

Belanjawan 2024

Digital Economy Snapshot

13 Oct 2023



REFORMASI EKONOMI, MEMPERKASA RAKYAT

Published by:



2360 Persiaran APEC, 63000
Cyberjaya, Selangor Darul Ehsan,
Malaysia

Tel : +603-8315 3000

Fax : +603-8315 3115

Email : clic@mdec.com.my

Website : www.mdec.com.my

Disclaimer:

The content of this publication is intended to be used for informational purposes only and solely for the limited purpose described in this publication. MDEC does not provide business consultation, legal, financial, accounting or tax advice and the materials herein should not be relied on or construed as such. Information or data from third party may be used or quoted in this publication. Whilst all efforts have been taken to ensure the accuracy and completeness of information contained in this publication, MDEC has not independently verified the information or data herein. MDEC does not accept any liability for any action or decision made in reliance of the information contained in this publication or any loss suffered as a consequence of relying on the information contained herein.

Copyright:

Copyright © 2023. All rights reserved. No part of this publication may be produced or transmitted in any form or any means, electronic, mechanical, photocopying or otherwise, including recording or the use of any information storage and retrieval system without prior written permission from MDEC.

“

Malaysia needs to move fast to lead the future, in line with the explosion of global digital transformation. Innovation and digital talent needs to be empowered especially in the field of artificial intelligence (AI) to enhance the country's sustainable economic growth.

YAB Dato' Seri Anwar Ibrahim
Prime Minister

”



“

These strategic enhancements, complemented by the supportive framework of NIMP 2030, featuring tax incentives for 'high growth, high value' companies and streamlined funding mechanisms for international investors in the manufacturing and electrical and electronic sectors, will lead to a surge in career opportunities within the digital economy.

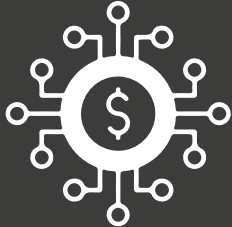
”

Ts. Mahadhir Aziz
CEO MDEC



Belanjawan 2024

Allocation 2024: RM 393.8 billion

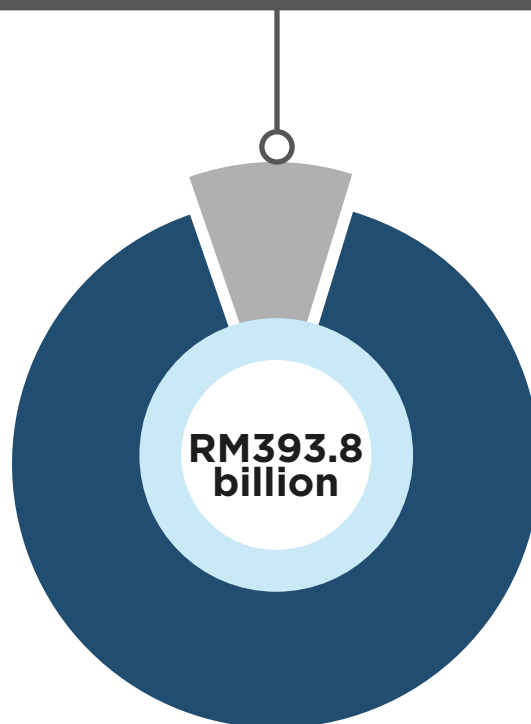


**DIGITAL
ECONOMY
ALLOCATION**

**EST.
RM6.7 B**

Estimated Digital Economy related allocation

RM6.7
billion



Business

RM 1.7 billion



Rakyat

RM 3.2 billion



Investor

RM 1.8 billion



Business

The Government continues to recognise that in an increasingly digital-first world where organisations and people are more connected than ever, there is greater emphasis on technology as an enabler of economic creation.

Therefore, it is encouraging to see the allocation of approximately RM 1.7 billion under Belanjawan 2024 towards various digital economy initiatives, particularly related to facilitating digital transformations of micro, small and medium-sized enterprises (MSMEs), catalysing growth of digital industries, such as e-commerce, Digital Health and Digital Content, and accelerating Malaysian start-ups.

We are also encouraged to see an inclusive and productivity-enhancing approach to business digital adoption, as the rapid acceleration and proliferation of ICT technology growth has the potential of leaving non-digital businesses behind. These initiatives are crucial to enhance productivity, drive innovation and create new opportunities for economic growth in a technologically advanced and digitally vibrant nation.



