COMPETITION IN SOUTHEAST ASIA’S DIGITAL ECONOMY
The sheer scale and rapid growth rate of Southeast Asian economies attract the attention of investors and innovators. The region is home to the world’s third largest population and its fifth largest economy. Growth of its regional economy exceeds the world average by nearly two percentage points. The adoption pace of the digital economy exceeds the world’s GDP growth rate by an order of magnitude.

Southeast Asia is the world’s fastest growing Internet market. The population with Internet connectivity in Southeast Asia reached 360 million in 2019, while its digital economy passed the $100 billion mark. Despite a 40% leap from the prior year, its digital economy accounts for only 3.7% of the region’s GDP, still far below that of leading digital economies.

Southeast Asia achieved great progress in digital infrastructure, with Internet connectivity and smartphone possession exceeding 60% in most of the region. Nonetheless, e-commerce in the region remains in the digitally developing stage, with the e-retail share of total retail reaching 6% in 2019.

Currently, home-grown companies in the digital economy struggle to secure their position by focusing on more nuanced segments of domestic market and pushing for localized strategies. They may also adopt a consumer-to-consumer (C2C) model that exploits their strong local networks and knowledge. Increasingly some invest in technology to strengthen their core competencies and support sustainable growth.

The entry and growth strategies adopted by the US digital titans may explain why they languish in Southeast Asia. These giants tend to enter directly, and thus must deal with the intricacies of local regulations and behaviour. They focus on scaling up at home, and then push standard or similar products or services overseas. These may represent inadequate responses to local needs and preferences. Their relatively tardy arrival may also make it difficult to catch up with established ecosystem leaders.

Global players from China, rather than the US, took the lead in expanding digitally enabled commerce Southeast Asia. With an overwhelming presence in their major digital sectors, Alibaba and Tencent extended their proxy war against their US rivals from China to Southeast Asia. Chinese digital leaders adopted strategies that helped them enter and grow in this regional market. These include investing heavily in digital infrastructure, backing local champions, cooperating with government agencies, and introducing proprietary e-commerce models and technologies to the region. However, Chinese digital firms now face increasing international distrust, on the back of rising geopolitical headwinds and the surging costs of globalization.

Local players need to consolidate their domestic markets and upgrade their technologies and talent pools. US digital companies should put more efforts on localization and build their own local network. Chinese digital giants need to take more proactive tactics to alleviate legitimacy concerns ahead of the rising geopolitical headwinds.

Southeast Asia’s digital market is in its infancy. The sector is undergoing rapid consolidation and offers many opportunities. In such a turbulent environment, it is far from obvious which companies will sustain leadership over the long run.
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02  Leading Digital Players in the Southeast Asia

03  Strategies of Leading Digital Players

04  Trends in the Digital Economy

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Introduction
Development of Digital Innovation in Southeast Asia

The digital markets of Southeast Asia are dynamic and vibrant, with global, regional, and local digital companies battling fiercely. Most leading companies in the region are linked to unicorns backed by Chinese giants Alibaba and Tencent.

The report begins by introducing the economic development and growth prospects of Southeast Asia, followed by an overview of the digital economy and its major sectors. We end this section by describing the status quo and digital economy trends in the region.

1.1 Regional Economy and Growth Prospects

Southeast Asia is now home to some 660 million people. They generated an estimated nominal GDP exceeding three trillion US dollars in 2019. Viewed as a single economy, Southeast Asia ranks fifth in GDP and third in terms of population. The sheer size of the Southeast Asian population and economies signals its importance and influence in today’s world (Exhibit 1).

Southeast Asia stands out in terms of scale, growth rate and development potential (See Exhibit 2). For decades, Southeast Asia has been one of the world’s fastest growing regions. The compound annual growth rate (CAGR) of the region’s GDP from 2014 to 2019 reached 4.7%, exceeding the world growth average over the same period by about 1.8 percentage points. Southeast Asia embarked on a stable and fast developing trajectory to become a major economic powerhouse. A joint report published in 2019 by Google, Temasek, and Bain & Company projects the region to become the world’s fourth largest economic bloc by 2030.

