

# Exploring E-commerce Activity in Malaysia: Challenges and Opportunities

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## Abstract

An economy in which goods and services are produced electronically, sold and bought electronically, and all the supporting transactions of this electronic business are done electronic could be termed as Digital Economy. Governments around the world are making policies to transform their economies into digital economies, Malaysian government among the aspirers has been pushing hard to transform Malaysia into a digital economy. With multibillion dollar projects such as Multimedia Super Corridor, National Broadband Initiative, and sufficient financial support in five yearly plans, Malaysian government is hoping to transform Malaysia into a knowledge economy and realize the vision to be a fully developed country by 2020. The most important aspect of Digital Economy is E-commerce, it is for this reason this paper look at the E-commerce activity in Malaysia, E-commerce is highly dependent on E-finance, so any discussion on E-commerce is not complete without analyzing E-finance, this paper also looks at the E-finance industry in Malaysia. Previous studies on the topic of E-commerce in Malaysia lack one important aspect that is local content related to E-commerce. This study is an attempt to fill this gap. E-commerce has started flourishing but still it is at an infant stage, there are local companies but very few. Growth is dependent on an excellent ICT infrastructure, access to online services, awareness of E-commerce, broadband maturity. There is enough room for local entrepreneurs to start offering E-commerce services; awareness about ICT based entrepreneurship is also required.

**Keywords:** Digital Economy, E-commerce, E-finance, Malaysia, Local content.

## 1. Introduction:

Globally, the subscriber base of internet has reached at least 25% of the population (ITU, 2011). With high speed internet the future looks promising for digital economy. There are many definitions of Digital Economy e.g. Australian government defines Digital Economy as “The global network of economic and social activities that are enabled by information and communications technologies, such as the internet, mobile and sensor networks” (Dept. of Broadband Communication & Digital Eco., 2011), David (2011) defined it as “ the Digital Economy is one in which means of production, distribution and exchange have been transformed by the application of information and communication technologies- from telegraph, to the telephone, the internet and broadband IP enabled networks”. Mesenbourg (2001) explained digital economy in the form of its component which includes supporting infrastructure, electronic business processes, and electronic commerce (buying and selling electronically).

An economy in which goods and services are produced electronically, sold and bought electronically, and all the supporting transactions of this electronic business are done electronic could be termed as Digital Economy. Thousands of organizations are moving towards this electronic model of business by adding digitals elements and strategies to existing business model. Governments around the world are making policies to transform their economies into digital economies, Malaysian government among the aspirers has been pushing hard to transform Malaysia into a digital economy. With multibillion dollar projects such as Multimedia Super Corridor, National Broadband Initiative, and sufficient financial support in five yearly plans, Malaysian government is hoping to transform Malaysia into a knowledge economy and realize the vision to be a fully developed country by 2020.

The National Broadband Implementation Strategy is designed to provide high speed internet to the whole nation. Having achieved the target of 50% penetration, broadband is set to add value to the economy (Chung, 2010). Broadband is expected to add value to E-commerce, E-education, E-health, etc. The most important aspect of Digital Economy is E-commerce, it is for this reason this paper look at the E-commerce activity in Malaysia, E-commerce is highly dependent on E-finance, so any discussion on E-commerce is not complete without analyzing E-finance, this paper also looks at the E-finance industry in Malaysia. Some previous studies have been done on the topic of E-commerce (e.g. Jehangir, Dominic, Naseebullah, & Khan, 2011, Khatibi, Thyagarajan, & Seetharaman, 2003, Adeline, Khatibi, & Hishamuddin, 2006) however majority of these studies have focused on problem associated with adoption factors, this study looks at local content related to E-commerce and see what are the challenges and opportunities for local content industry for E-commerce in Malaysia.

The first section of the study presents a brief description of E-commerce in general followed by E-commerce in Malaysia including government initiatives and local content. Second, a brief analysis on E-finance in Malaysia followed by challenges and opportunities for the E-commerce industry are presented. Diverse range of data sources were explored for this study which include academic journals, news logs, blogs, government reports, and independent market reports by consulting companies.