MSMEs

- On the back of an accelerated digitalisation journey in the last three years, Malaysian MSMEs have increasingly adopted digital technologies to reach their customers and sell goods through digital platforms. Nevertheless, various constraints to digitalisation still exist, particularly for MSMEs that have limited capabilities and lack information about digital technologies. Furthermore, while the share of firms that are not using the internet has decreased over the years, some states like Sabah and Kelantan still have lower-than-average rates of adoption. To reduce these challenges and reduce the risk of a growing digital divide, the Government has allocated RM 25 million to strengthen the role of Pusat Ekonomi Digital (PEDi), which are distributed across all Malaysian states to support small entrepreneurs to digitalise their business and sell products online.
- While there may be variations across business sizes, economic sectors and regions, business digital adoption in Malaysia is relatively high with about 90% of all businesses regularly using ICT and the internet as of 2021. However, the usage of digital tools is mainly limited to basic use and customer-facing functions such as utilising social media for marketing and communication functions. In restructuring the economy to boost growth, the Government has provided a total of RM 1 billion in loan funds and grants towards deepening the breadth of business digitalisation from basic digital tools towards greater automation and digitalisation.
- To address the barriers to financing this digital adoption, Belanjawan 2024 has allocated RM 100 million towards digitalisation grants of up to RM 5,000 for MSMEs. These grants can be used to leverage more complex productivity-enhancing solutions to transform business operations (e.g., inventory, accounting systems) and conduct end-to-end digital transactions (e.g., digital sales). RM 900 million in loan funds under Bank Negara Malaysia (BNM) is also made available to encourage SMEs to increase their business productivity through digitalisation, which will increase the access to finance at a time when digitalisation is becoming more crucial to stay competitive.

Start-up

- Malaysia was ranked 8th in Asia in the Global Startup Ecosystem Index in 2023 and the Startup Ecosystem Roadmap (SUPER) 2021-2030 aims to position Malaysia among the world's top 20 startup hubs by 2030. Towards this end, the Government has allocated RM 28 million to develop the MYStartup platform, which is a single window that brings together both startup companies and funding agencies. In 2023, Kuala Lumpur was ranked 20th under the Strong Starters ranking, where early-stage funding activity is most robust. This initiative will provide startup ecosystem stakeholders with greater access to resources and opportunities, which will encourage the accelerated growth of Malaysian startups throughout their life cycle.
- The government's decision to allocate RM 510 million for R&D funding under MOSTI and MOHE is a strategic step towards securing Malaysia's position among the Top 30 countries in the Global Innovation Index by 2025. Additionally, the allocation of RM 76 million will strengthen the R&D and commercialisation ecosystem by providing funds for products and commercialisation support generated by businesses, NGOs, government departments, and agencies. This initiative not only fosters an innovation culture but also generates wealth with a high return on investment, which will benefit the government.



Digital Industry

Several targeted programmes have been announced to accelerate the development of specific digital industries, including e-commerce, Digital Content, Digital Health and Cybersecurity.

🔸 E-Commerce

To ensure that digitalisation continues to benefit and sustain local businesses, especially micro, small and home-based businesses including those in the informal sector, the Government will allocate RM 40 million to implement the Shop Malaysia Online Programme to encourage small businesses especially in the area of F&B and home-based enterprises. This assistance is expected to impact the entire ecosystem from manufacturers, sellers to e-hailing drivers and consumers.

The programme will be implemented based on the co-financing private public sharing model in collaboration with e-commerce and food delivery platforms, local and international. This partnership is expected to increase sales of local businesses, provide assistance to micro and small businesses by reducing their operating costs as well as incentivise consumption through e-commerce.