Southeast Asia consists of 11 hugely diverse sovereign states (Exhibits 3-5). ASEAN members include the high-income Brunei and Singapore economies, upper-middle-income Malaysia and Thailand, and lower middle-income states Cambodia, Indonesia, Laos, Myanmar, the Philippines, and Vietnam. An earlier report by McKinsey & Company observed that differences in terms of average incomes among ASEAN countries were far greater than among European Union members. As seen in Exhibit 3, this trend continues.

Exhibit 1: GDP and Population among Major Economies

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Nominal GDP 2019 (US Million)</th>
<th>Population 2019 (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>21,439,453</td>
<td>329</td>
</tr>
<tr>
<td>China</td>
<td>14,140,163</td>
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<td>Japan</td>
<td>5,154,475</td>
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<td>Germany</td>
<td>3,863,344</td>
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<tr>
<td>ASEAN</td>
<td>3,173,141</td>
<td>654</td>
</tr>
<tr>
<td>India</td>
<td>2,935,570</td>
<td>1,366</td>
</tr>
</tbody>
</table>

Sources: International Monetary Fund, United Nations, 2020.

Exhibit 2: Annual GDP Growth Rates (%)
These sharp contrasts extend beyond social and economic settings. There are vast differences in language, culture, and religion. For example, while 95% of Thai people are Buddhists, 87% in Indonesia follow Islam, and 90% of Filipinos observe Christian (predominately Catholic) beliefs. As in Thailand, Chinese migrants to the Philippines intermarried with locals and are now largely assimilated into the population.

Although the region gradually became more integrated following the foundation of ASEAN, investors should take note of the enormous cultural and economic diversities among Southeast Asian countries and avoid one-size-fits-all strategies.

1.2 Digital Economy and Growth Prospects

The e-Conomy SEA 2019 Report observes that 2019 saw more than ten million new Internet users in Southeast Asia, bringing the total population with Internet access to 360 million. With more than 100 million Internet users since 2015, the CAGR for the past four years was 8.5%. Major sectors in Southeast Asia’s digital economy, such as online travel, e-commerce, online media, and ride hailing, reached the $100 billion mark in gross merchandise value in 2019. ASEAN digital markets more than tripled in the past four years. The pattern of rapid adoption, improved digital infrastructure, and changing consumer behaviours propelled a 33% CAGR since 2015. At this rate, Southeast Asia’s digital economy will hit $300 billion by 2025 (See Exhibit 4).

### Exhibit 3: 2019 Population and GDP in ASEAN member nations

<table>
<thead>
<tr>
<th>Rank (GDP)</th>
<th>Country</th>
<th>Population (Million)</th>
<th>GDP (Nominal)</th>
<th>GDP Nominal/Capita</th>
<th>GDP (PPP)</th>
<th>GDP PPP/Capita</th>
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<td>$3,173,141</td>
<td>$4,849</td>
<td>$8,454,651</td>
<td>$12,922</td>
</tr>
</tbody>
</table>

source: World Bank July 2020 (2019 data)

### Exhibit 4: Gross Merchandise Value of Southeast Asia Internet Economy ($B)

![Gross Merchandise Value Chart](Source: e-Conomy SEA 2019 Report)
The digital economy now accounts for 3.7% of Southeast Asia GDP, up from 1.3% in 2015. This may hit 8.5% by 2025, which is comparable to developed countries like the US in 2018 but still far below China, where the digital economy contributed to a sizeable 34.8% of GDP in 2019 (See Exhibit 5).

1.3 Major Digital Sectors and Products

This report identifies six major sectors in the ASEAN region’s retail digital economy: e-commerce, logistics, payment/finance, local services (delivery and ride hailing), content/games, and social media. The e-Conomy SEA 2019 Report estimates that 180 million Internet users now participate in the region’s digital economy. This represents an impressive penetration rate of about 50% among Internet users.

The pace at which users adopt the digital economy in Southeast Asia is equally striking. For example, the number of active users for ride hailing saw an explosive increase from just eight million in 2015 to more than 40 million in 2019. The number of active users in e-commerce tripled during the same period. Observers also note pronounced increases in the number of active users of online gaming and the rising penetration rate of online travel services.