## **2. E-Commerce**

E-commerce industry has diversified enormously from electronic fund transfers (online shopping and internet banking) to electronic exchange of data in which companies transfer documents such as purchase orders or invoices (e.g. see Mahadevan, 2000 & Joseph, 2004). Latest research forecast a substantial growth of e-commerce in the Asian economies (specially Malaysia, Singapore, Hongkong, Korea) and this growth would possibly be challenging for Europe and United States as it will further add to already competitive global market. Benefits of E-commerce are numerous. For instance, limitations imposed by geographical boundaries could be easily avoided to allow market expansion; administrative cost is reduced; business efficiency, customer loyalty, reduced operations cost etc (Kuzie, Fisher, & Scollary, 2002). With these benefits there are concerns that need to be addressed, particularly, privacy issues, problem related to law such as copyright violations, patent protection, disputes of domain names, trade secrets, and validity of agreements made online. Having realized the importance of e-commerce governments and regulatory bodies in Asia have implemented policies to deal with legal issues emerging as a consequence of E-commerce. It is imperative that international business community is aware of these policies measure so that Asian economies can attract investment in E-commerce. Gladys & Mirandah (2010) mentioned government initiatives for E-commerce across Asia such as Australia's Electronic Transactions Act 1999; Broadcasting Services Amendment (On-Line Services) Act 1999; Privacy (Private Sector) Bill and the Copyright Amendment (Digital Agenda) Bill 1999; South Korea's Electronic Transaction Basic Act; Singapore's Electronic Transaction Act 1998; Hong Kong Electronic Transactions Ordinance 2000; Japan's Draft Bill Concerning Electronic Signatures and Certification Authorities and the Law Partially Amending the Trade Mark Law; the Philippines' Electronic Commerce Act; and India's Information Technology Act 2000. The next section presents Malaysian government initiatives for E-commerce.

## **3. Malaysian government initiatives for E-commerce**

To facilitate the ICT industry through one window operation Malaysia was among the pioneers in Asia to introduce a single federal ministry of Energy, Communication, and Multimedia. The main task of the ministry is to oversee and support the growth of Information and Communication Technology (ICT) industry. There are several agencies which work under this federal ministry of multimedia e.g. Malaysian Institute of Microelectronic Systems (MIMOS) established in 1984, Multimedia Development Corporation (MDC) formed in 1996, and Malaysian Communications and Multimedia Commission (MCMC) established in 1998. Agencies working under the Ministry of Multimedia develop their own agenda within the broader agenda of the ministry. For instance, the Multimedia Development Corporation has been pushing hard to make possible the growth of E-commerce in Malaysia, a master plan has been developed with four key focus areas which include, to increase confidence in online-trading, preparation of a regulatory framework, build a digital subscriber base, and introduce an electronic payment system (Noor, 2011). Some of the legislation that have been passed in Malaysia are Malaysian Communications and Multimedia Commission Act 1998; Communications and Multimedia Act 1998; Digital Signature Act 1997; Computer Crimes Act 1997; and Telemedicine Act 1997. These legislations have gone through many amendments over the years to better address E-commerce issues.

## **4. A snapshot of E-commerce activity in Malaysia**

National broadband initiative in Malaysia has stimulated growth in the e-commerce sector. According to International Data Corporation (IDC) survey by 2007 the overall E-commerce spending in Malaysia has grown to US\$22.3 billion (Khan, Dominic, & Alamgir, 2009). Online buyers in Malaysia are also moving upward year by year (see figure 1). Department of Statistics puts the total volume of online transaction to USD 26bn (see figure 2). Figure 1 and 2 shows position trends towards growth of E-Commerce industry in Malaysia, these trends are further substantiated by a recent survey done by the Star newspaper. According to the news article in 2010 Malaysians spent RM1.8bil on online shopping (HO, 2011), and this figure is expected to triple in three years time. A study done by internet payment service provider PayPal reported that Malaysians were spending more on local websites with transactions up to RM825 million, in comparison to foreign websites which recorded only RM627 million in receipts last year (HO, 2011). This is a very positive sign for the economy, plus a motivating factor for new entrepreneurs and existing business organizations to venture into online business models. The same Star newspaper story mentioned PayPal's managing director for South-East Asia and India, Elias Ghanem suggesting that local websites have a chance to compete with overseas websites due to the fact that Malaysians are spending more on local websites, retailers should setup online stores to capture share of a growing market. Table 1 presents categories of

