - Businesses' viewpoints on RCEP impact:



How would your company prepare for the RCEP?

Top 2 strategies

Participate in trade promotion activities and market development program

35.6%

Know the regulations of trade and services of RCEP countries

34.8%

Source: ACCCIM M-BECS 1H 2021 and 2H 2021F

RCEP's impact on Malaysia – Gain or Pain?



GDP

0.8% - 1.7%*



Exports

24.4%*

- Malaysia's trade with RCEP members made up 58% of total trade in 2020 (Exports: 56.7%; Imports: 59.6%)
- ASEAN's investment of RM36.9 billion made up 26.5% of total investment in Malaysia; Japan (9.6%) and China (5.9%)

* Based on three research projects: World Bank (2030), United Nations ESCAP (2030) and Economic Research Institute for ASEAN and East Asia (ERIA) (2015-2030)



1 Increased commercial opportunities and partnerships



4 Mixed impact on economic sectors and industries (manufacturing, services, SMEs, consumer, agriculture)



2 Better market access



5 Growing Opportunities amid Competition



3 Attract Investment



6 Digitalisation and E-commerce

Impact on industries – Gain or Pain? (cont.)



Companies specializing in industries like telecommunications, banking and finance, and consultancy will benefit from enhanced cooperation.



- Food and beverages industry, chemical products, rubber products, plastic products, machinery and equipment as well as electronics and electrical products.



Television

Refrigerator

Air conditioner



- Textiles and wearing apparels will be dampened by low-cost competitors such as Vietnam while the timber and timber products industry too face competition from the participating countries.



Source: Three research projects: World Bank (2030), United Nations ESCAP (2030) and Economic Research Institute for ASEAN and East Asia (ERIA) (2015-2030)

Opportunities come with challenges and competition



Less competitive (Domestic Businesses, SMEs)



Maintaining **product brand trust, good quality and standard products** are important



A company's and businesses' competitiveness depends on **the capacity of its industry to innovate and upgrade**



Competitive advantage - Innovation and Advance technology development



Adoption of digital technology and e-commerce platform

How Malaysia SMEs take advantage of e-commerce in RCEP?

1. Better market access
2. Competitively pricing of goods and sourcing of raw materials
3. Reduce market barriers

RCEP countries are going to reduce at least 92% tariff lines in 20 years

China's Schedule of Tariff Commitments to ASEAN's goods

Tariff elimination/reduction	ASEAN	
Imported goods immediately enjoying zero Chinese tariffs	67.9%	
Imported goods enjoying zero Chinese tariffs	Over the next 10 years	12.7%
	Over the next 15 years	3.0%
	Over the next 20 years	6.9%
Imported goods ultimately enjoying zero Chinese tariffs	90.5%	
Imported goods enjoying reduced Chinese tariffs	5.4%	
Imported goods excluding from any commitment of tariff reduction or elimination	4.1%	

Selected ASEAN Members' Schedule of Tariff Commitments to China's goods

Tariff elimination/reduction	Selected ASEAN Members*
Imported goods from China immediately enjoying zero tariffs	74.9%
Imported goods from China ultimately enjoying zero tariffs	90.5%
Imported goods from China enjoying reduced tariffs	5.5%
Imported goods from China excluding from any commitment of tariff reduction or elimination	4%

* Malaysia, Vietnam, Singapore, Thailand, Indonesia, The Philippines, Brunei
Source: Graphic @Asia Briefing Ltd