🔸 Digital Content

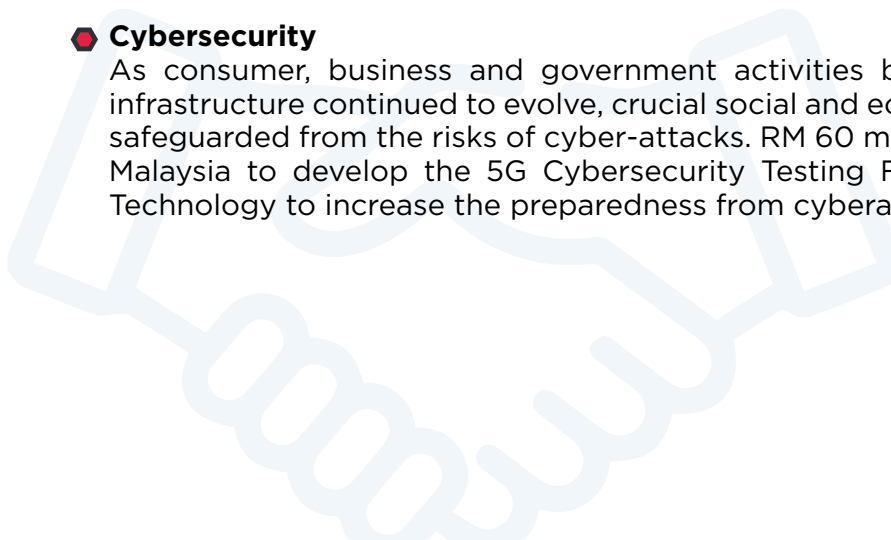
The nation's fast-evolving digital content industry, which includes animation, comics, and digital games, is proving to be a significant growth driver. Globally, Malaysian content studios are known for developing original IP in digital content and outsourcing development to major international companies. To accelerate this growth, the Government has allocated RM 60 million under the Dana Kandungan Digital (Digital Content Fund) to promote local production and support content based on national values.

🔸 Digital Health

The Government has allocated RM 150 million to maintain the information technology system under Ministry of Health (KKM), including providing Clinic Management System Subscription (CCMS) in 100 health clinics. This improvement in the storage, management, and sharing of patient medical records electronically will lead to more efficient care coordination and outcome, particularly for clinics across the country.

🔸 Cybersecurity

As consumer, business and government activities become increasingly digitised and ICT infrastructure continued to evolve, crucial social and economic functions must continuously be safeguarded from the risks of cyber-attacks. RM 60 million will be allocated for CyberSecurity Malaysia to develop the 5G Cybersecurity Testing Framework and Local Expertise on 5G Technology to increase the preparedness from cyberattack threats.





Business

(Total est. budget: RM 1.723 billion)

MSMEs

- Allocation of **RM 25 million** to strengthen the role of **Pusat Ekonomi Digital (PEDI)** in each DUN to support small entrepreneurs selling products online.
- Provision of **RM 100 million of digitalisation grants of up to RM 5,000** for the benefit of over **20 thousand SMEs and micro-entrepreneurs**. These grants can be used to upgrade the digital sales, inventory and accounting systems.
- RM 900 million loan funds under BNM** are provided to encourage SMEs to increase business productivity through automation and digitalisation.

Start-up

- RM 28 million** to develop **the MYStartup platform** as a single window that brings together startups while facilitating business activities throughout their life cycle. This initiative will optimise funds and capital through the centralisation of **RM 200 million** under one platform, provided by various financing agencies and venture capital companies (VCs).

Digital Industry

- RM 60 million** under the **Dana Kandungan Digital (Digital Content Fund)** to promote local production and support content based on national values.
- RM 40 million** is provided to implement the **Shop Malaysia Online Programme** to encourage small businesses especially in the area of food and beverage to conduct business from home.
- RM 60 million** will be allocated for **CyberSecurity Malaysia** to develop the **5G Cybersecurity Testing Framework and Local Expertise on 5G Technology** to increase the preparedness from cyberattack threats.
- RM 150 million** allocated to maintain the information technology system under **Ministry of Health (KKM)**, including providing **Clinic Management System Subscription (CCMS)** in 100 health clinics.
- Allocation of **RM 510 million as R&D funding** under MOSTI and MOHE, with **RM 76 million** to empower R&D&C&I ecosystem, and **INNOVATHON programme will be continued** to enrich and stimulate innovation among the Rakyat.

Tax Measures

Telecommunications is exempted from the increase in **Service Tax from 6% to 8%**.



Rakyat

The second phrase of Belanjawan 2024's theme clearly outlines the key priority of this year's budget allocation will be towards *Empowering the People*. Excluding some tax relief initiatives and the setting up of selected committees, the overall budget allocation for digital-related Rakyat initiatives came up to an estimated RM 3.2 billion, which is significant testament to the Government's agenda and drive to align the efforts to the benchmarks of Ekonomi Madani of Raising the *Rakyat's Standard of Living*. Among the budget highlights related to Rakyat include Education & Talent, Cyber Threats, Sharing Economy, Women & Youth and the National Digital ID.