1.4 Development Stage of Digital Economy

The nine Southeast Asia nations (excluding Brunei) fall into three broad development stages (See Exhibit 6). These are based on the e-retail share of total retail spending, as a proxy for the level of development. Countries such Myanmar, Cambodia, and Laos fall into the earliest, digitally aware stage: e-retail accounts for a tiny share, less than 2% of retail spending. In the digitally advancing stage, e-retail makes up for a higher but still small fraction of the nation’s retail revenues, currently from 2% to 5%. Vietnam, the Philippines, Thailand, and Malaysia fall in this stage. The digitally advanced stage includes markets such as Singapore and Indonesia, where the share of e-retail in terms of total retail revenue currently exceeds 5%. Among all the Southeast Asia countries, Indonesia stands out with 10.7% of retail revenues coming from the Internet. However, this is still much lower than the leading digital economy China, where e-retail accounts for 28.2% of total retail spending. This suggests that Southeast Asia’s digital economy has an enormous untapped potential.

1.5 Improvements in Digital Infrastructure

The e-retail share of total retail spending in the above nine Southeast Asia countries jumped from 1.2% in 2014 to 6% in 2019. The leap is largely due to improved digital infrastructure (See Exhibit 7). Singapore (89.6%), Malaysia (83.3%), Vietnam (73.3%), the Philippines (66.9%), and Thailand (60.5%) have an Internet penetration rate over 60%. The percentage of Internet users in China is 61.7%, around the same development stage. Southeast Asia also excels at smartphone possession. Aside from Myanmar, ASEAN member states all have a household smartphone possession rate over 60% while Malaysia enjoys the highest rate at 78.8%. This is somewhat below the figure in China, which stands at 84.1%.

Exhibit 5: Digital Economy as % of GDP

![Digital Economy as % of GDP](image-url)
This section introduces the leading companies from the local, regional, and global levels. We focus on Chinese digital giants Alibaba and Tencent due to their strong presence in the region. The scope of the analysis may vary due to data limitations.

2.1 Leading Digital Players across Levels

The scope of the leading digital players in the region varies widely. This report explores three ranges of scope: local, regional, and global. Local leaders grow and thrive in their domestic market. Regional leaders may start in one Southeast Asian country and expand to other countries in the region, while global leaders are those originating from beyond Southeast Asia, but with a strong presence in the region. To become a digital leader, companies must occupy one of the top 10 positions in their level. Due to data availability, this report will focus on e-commerce as a proxy for the digital economy in the six largest economies in Southeast Asia: Indonesia, Thailand, the Philippines, Singapore, Malaysia, and Vietnam (See Exhibit 8). Exhibit 8 reveals the domestic e-commerce market as fragmented. Local, regional, and global competitors battle fiercely, and no clear winner emerges. Across the six largest economies in Southeast Asia, regional leaders have two to three apps ranked in the top ten, followed by global leaders from China (two apps in top ten) and US (1.5 apps), with the rest either local companies or those from elsewhere in the world.

Compared to their region or global counterparts, local digital companies earned lower ranks in the top ten list. According to Asia IoT Business Platform and...
DataReportal, the success of local players is largely attributed to their endowed embeddedness with local ecosystems and governmental support. However, these will not guarantee their long-term survival.

To survive and compete with international giants, promising domestic stars such as Indonesia’s Salim Group, Thailand’s Charoen Pokphand, and Vietnam’s Vingroup invested aggressively in digital technologies to upgrade their digital competitiveness.

The regional top three players are Lazada, Shopee, and Tokopedia. All three are heavily backed by one of the Chinese juggernauts and competitors Alibaba or Tencent. Headquartered in Singapore and founded in 2012, Lazada is the largest online shopping platform in Southeast Asia, operating in all six of the largest economies in the region. It now provides service to more than 135,000 home and international firms, more than 300 brands, and 560 million consumers. Alibaba is now the de facto owner of Lazada, holding 83% of its total shares after injecting another 2 billion US dollars in 2018.

Shopee is the second largest e-commerce platform in Southeast Asia. Founded in 2015 in Singapore, Shopee has now expanded into Indonesia, Malaysia, the Philippines, Thailand, Taiwan, and Vietnam. Shopee also set up businesses in the Chinese cities of Shenzhen, Shanghai, and Hong Kong. There are more than four million registered enterprises, and more than 80 million downloading numbers by 2017. To date, Chinese digital giant Tencent holds 40% of the total Shopee shares and is now its primary owner.