Add up = 90.5%



Add up = 100%

Popular B2B Marketplace



Largest B2B Marketplace in Asia Market



The Second Mover into the B2B Market



Korea's Largest Online B2B Marketplace



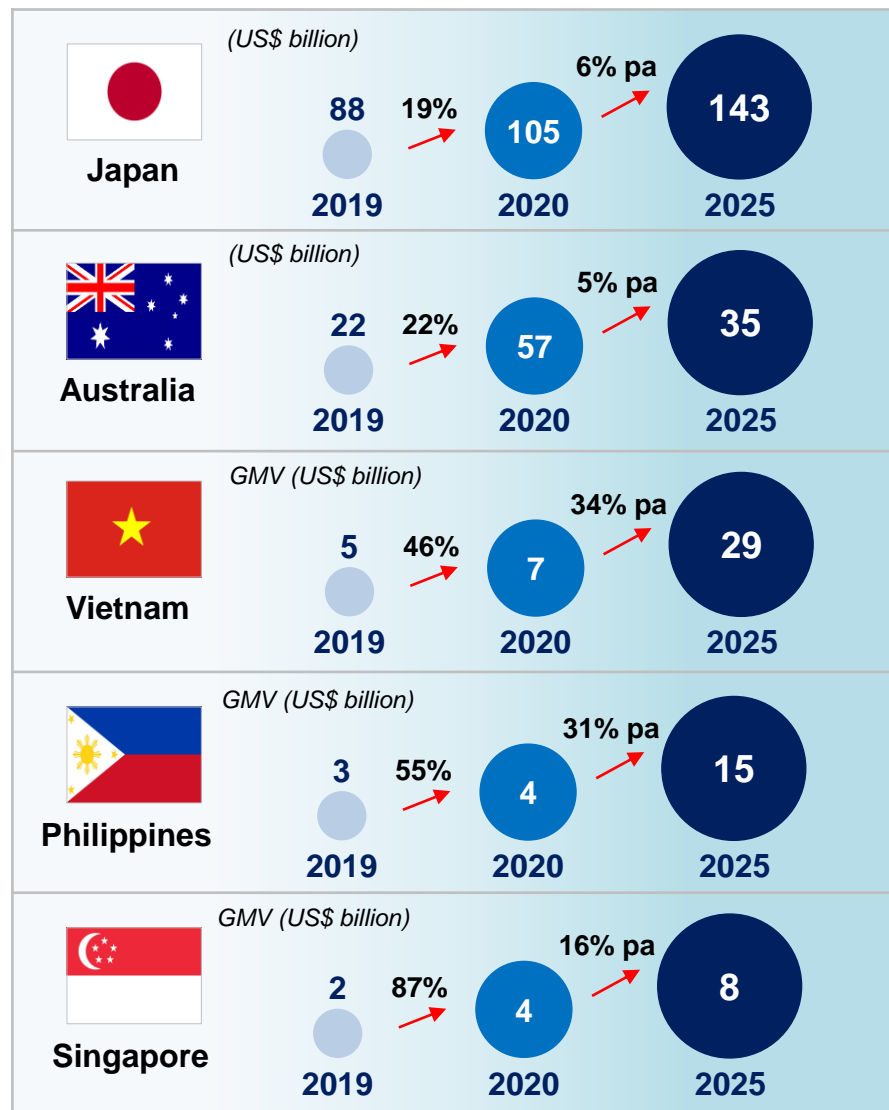
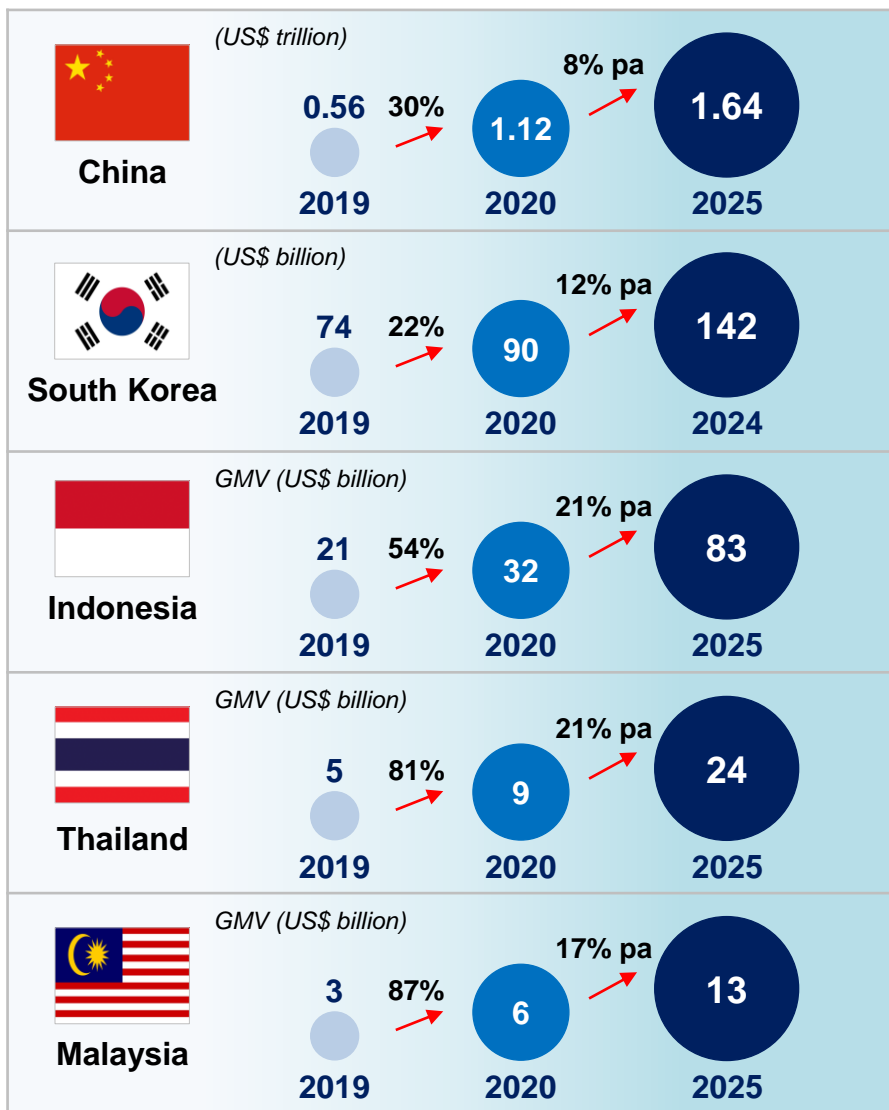
China's Credible B2B Marketplace