products and services purchased online by Malaysian buyers. Reasons for going on overseas online retailer shops include unavailability of items locally; however they are not concerned too much about cost of the products (HO, 2011).

Certainly growth in the E-Commerce show positive signs and it seems future of online business industry is bright, however still a lot has to be done as Malaysia in comparison to Asia Pacific countries still lag behind in E-Commerce. Table 1 below presents the market reach of popular online stores in Asia Pacific region. Based on the figures presented in the table 2 market reach of the online retail stores in Malaysia compared to other countries in the region is not that impressive, however positive signs of growth are evident and coming years Malaysia E-Commerce industry is expected to grow rapidly.

### **5. Malaysian Success Stories in E-commerce**

E-commerce success stories in Malaysia are not many however the country has its own share of online companies, which is not as huge as compared to Japan and South Korea. Out of this small bunch of successful online companies in Malaysia some of them have been around since the early stages of internet. For example, Blooming- an online flower shop is prime example of early movers and they are still going strong. Lelong is Malaysia's auction site, eBay a world renowned site has not been able to compete with Lelong in Malaysia. Air Asia a successful low cost airline from Malaysia has added value in the E-commerce sector as well by its online ticketing site, tour packages are also offered on there website.

Recent addition to this online buying and selling is blog shopping on different online forums. A huge number of online store are mushrooming locally, significant number of these new online stores are blog shops, which is a unique trend in Malaysia. As a consequence of the surge in online shopping some E-commerce SaaS providers have emerged recently. For example, Neowave has started offering its E-commerce solutions to online retails.

### **6. E-finance in Malaysia**

E-commerce stimulates the adoption of broadband, and an important factor for the growth of e-commerce is online system for electronic payments for goods and services, also known as E-finance, using credit card, debit cards or other payment options. Franklin, James, & Philip ( 2002) mentioned a definition of E-finance, "The provision of financial services and markets using electronic communication and computation"<sup>1</sup>. E-commerce is highly dependent on online payment solutions to conduct business in a successful way; online payment let the ability to offer your website visitor to purchase options to customer without being physically present at the shop.

Locally in Malaysia many banks and finance companies are offering solutions which enable merchants and customers to leverage on e-commerce. Merchant account for online credit card payment are offered by many, such as, Maybank, OCBC Bank, Bumiputra-Commerce Bank, Public Bank, Citibank and Ambank, links through GHL Systems, PayDirect or Financial Link payment gateway to MEPS (Malaysia Electronic Payment System). Apart from online credit card payments there are other online options available which include direct debit via Internet Banking (e.g. Maybank2u), premium SMS, or mobile phone (e.g. Mobile Money Weblink).

Lately some international payment providers have entered Malaysian market, like PayPal, now they accept transaction in Malaysian currency and accept payments by local banks as well. 2CHECKOUT.com another online payment company provide solutions to customer and merchants around the world, they also accept payment in Malaysian ringgits. World Pay also provide online payment services, and lately we have seen a Malaysian company providing a payment gateway known as iPay88.com, it is an encouraging sign for the economy as a whole as fees charged by international payment providers would remain in the country, if local payment providers come up.