Tokopedia is the third largest regional e-commerce platform. Headquartered in Jakarta, Tokopedia has a strong presence in Indonesia. It built up a sophisticated logistic system covering 93% of Indonesia. Tokopedia provides “24-hour delivery” service to one quarter of its customers. However, its influence beyond Indonesia is still very small when compared with Lazada and Shopee.

Perhaps the most striking finding is the strong presence of China and US digital leaders in the Southeast Asia. The rise of China is especially notable. Not only do they constitute the largest global leader group in the e-commerce industry in Southeast Asia but also have powerful control of the above top three regional leaders. The capital, technology, and human resources from China have the potential to lead Southeast Asia on its way to becoming the next digital hub.

### 2.2 Presence of Leading Regional and Global Digital Players

By late 2018, the top three most visited e-commerce platforms in Southeast Asia were Lazada, Shopee, and Tokopedia. Lazada held the biggest market share of

<table>
<thead>
<tr>
<th>Indonesia</th>
<th>Thailand</th>
<th>Philippines</th>
<th>Singapore</th>
<th>Malaysia</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tokopedia (ID)</td>
<td>1. Lazada (SG)</td>
<td>1. Lazada (SG)</td>
<td>1. Lazada (SG)</td>
<td>1. Lazada (SG)</td>
<td>1. Shopee (SG)</td>
</tr>
<tr>
<td>4. Lazada (SG)</td>
<td>4. JD Central (CN)</td>
<td>4. Amazon (US)</td>
<td>4. Taobao (CN)</td>
<td>4. 11Street (KR)</td>
<td>4. Sendo.vn (VN)</td>
</tr>
<tr>
<td>5. jd.id (CN)</td>
<td>5. Amazon (US)</td>
<td>5. AliExpress (CN)</td>
<td>5. shopee(SG)</td>
<td>5. AliExpress (CN)</td>
<td>5. Adaya (AA)</td>
</tr>
</tbody>
</table>


* Regional Leaders

Coloured cells refer to those e-commerce apps where Chinese digital leaders are the dominant shareholder. Green: Alibaba; Blue: Tencent; Yellow: JD; Red: Lightinthebox.
2018 was a very good year for e-commerce in Southeast Asia. The top ten e-commerce platforms achieved a 53% increase on average in total visits from desktops and the mobile web, prompting the e-Conomy SEA 2018 Report that e-retail growth was faster than expected. Shopee rapidly closed its gap with Tokopedia and successfully surpassed the latter by November 2018, then attacked Lazada’s outstanding position to become its biggest challenger (Exhibit 9). By late 2019, Shopee had earned the top spot.

Despite the dominance of the regional top three leaders, global leaders from China, Alibaba, Tencent, and JD, not only venture directly into the Southeast Asia market and on average secure two positions in top ten e-commerce platforms across the region, but also supported their rapid growth to gain tight control of regional leaders in e-commerce. Alibaba now holds more than 90% shares of Lazada and is its de facto owner. Tencent is Shopee’s largest shareholder with a sizable 40% of shares. Alibaba is a dominant Tokopedia shareholder, holding 25% of total shares.

The proxy wars waged by Alibaba and Tencent extend beyond e-commerce and now include nearly all major digital sectors. Exhibit 11 displays the heavy investments from Alibaba and Tencent in e-commerce, payment/finance, logistics, local service (delivery, ride hailing etc.), social media, and content/games. Both invested substantially in e-commerce and relevant digital infrastructure sectors such as payment and logistics. Tencent also invested heavily in those two digital sectors in the region. Geographically, where Alibaba seems to take the lead in Malaysia and Myanmar, Tencent enjoys an edge in Vietnam. Both appear to be evenly matched in Indonesia, the Philippines, Thailand, and Singapore.

Although the regional market is still quite fragmented, domestic markets consolidated over time, and are now dominated by two or three powerful ecosystems. This trend is becoming more pronounced. For example, the top three e-commerce players registered much higher growth rate than others. Gross merchandise volume grew seven times for the top three players during 2015 to 2018. In comparison, this number only doubled for the next seven players during the same period.

Enormous amounts of money flowed into Southeast Asia’s digital economy during this period. According to a report by McKinsey, digital ventures in the region raised 24 billion US dollars between 2015 and 2018. This funding went mainly to e-commerce and ride-sharing platforms. Most of the funds originated from the Chinese giants, which strongly backed local and regional champions and expedited rapid consolidation around these core companies.