Malaysia's New Adopter of Online B2B Marketplaces

Source: Exabytes.my

Tremendous potential of e-commerce in RCEP countries



Note: GMV refer to Gross merchandise value; E-commerce value posted here is different from data in previous slide due to different data set provided by various website
 Source: Statista; Google; Temasek; Bain & Company; Global Data

E-commerce issues and challenges for the Malaysian SMEs



The EY's survey conducted in June 2020 revealed that **84% of SMEs have experienced difficulties with online connectivity and communicating with their suppliers and customers, in addition to issues with infrastructure during MCO.**

Lack of ICT Workers in Understanding E-commerce

- ACCCIM M-BECS** for 2H 2018 and 1H 2019F revealed that the **lack of IT knowledge or IT technicians has restrained SMEs to adopt e-commerce.**
- A study by Workday in 2020 stated that **67% of Malaysian businesses indicated that less than half of their employees are equipped with digital skills and capabilities.** 13% of respondents revealed that almost none of employees with digital experience or skills.

Unaware of the Rules & Regulations in E-commerce

- Tam Yong Sheng, *eBay Southeast Asia Head of cross-border Trade Business Development*, commented that though Malaysia is recognised as a manufacturing hub for automotive and furniture product categories in eBay' platform, **Malaysian SMEs are unfamiliar with export shipping documentations and unable to access competitive shipping rates when accessing to global e-commerce.**

* SMEs' manufacturing exports + SMEs' agriculture exports; **Malaysia's Business and Economic Conditions Survey Report (M-BECS)

Source: DOSM; SME Corp, The Sun Daily

E-commerce issues & challenges for the Malaysian SMEs (cont.)

Uncompetitive Trade Compliance

- Shipping period and delivery will affect customer's purchase decision. ShippyPro (2019) revealed that consumers don't accept a shipment that takes more than 3-4 days to arrive for those giant e-commerce platform (e.g. Amazon).

	Australia	China	Japan	Malaysia	New Zealand	Singapore
Time to export, in term of:	<i>Hours</i>	<i>Hours</i>	<i>Hours</i>	Hours	<i>Hours</i>	<i>Hours</i>
Border compliance	36	21	27	28	37	10
Documentary compliance	7	9	2	10	3	2
Time to import, in term of:	<i>Hours</i>	<i>Hours</i>	<i>Hours</i>	Hours	<i>Hours</i>	<i>Hours</i>
Border compliance	39	36	40	36	25	33
Documentary compliance	4	13	3	7	1	3

Source: Doing business 2020



Malaysia's internet speed is below global average. Mobile internet speed is lagging behind almost all the RCEP countries.