Education & Talent

- Having a competent pool of digital talents is always key in any digital economy, especially to stay ahead in the global digital transformation. Perhaps it was of no surprise to see an estimated RM 2.38 billion allocated for Education & Talent related initiatives under Belanjawan 2024.
- It is also encouraging to see the allocation spread was quite well targeted. For example, MyDigital Corporation's recent report on The Economic Impact of Generative AI highlighted that AI is expected to unlock an estimated USD 113.4 billion in productive capacity, which would propel Malaysia into becoming a high-income nation. The push to establish our nation's first AI faculty is certainly timely to build the required talent pool for a digital future.
- MOE's 2020 Annual Report highlighted that the percentage of students in STEM was only at 47.2%. Another alarming data from MOE was the 10.5% decrease of STEM students at the upper secondary level over the past 5 years. Therefore, it was encouraging to see the Government shifting its focus to address the persistent STEM issue at the secondary school level like the cross-ministerial Special STEM Committee.
- The 60% increase of budget allocation to HRD Corp to RM 1.6 billion for reskilling and upskilling purposes is lauded. With the increased adoption of digitalisation cutting across various ICT and non-ICT sectors as well, we expect many offerings will be for digital training courses. This concurs with MDEC's pilot Business Digital Adoption Index survey which found that although 64% of companies provide training to employees on digital skills, only 9% of companies managed to implement it at organisation-wide level.

Cybersecurity/Cybercrime

- The progressive growth digitalisation and technological advancements have also significantly increased cyberthreats across all industries as well. Regionally, global cybersecurity provider Kaspersky reported Malaysia recorded a 197% increase of cyber attacks in 2022 over a one-year period-second largest increase in ASEAN, behind Singapore. In Malaysia, Cybersecurity Malaysia (CSM) reported a total of 4,741 cases of cyber threats in 2022. The Securities Commission (SC) mentioned that total fraud-related complaints rose by 100% between 2020 and 2022. KKD also recently revealed that Malaysians have lost approximately RM 302 million to online scams between Jan 2021 and Jun 2023.
- It was encouraging to see that the Government has been cognizant of these concerning data and have positively increased the budget allocation to combat these cyber threats via the NSRC.



Gig Workers & Sharing Economy

- ◆ A report by Mastercard estimates that global transactions associated with the gig economy will grow by 17% annually to approximately USD 455 billion in 2023. In Malaysia, the gig economy is estimated to be valued at RM 1.61 billion and local platforms are expected to grow from RM 371.4 million in 2021 to RM 650 million in 2025. There are presently about 1.12 million people involved in the gig industry and it is growing by 23% annually.
- ◆ Recent developments like the soon to be announced Gig Economy Commission Malaysia (SEGiM) to regulate the gig industry and the budget allocation to train gig workers highlights the intent of the Government to support this industry and nurture its talents appropriately.

Women & Youth

- ◆ The labour force participation rate of women and youth in Malaysia has always been concerning. In DOSM's June 2023 Labour Force Report, the participation of women in the overall workforce only stood at 56.3% compared to 82.9% that of men. With regard to youth, the unemployment rate stood at 11.0%, which is considerably higher than the national unemployment average of 3.4%. The allocation of RM 720 million to encourage both of these targeted categories to venture into business is definitely timely and needed. Perhaps all Government agencies could review existing entrepreneurship related programmes and fine-tune where necessary to drive this agenda forward.

Digital ID

- ◆ Globally, it is estimated that governments will have issued about 5 billion digital IDs globally by 2024. Some countries who have issued Digital IDs in one form or another include Estonia, US, UK, Venezuela, and China, just to name a few. The European Union will mandate the digital identity under eIDAS 2.0, which will go into effect in September 2023 and ensure all Member States offer a digital identity wallet (DIW) to citizens and businesses. Apart from businesses, digital identities can also be beneficial to the society. For example, WEF reported that there are approximately 850 million people globally who do not have a legal identity document or ID, making it difficult or impossible for them to fully engage with society. This aligns with an indicator under the SDG that is to issue a legal identity to every person by 2030.
- ◆ In empowering the digitisation of public service delivery, the GovTech Nucleus Unit has been created to build internal expertise. This unit will also facilitate the development of the National Digital Identity and other user-friendly applications at optimal cost. Therefore, the establishment of National ID would be a significant achievement for Malaysia and an essential milestone towards realising our target to be ranked amongst the top 20 in the Government Efficiency Sub-Index in the Global Competitiveness Report.