### **7. Challenges and Opportunities**

Malaysia is full of opportunities for E-Commerce. Malaysian government has been trying to push Malaysia towards a knowledge based economy, for that they have taken concrete step like Multimedia Super Corridor and many other technology parks. In addition to that Malaysian government has initiated plans for local content development known as ICON, These programs provide funding and training for web development. National broadband Initiative is itself a step to encourage E-Commerce activity as a well laid efficient infrastructure is prerequisite for Internet adoption. Besides that Malaysia has been enjoying political stability since independence, due to which economic growth has been remarkable. FDI flows are also very good. Challenges are always there and Malaysia is no exception, Dominic, Jehangir, & Alamgir (2010) pointed out lack of policy implementation as one reason due to which E-Commerce industry is not flourishing as it should have. He also points out lack of uncertainty by consumers and investor as another factor which hinders the growth of E-Commerce sector. The Star Survey pointed out security the top concern for online shoppers, the survey resulted pointed out that 7 out of 10 shoppers were willing to spend more online if internet safety measures were improved. Jehangir, Dominic, Naseebullah, & Khan (2011) wrote that legal issues are a threat for E-Commerce

in Malaysia. They further pointed out that many legal issues still needs consideration like copyright infringement, protection of patent rights, domain name disputes and safeguarding of trade secrets. E-readiness is also one of the reason for slow adoption of E-Commerce, According to Economic Intelligence Unit Malaysia was ranked 34 but the total score dropped to 5.87 from 6.16 during 2008-2009. Government needs to create awareness about the benefits of E-Commerce and security measure should be taken to safeguard consumer and organization from cyber crime; Private sector can also play an active role in creating awareness. E-Commerce sector despite it growth has yet to reach a maturity level, a popular idea among technology critics is the lack of local E-Commerce giant, like EBay or Amazon, it is perceived that local giant could well kick start local E-Commerce mass adoption. Besides that small organization find it difficult to compete on price with giant players, unless they sell something extraordinary which is not available through other giant stores internationally, government needs to consider protecting somehow the local small and medium industry. To sum up challenges and opportunities, growth is dependent on an excellent ICT infrastructure, access to online services, awareness of E-commerce, broadband maturity. There is enough room for local entrepreneurs to start offering E-commerce services; awareness about ICT based entrepreneurship is also required.

## 8. Conclusion and Recommendations

E-commerce with all its benefits has started flourishing in Malaysia. Importance of E-commerce is fully recognized by the Government which is evident by the policy measure Malaysian government has taken. But local content industry is still at an infant stage, though there are examples like Lelong, Bloomist etc. However dearth of success stories can not be used to conclude that Malaysian E-commerce industry is playing a major role. Malaysian government having taken some good policy measure must make sure that entrepreneurship is encouraged so that people come up with local content, as with out the involvement of private sector policy measure may not be successful. Online security is one area where the government still needs to work more, not just to create new laws but also to create awareness about online commerce. With E-finance, supply chain has to be made more efficient for faster product delivery. In general the future of E-commerce looks promising.