By RCEP countries	Mobile	Fixed Broadband
	Mbps	Mbps
South Korea	192.6	217.2
China	153.1	178.6
Australia	125.7	80.0
Singapore	82.2	250.4
New Zealand	82.1	164.2
Japan	59.7	177.4
Global Average	54.5	105.2
Brunei	52.0	36.1
Thailand	50.3	214.3
Vietnam	44.5	70.1
Philippines	32.0	58.7
Laos	30.3	43.0
Malaysia	27.5	102.9

Uneven internet speed within Malaysia is a barrier to adopt e-commerce, especially for the northern states.

By state & federal territory	4G Download Speed (Mbps)	Fixed Broadband Speeds* (Mbps)
Putrajaya	16.5	69.4
Kuala Lumpur	16.0	82.4
Selangor	13.9	91.8
Pahang	13.7	53.8
Negeri Sembilan	13.4	72.6
Sarawak	13.0	65.2
Johor	12.9	66.9
Melaka	12.7	58.9
Perak	12.7	55.0
Labuan	12.5	43.5
Pulau Pinang	12.0	49.1
Terengganu	11.7	51.5
Kelantan	10.8	42.8
Sabah	10.6	59.3
Perlis	10.6	45.7
Kedah	10.5	36.6

Slow and Unstable Internet Speed

- Unreliable and slow connections will hamper e-commerce growth via affecting business productivity; slowing response time and communication flows with customers and suppliers.

Data collection period for 4G Download Speed: 1 August - 29 October 2020; *refer to download speed in Q3-Q4 2019

Source: Open Signal; Speed Test, Global Speeds Index (As of May 2021)

E-commerce issues & challenges for the Malaysian SMEs (cont.)

Stiff Competition

- As of 1Q 2021, Shopee was ranked as the highest monthly traffic of e-commerce platform in Malaysia, Singapore, Vietnam, Philippines and Thailand. With the further tariff liberalisation in trade, **more foreign companies could directly list their products via Shopee and vice versa.**
- **Well-known foreign e-commerce companies**, such as Gmarket (Korea), Rakuten (Japan) or Tokopedia (Indonesia) **could enter Malaysia's market and intensify the competition.**



In RCEP, there are 12 national languages

Communication Barrier

- Based on “Can’t Read, Won’t Buy” survey (2020), **65% of global consumers prefer to buy exclusively in their native language.**
- Zendesk survey (2017) highlighted that 62% of B2B and 42% of B2C customers will buy more after experiencing good customer service.
- To ease the communication barrier, the company can invest in technology investment (e.g. Chatbox) for the translation of languages in order to effectively communicate and understand consumers' need in e-commerce.

<i>Helo</i>	<i>ဟေလို</i>
<i>你好</i>	<i>Hello*</i>
<i>Halo</i>	<i>こんにちは</i>
<i>សួស្តី</i>	<i>ສະບາຍດີ</i>
<i>Kamusta</i>	<i>สวัสดี</i>
<i>xin chào</i>	

** Australia and New Zealand*

Top 3 e-commerce marketplace* in selected RCEP members

Number = Monthly web visits

mil: million



*Only capture e-commerce platform that bring buyers and sellers together to facilitate transactions.; **Estimated monthly visits for April 2021; ***Monthly web sites in 1Q 2021; #Web traffic in May 2020.^Australasia is a region which comprises Australia, New Zealand, and some neighbouring islands.

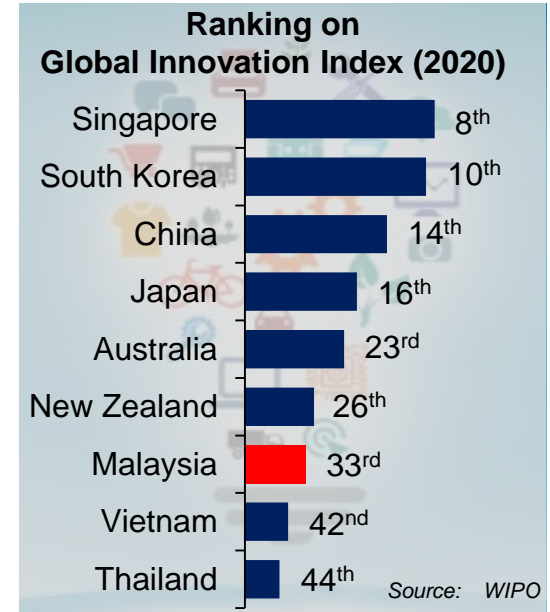
Source: iPrice.my; Web Retailer; Similar Web; Statista