Rakyat (1/2)

(Total est. budget: RM 3.155 billion)

Education & Talent

- An early allocation of **RM 20 million** to establish Malaysia's first **Faculty Artificial Intelligence (AI)** at Universiti Teknologi Malaysia (UTM).
- Provision of **RM 10 million** for the **MyCreative Matching Grant Scheme** to support young artists in the production and development of creative projects.
- The **Human Resources Development Corporation (HRD Corp)** was allocated **RM 1.6 billion to train 1.7 million workers** in 2024; Reallocation of special fund using **15% of levy** collection to implement the **MADANI Training Programmes** including talent retaining and upskilling programmes for MSME entrepreneurs and vulnerable groups.
- Allocation of **RM 100 million** to provide industry-recognised **professional certifications** to **TVET** graduates to incentivise industries to collaborate with public TVET institutions.
- A cross-ministerial **Special STEM Committee** to be established to set targets and measures to increase participation of secondary school students in STEM fields.
- Provision of **RM 100 million** to maintain and upgrade **school computer labs** and acquire new equipment for **STEM education**.
- Extension of **tax relief** up to **RM 2,000** for fees in skills improvement or self development until 2026.
- Provision of **RM 250 million** to replace and extend the coverage of **WIFI in all public universities**; including RM 5 million for University Teaching Hospital's digitalisation project.
- Allocation of **RM 300 million** for Institutes of Higher Education (IPT) to maintain and **repair/replace infrastructure/equipment**; including RM 50 million for the procurement of equipment at four technical universities in Malaysia.

Cybersecurity/Cybercrime

- Allocation for **National Scam Response Centre (NSRC)** to be increased to **RM 20 million** to further improve its functionality to combat scam related crimes.
- A **National Fraud Centre (NFC)** will be developed by **Bank Negara Malaysia (BNM)** with the cooperation of the financial sector in 2024, to track funds automatically and speed up the time to detect, freeze and return funds.



Rakyat (2/2)

(Total est. budget: RM 3.155 billion)

Gig Workers & Sharing Economy

- Allocation of **RM 35 million** to fund training fees and income replacement incentives for **9,000 gig workers** under **SOCSSO's Career Building Programme**.

Women & Youth

- Allocation of **RM 720 million** (out of RM 2.4 billion for micro entrepreneurs and smallholders) to support and encourage **women and youth** to go into business.

Digital ID

- The **National Digital Identity (NDI)** will be developed as a reliable **endorsement platform** to empower the digitisation and further improve the efficiency of **public service delivery**.





Investor

Belanjawan 2024 introduces a wide range of funding and tax measures aimed at stimulating economic growth, attracting investments, and bolstering several key sectors. These sectors encompass technology startups, the Electronics and Electrical (E&E) industry, video game development, and Islamic finance. These strategic initiatives have the potential to elevate Malaysia's competitiveness on the global and regional economic landscape.



Foreign Direct Investment (FDI)

- ❖ In the first quarter of 2023, Malaysia successfully attracted a total of RM 71.4 billion in approved investments, with the manufacturing sector claiming a substantial share at RM 15.6 billion, equivalent to 21.8% of the overall approved investments. Notably, within this sector, the Electronics and Electrical (E&E) industry secured 13.2% or RM 2.1 billion of the total approved investments.
- ❖ Moreover, by August 2023, KKD reported that Malaysia had secured an impressive commitment of over RM 37.4 billion in the digital sector. This gives emphasis to the potential for FDI within the E&E sector and video gaming companies to usher in new economic opportunities for the country.
- ❖ Furthermore, these initiatives offer significant employment prospects for the local workforce, effectively mitigating the current unemployment rate that stood at 3.4% as well as fulfilling the demand for highly skilled talents in E&E sector.
- ❖ The initiatives outlined in Belanjawan 2024 certainly bodes well with the Government's efforts in increasing FDI in digital tech areas as they are well-aligned with our national aspirations to position Malaysia strategically at a regional level.