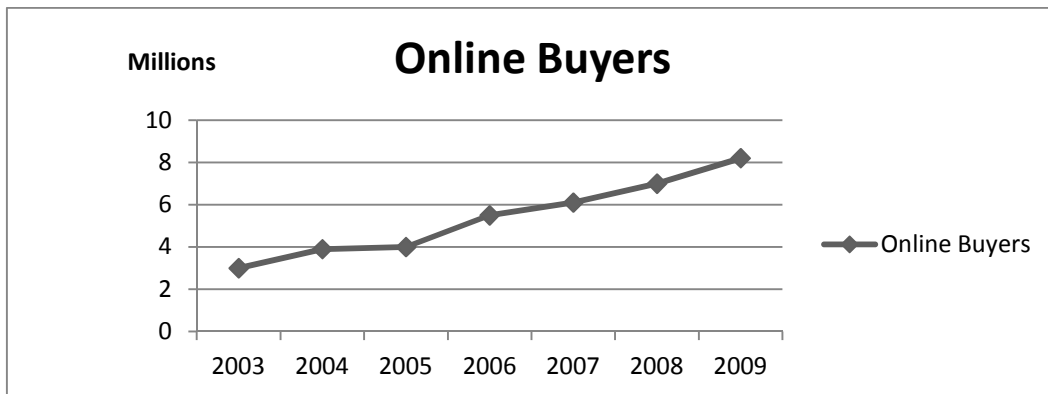
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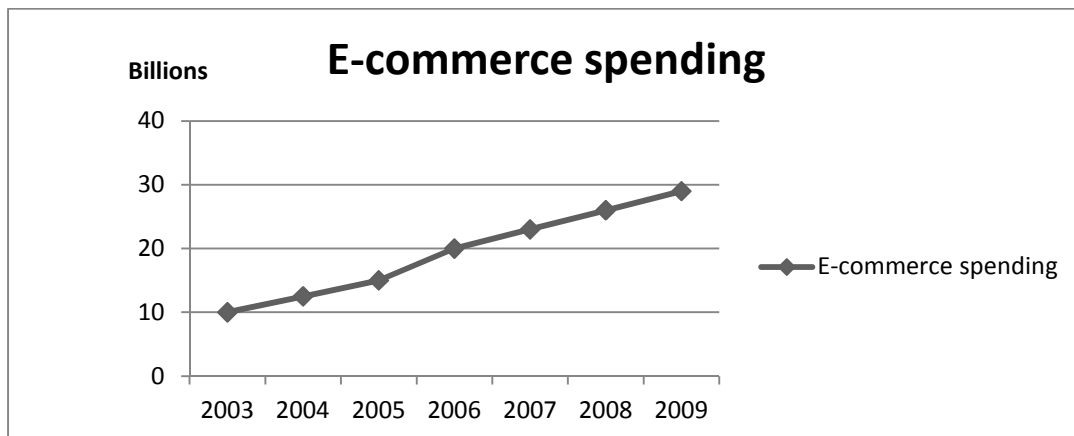
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**Figure 1: Showing growth of online buyers in Malaysia**



Source: Dept. of Statistics Government of Malaysia

**Figure 2: Showing growth of E-commerce spending in Malaysia**



Source: Dept. of Statistics Government of Malaysia

**Table 1: Top things Malaysian pay online for**

Top Seven Things Malaysian pay online for		
Travel	RM 435 Million	24%
Bill Payments	RM 329 Million	18%
Entertainment and lifestyle	RM 255 Million	14%
IT and Electronics	RM 218 Million	12%
General Insurance	RM 205 Million	11%
Fashion and Beauty	RM 181 Million	10%
Gifts and Collectibles	RM 68 Million	4%

Source: Nielsen Company (Reported in the star online 2011)



**Table 2: Market Reach of selected online store in Asia & Pacific**

<b>Australia top online retail sites</b>	<b>Market Reach %</b>
Amazon Site	38.90%
Apple.com Worldwide sites	26.20%
Shopping.com Sites	17.00%
Coles Group	16.00%
<b>India's top online retail sites</b>	<b>Market Reach %</b>
Amazon Sites	22.50%
Apple.com Worldwide sites	10.10%
Flipkart.com	7.80%
Alibaba.com Corporation	6.90%
<b>Japan's Top online retail sites</b>	<b>Market Reach %</b>
Rakuten.co.jp	73.90%
Amazon Sites	65.40%
Yahoo Shopping	52.30%
Kakaku.com	42.20%
<b>South Korea's Top online retail sites</b>	<b>Market Reach %</b>
Gmarket.co.kr	49.90%
Naver.com Shopping	47.90%
Samsung Group	37.90%
11ST.co.kr	31.70%
<b>Malaysia's Top online retail sites</b>	<b>Market Reach %</b>
Amazon Sites	17.70%
Apple.com Worldwide sites	9.40%
Alibaba.com Corporation	9.00%
Yahoo Shopping	4.90%
<b>Singapore's Top online retail sites</b>	<b>Market Reach %</b>
Amazon Sites	31.60%
Apple.com Worldwide sites	23.20%
Alibaba.com Corporation	11.10%
Singtelshop.com	8.90%
<b>Taiwan's Top online Retail sites</b>	<b>Market Reach %</b>
Yahoo Shopping	52.10%
PCHOME Shopping	29.50%
Books.com.tw	28.10%
Payeasy.com.tw	15.80%

Source: Comscore Media Matrix, Feb 2009