### 3.0 Strategies of Leading Digital Players

This section examines the strategies adopted by local, Chinese, and US digital leaders and evaluates the
success or failure associated with those choices. We end the section with an exploration of emergent trends in the sector and a call to action for digital companies operating in the region.

### Strategies by Local Leaders

Despite the heavy attack from global giants and their backed regional leaders, some local companies break out and make it into top ten in their home market, such as Bukalapak in Indonesia, Sendo in Vietnam, and Qoo10 in Singapore (See Exhibit 10). Those homegrown companies have adopted unique strategies and are seen to be smart, resilient, and formidable players.

One striking strategy deployed by local firms is to focus on niche segments of the domestic market and push for localized strategies. Unlike the big players on the regional or international stage that are better equipped with technology, talents, and resources, local players leverage their competitive advantages in local knowledge and social networks. These are difficult for foreign players to imitate. For example, regional leaders like Lazada place emphasis on

**Exhibit 10: Presence of Alibaba and Tencent in SEA Digital Markets**

<table>
<thead>
<tr>
<th></th>
<th>Indonesia</th>
<th>Thailand</th>
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cross-border transactions and international brands, while local players focus more on products from local merchants or operate in more specific categories such as electronics.

The business model adopted by local players also emphasises tapping local knowledge and networks. For example, unlike global or regional players with a strong preference for the business-to-consumer (B2C) model (or hybrid), local players mainly adopt the consumer-to-consumer (C2C) model. Successful C2C stories in the region include OLX in Indonesia, Kaidee in Thailand, Carousell in Singapore, Mudah in Malaysia, and Sendo in Vietnam. Each Southeast Asian country has a different dominant C2C platform, demonstrating that differences in local needs, culture, and languages remain relevant even in the digital context.

One encouraging signal is that many local companies now invest more in technology and nurturing talent, after years of lagging their global and regional counterparts in developing these resources. Technology and talent are fundamental to the competitiveness and resilience needed to support dynamic, inclusive, and sustainable growth. A typical example is Vingroup, the largest privately-owned company in Vietnam, which is now expanding into the fields of artificial intelligence, software development, and big data.

3.2 Strategies by US Digital Leaders

The United States digital economy ranked No 1 for three consecutive years, according to the Global Digital Economy Competitiveness Development Report (2019) released by the Shanghai Academy of Social Sciences. The report indicated that America has a dominant advantage in the world’s digital economy, while noting that the gap between China and America narrows year by year.

The large Chinese companies outplay most US digital giants in Southeast Asia’s online retail markets. Only eBay and Amazon make it into the top ten, as seen in Exhibit 10. Their lack of lustre may be attributed to a poor fit between their strategic choices and the nature of the emerging markets in Southeast Asia.

Large US digital companies are likely to enter overseas markets directly, by setting up regional subsidiaries. However, due to enormous social and economic differences, those US subsidiaries may find the intricacies of local regulations and preferences difficult to navigate. They may not be able to compete with leading local and regional companies allied to the Chinese digital giants. As noted by Alibaba’s regional CEO Dong 1, the greenfield investment strategy by American rivals does apply to the developed world. It may not work as well in emerging markets such as Southeast Asia. In addition, the loyalty of the wide ecosystem established by local partners also boosts the performance of their Chinese sponsors. For example, Shopee uses Tencent Cloud, the biggest investor of its parent company SEA group. This helps Tencent to retain its stronghold despite fierce competition from Amazon, Microsoft, and Alibaba. For US companies, the lack of such loyalty represents a liability.

Second, with strong global brands and technological capabilities, US digital leaders first tend to focus on scaling up at home, then push similar products or services overseas. These products may not provide adequate responses to local needs. Chinese entrants tend to pay more attention to local and personal tastes. They often adopt customer-oriented business models and tailor their offerings, as pointed out in a 2019 Boston Consulting Group report.

Other factors may contribute to the relatively weak success of US digital firms in the region’s online retail markets. They arrived late in the region, and they face the world’s largest Chinese diaspora that boosts their Chinese competitors’ performance. In addition, differences in the comparative advantages associated with US and Chinese digital giants play a role. US digital companies excel in high-technology innovation requiring heavy investment in research and development while Chinese firms focus on the consumer sector, such as logistics and fintech. Hence, while US digital companies such as Amazon, Facebook, Google, and YouTube take the lead in social media and cloud analysis, Chinese firms appear to have the upper hand in e-commerce, payment, transportation, and gaming.