SMEs: Strategies to reap more RCEP opportunities



Embarking on Research and Development (R&D)

- Cheap and low quality products are not a sustainable strategy engaging in cross-border e-commerce. **SMEs must participate in R&D and innovation.**
- Collaboration between academic and industry can be one of the solutions for SMEs to develop new products with reasonable investment cost.
- Facilitation policies, including financial, tax credits and incentives, networking, and Intellectual Property Rights support programs to promote SMEs R&D and innovation.



Going For Green and Sustainable Products

- Adopt the pricing strategy is not a wise choice to develop the brand recognition for the customers online as it will lead to a price war.
- **SMEs should emphasize on green and sustainable products**, which are produced by recycled and environmental safer materials and manufactured using ethically sourced labour.
- **“Go Green” is the upcoming trend.** Consumers, especially in South Korea and Japan are highly conscience about eco-friendly products. In China, 73.3% of consumers are willing to pay a premium to purchase sustainable products.

SMEs: Strategies to reap more RCEP opportunities (cont.)



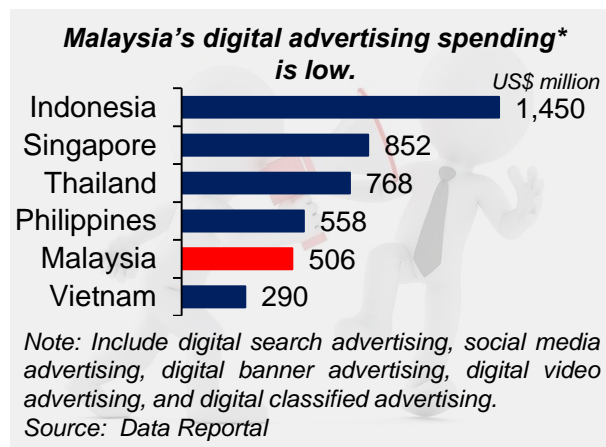
Merger and Acquisition (M&A) Between SMEs

- SMEs are subject to constraints in internal resources (e.g. capital & manpower) and access to external resources is limited due to market failures.
- Through strategic collaborations with foreign partners and M&A, SMEs are able to take large quantity orders from overseas buyers after M&A.



Enhance Brand Awareness

- On average, 61.6% of RCEP's consumers will conduct an online product research before making a purchase.
- Accurate and useful Information available online about a company's background, product specifications, and customers' feedback will influence the buyer's decision.



Apply Grant or Programs Offered by Government

- In PEMULIH package, RM300 million allocation to help SMEs to onboard e-commerce and e-payment platforms under “Go eCommerce and Shop Malaysia Online (SMO) campaigns.
- “100 Go Digital” by MDEC to enable traditional businesses in key sectors moving towards digitalisation, improving efficiency and customer experience.

What the Government can do to facilitate business?



E-Commerce Statistics/Information Database

- Government agencies (e.g. MPOB or FAMA) have to collaborate with reputable e-commerce platforms to provide the e-commerce statistics/information by specific products for their industry players.



Establish A Strategic Partnership with Foreign E-marketplace

- Government agencies should collaborate with the well-established B2C and B2B e-commerce platforms to offer newcomers' packages and technical support for Malaysian businesses.



Expedite Customs Clearance for Exports & Imports

- Clear customs on schedule and hassle-free, faster release times, reduced processing charges, and simplified procedures.



Tax Reduction

- Reduce the corporate tax rate by 2%-4% over next 2 years for SMEs and large enterprises, respectively, to encourage them participating in cross-border e-commerce.



The Formation of Innovation and R&D Consortia

- Provision of subsidy and tax credits for R&D and human resources development, grants for targeted innovative activities, and patent grants.
- Promote the commercialisation/transfer of technology for new products among universities/innovator with the industry players.





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谢谢
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