Funding & Tax

- ❖ Overall, the government is strategically utilising tax policies to foster a more conducive atmosphere for businesses, thereby incentivising substantial investments in targeted sectors. Nonetheless, it remains crucial to closely track and assess the execution and efficiency of these measures in realising the intended economic objectives.
- ❖ The government's move to support Labuan International Business and Labuan IBFC as a highly appealing hub for Islamic finance, complete with income tax exemptions, is a calculated step. This initiative is poised to allure Islamic financial institutions and related-businesses, with the potential to strengthen the Islamic and shariah-compliant financial hub in Labuan. On the other hand, the allocation to MyCIF will open up opportunities for the development of waqf assets in the fields of health, education, and agro-based enterprises. This, in turn, will promote investment opportunities through Islamic finance instruments, ultimately strengthening the Islamic Digital Economy market in Malaysia.
- ❖ Recognising the inherent J-curve trajectory of technology start-ups, it is a strategic move by the government to extend its support by providing tax incentives to angel investors who are investing capital in technology start-ups in Malaysia. This strategy is well-positioned to revitalise the local tech start-up ecosystem, nurturing both growth and innovation within the sector.



- One of NIMP's missions is to "Tech up for a digitally vibrant nation," with the goal of enhancing technology adoption, fostering innovation, and promoting digitalization. This mission aligns closely with the investment initiatives announced for start-ups in Belanjawan 2024 and strongly supports the objectives of the Malaysian Startup Ecosystem Roadmap (SUPER) 2021-2030, which aims to create 5,000 start-ups, including five unicorns, by 2025.
- Malaysia's recent allocation of RM10 million towards E&E technology, the aerospace industry, and the drone and robotics sector signifies a strategic move to promote technological advancement and innovation, while also encouraging increased public and private sector investments in R&D&C&I within these emerging fields. This initiative aims to position Malaysia as a key player in these technologies, enabling the nation to actively participate in the global market for E&E, aerospace, drones, and robotics.





Investor (1/2)

(Total est. budget: RM 1.840 billion)

Foreign Direct Investment (FDI)

- Government will start a **high-tech industry area in Kerian**, for the development of a wider ecosystem for the **E&E cluster** in the Northern region.
- Allocation of **RM 30 million** to **encourage international video game companies to invest in Malaysia** in the development of digital products together with local talent.

Funding & Tax

- Tax incentives** for angel investors **extended until 31 December 2026** to encourage **capital funding in technology startups**.
- Tax incentives for individual investors investing in startups through the equity crowdfunding (ECF) platform expanded to **individual investors through Limited Liability Partnership nominee companies** and extended until 31 December 2026.
- The Government will **allocate up to 10% from the total NIMP investment** as a catalyst to accelerate the NIMP mission with a **2024 initial fund** amounting to **RM 200 million**.
- The government plans to provide **reinvestment incentive in a form of investment tax allowance** on tiered basis of **70% or 100%**.
- The government introduced the **Global Services Hub tax incentive** with an income tax rate incentive of **5% or 10%** to be determined **on an outcome basis** for a period of up to 10 years.
- Government to reduce the period that companies can claim **capital allowance on ICT devices and computer software packages** to three years (from four years), from 2024 onwards.
- Labuan Islamic finance activities**, including Islamic digital banking, Islamic digital exchanges, ummah-related companies, and Islamic digital token issuers, will receive a **5-year exemption from income tax** starting in the year of assessment 2024.
- Allocation of RM 100 million to MyCIF for a period of 3 years** to complement initiatives related to food security, the environment, community, and State Islamic Religious Council.



Investor (2/2)

(Total est. budget: RM 1.840 billion)

- GLCs and GLICs will provide funds of up to **RM 1.5 billion** to encourage **startups** to venture into **high growth & high value (HGHV)** fields such as the digital economy, space technology and E&E, to increase their competitiveness to penetrate the regional markets.
- **Allocation of RM 10 million**, involving the E&E technology field under MIMOS, the space sector under MYSA as well as the drone and robotics technology under MRANTI.



www.mdec.my



Malaysia Digital Economy Corporation Sdn Bhd 199601016995 (389346 - D)

2360 Persiaran APEC,
63000 Cyberjaya,
Selangor Darul Ehsan, Malaysia

Tel: +603-8315 3000
Email: clie@mdec.com.my
Toll Free No: 1-800-88-8338
Fax: +603-8315 3115