

News Release

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China is transitioning to a digital economy, Malaysia is catching up with the trend

Online shopping carts are transforming the face of China's economy, changing supply chains, and putting pricing power in the hands of its 1.37 billion consumers.¹ This digital wave is also happening in Malaysia. With the rapidly growing technology industry, Malaysia is planning new targets for using digital technologies to drive the country's economic growth beyond 2020.

China shifting to a digital economy

For decades, mainland China's economic expansion was powered by low-value-added manufacturing – cheap toys, shoes and textiles “Made in China” and exported to the rest of the world. Those days are increasingly fading into the past, and the focus now is on making the country's giant economy more productive, innovative, and market-oriented.

Chinese consumers have adapted to the digital world at a lightning pace. Just a decade ago, there were fewer than 100 million internet users in mainland China, and the penetration rate was just 7 per cent.² Now, it has reached nearly 50 per cent, with some 667 million internet users as of June 2015.³ These consumers are highly connected, mobile, digitally savvy and globally minded.

The country is now the world's largest e-commerce market: online retail sales in mainland China totalled 3.877 trillion yuan (US\$589.61 billion) in 2015, up 33.3 per cent from a year earlier, according to official data.⁴

On 11 November last year, during the annual shopping bonanza on “Singles Day” Alibaba's online sales soared to a record 91 billion yuan (US\$14 billion),⁵ beating expectations and easily topping the amount shoppers in the US spent during the multi-day sales spike around the Thanksgiving holiday.⁶

The shift to a digital economy is also changing customers' use of financial tools like e-wallets, e-payment and touch-pay systems. This enhances the digital ecosystem and helps it to reach the consumer masses.

The real impact will come if these market forces take root across all parts of the economy – in particular, the massive state-owned sector.

In March 2015, Premier Li Keqiang announced the “Internet Plus” initiative.⁷ This aims to encourage China's manufacturers to deploy mobile Internet, cloud computing, “Big Data” analysis and other tools, and to promote the development of internet banking, mass entrepreneurship and innovation. It also

¹ NBS, as of end-2015: http://www.stats.gov.cn/english/PressRelease/201601/t20160119_1306072.html

² <http://www.internetworldstats.com/asia/cn.htm>

³ <http://www.chinainternetwatch.com/whitepaper/china-internet-statistics/>

⁴ <https://www.internetretailer.com/2016/01/27/chinas-online-retail-sales-grow-third-589-billion-2015>

⁵ http://www.alibabagroup.com/en/news/press_pdf/p160128.pdf

⁶ <http://www.comscore.com/Insights/Blog/Nine-Consecutive-Billion-Dollar-Days-of-Online-Desktop-Spending-Mark-the-Longest-Streak-Ever>; see also <http://www.practicalearcommerce.com/articles/94777-Sales-Report-2015-Thanksgiving-Day-Black-Friday-Cyber-Monday>

⁷ http://english.gov.cn/premier/news/2015/03/13/content_281475070887811.htm

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HSBC Bank Malaysia Berhad

(Company No. 127776-V)

Registered Office and Head Office:

2 Leboh Ampang, 50100 Kuala Lumpur, Malaysia.

Web: www.hsbc.com.my



aims to support higher-tech manufacturing in agriculture, energy, finance, public services, logistics, e-commerce, traffic, biology and artificial intelligence.

China spent 430 billion yuan in 2015 to beef up the nationwide internet infrastructure. Another 700 billion will be spent on this effort in 2016 and 2017, and an additional 140 billion yuan will be invested in improving rural internet connectivity until 2020.⁸

Putting these policies into place could help provide momentum for China in the years ahead. The internet and its related technologies will change the nature of growth, particularly as labour costs increase and the country's population ages. They will create new markets for innovative products and services and generate jobs for workers with digital and high-tech skills.

Malaysia is heading in the right direction

Similar to China, Malaysia is planning to use digital technologies to drive the country's economic growth in the coming years.

There are a total of 252.4 million Internet users around South-East Asia, with Malaysia emerging as the third country that recorded the highest proportion of Internet users at 67 per cent after Singapore and Brunei.⁹ The online population indicates that there is enormous potential for e-commerce market growth in Malaysia.

"Last year, the #MYCYBERSALE 2015, Malaysia's Biggest Online Sale Event organised by the Multimedia Development Corporation (MDeC), saw a 40 per cent increase in participation to 400 e-Tailers," shared Mukhtar Hussain, Chief Executive Officer of HSBC Malaysia. The initiative aims to empower small and medium enterprises (SMEs) through the e-commerce platform while stimulating the domestic e-commerce market. The annual event, in its second year, recorded sales of products and services to the tune of RM115 million, almost double last year's figure of RM67.38 million.

According to a report by Statista¹⁰, the revenue projected in the e-Commerce market (excluding eServices) in Malaysia for 2016, is expected to reach USD991.1 million. Revenue meanwhile is expected to show an annual growth rate (CAGR 2016-2020) of 24.30 per cent resulting in a market volume of USD 2.86 billion in 2020.

Malaysia has already gone past its 2020 target of using ICT to contribute to 17 per cent of its national GDP. Last year, ICT-based companies contributed to 18 per cent of the economy.

According to Mukhtar, the ASEAN Economic Community (AEC) will likely provide a larger market for the ICT industry. The ICT sector is expected to record a growth of between RM79 billion and RM81 billion or about 12 to 14 per cent next year, contributed mainly by e-commerce and big data analytics.

MSC Malaysia – the national ICT initiative – which continues to attract investments from world-class and cutting-edge companies in a wide range of industries also plays a crucial role in driving Malaysia's digital economy, having contributing RM295 billion towards the country's revenue, RM283 billion in investment and 147,000 jobs since 1996.

⁸ HSBC Global Research Charting China's new course, 10 November 2015

⁹ <http://www.thestar.com.my/metro/smebiz/news/2015/12/28/e-commerce-set-for-growth/>

¹⁰ <https://www.statista.com/outlook/243/122/e-commerce/malaysia>

“Malaysia’s government has set new priorities for its digital economy plan which will focus on four key areas in the coming years: it will help local digital business scale up to compete globally; attract more investment from foreign companies by offering local accreditation; build local talent including e-commerce, cloud, creative technology, Internet of Things and Big Data; and help citizens launch their businesses online,” Mukhtar added.

It is also essential for Malaysia to have a vibrant, digital economy. A robust ecosystem consisting of world-class ICT talents to meet growing technological demands and digital infrastructure for seamless connectivity needs to be in place. Schools must emphasise digital literacy skills and computational thinking to bridge the talent gap in understanding ICT so Malaysia’s youth to become digitally savvy. In order to do so, Malaysia must adopt and intensify the use of digital technologies to ensure we are able to be more globally competitive.

Mukhtar points out that widespread digital technology is critical to amplify the impact on productivity, innovation and the standard of living across the wider economy. It also empowers people and confers national competitive advantage. Malaysia has realised this early and is well on its way to creating an innovative digital economy.

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Media enquiries:

Marlene Kaur +603 2075 3351
Joanne Wong +603 2075 6169

marlenekaur@hsbc.com.my
joanne.p.m.wong@hsbc.com.my

About HSBC in Malaysia

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