As more US firms join the regional markets and accelerate their efforts, rivalry between the two powerful blocs is likely to heat up in the coming years.

3.3 Strategies of Chinese Digital Leaders

According to a study released by the Shanghai Academy of Social Sciences, China’s digital economy became the third most competitive in the world in 2018, following the United States and Singapore. The

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1 https://asia.nikkei.com/Editor-s-Picks/Interview/Alibaba-counters-Amazon-in-Southeast-Asia-with-high-tech-stores.
report examined digital industry, digital innovation, digital facilities and digital governance in each country’s digital economy.

Chinese giants Alibaba and Tencent built on their huge success in China. This came from disciplined execution of their strategies, which focus on heavy investments in digital infrastructure, backing local champions, cooperating with host government agencies, and introducing Chinese e-commerce models and technologies.

The two giants deploy business models that are in some ways similar, yet in others very different. TenCent has three service-related revenue streams: its core is the value-added services available on their social media platforms, gaming platforms, and mobile games that generate millions of micro-transactions, supplemented by online advertising services, and various other services such as digital content subscriptions, membership subscriptions, and online games. An example of the value added services provided by TenCent for their popular games is to sell users advanced weapons for use in games and costumes for their avatars.

Alibaba also has three core businesses: Alibaba, Taobao, and Tmall. All three operate e-commerce websites that connect various types of buyers and sellers, with Alibaba as the middleman. Alibaba.com is a business-to-business site that links manufacturers from a variety of countries with wholesale buyers around the world. Taobao.com connects international businesses to consumers—or consumers to consumers, as with eBay. Tmall.com is a marketplace resembling Amazon, geared towards China’s middle class. Tmall focuses on selling large, multinational brands.

The Baidu story is instructive. Baidu is a Chinese search engine giant that once led the field. Baidu’s pay-for-placement (P4P) revenue model serves business customers that pay for keyword-based marketing services triggered by user queries on its search engine a role that is similar to Google. Several artificial intelligence-enabled new business initiatives supplement this core. The Baidu Global Business Unit (GBU) is responsible for Baidu’s products and services for international markets, although their global strategy has yet to find traction. User adoption of mobile apps in place of using search engines is a major worry for the future of the company.

All three Chinese giants sought to build the digital infrastructure needed to facilitate the growth of e-commerce. Success in China and elsewhere shows that digital economies take off only with establishment of a mature enabling system, including both hard infrastructure (such as data and logistics centres) and soft infrastructure (such as digital payments). Alibaba built data centres in Singapore, Malaysia, and Indonesia. Alibaba and TenCent invested heavily in digital payments (see Exhibit 13). One major barrier to e-commerce in Southeast Asia was slow development of digital cross-border payment methods. To overcome this, Alibaba and TenCent jointly invested in nearly twenty digital payment apps across the six largest Southeast Asian economies. This contributed to the explosive diffusion of e-commerce. Alibaba also invested in Singapore Post, the region’s leading logistic provider, to overcome the lack of efficiency in cross-border logistics that once hampered e-commerce. As the e-Conomy SEA 2019 Report observed, e-commerce logistics, once a challenge, now forms the backbone for the recent boom in the region’s digital economies.

One striking strategic difference between the Chinese digital giants and their Silicon Valley counterparts is the Chinese preference to enter online markets via a sprawling web of proxies (See Exhibit 13). Investing in local champions, Chinese giants build digital ecosystems around their supported platforms. This move overcomes some of the liabilities of foreignness, while enabling the new entrants to leverage local embeddedness as a source of competitive advantage in the digital ecosystem.

Both Chinese giants cultivate strong connections with host government agencies. These links help them navigate the inevitable regulatory and bureaucratic obstacles. For example, Alibaba-affiliated logistics company Cainiao partnered with the Thai and Malaysian governments to resolve inefficiencies in cross-border e-commerce. Singapore’s government reportedly encouraged one of its leading universities to collaborate with Alibaba on a joint program to foster local e-commerce talents. Such close connections constitute important resources that can be a source of competitive advantage. Guanxi, a Chinese term referring to “networks” or “connections” that open doors and facilitate deals, is especially important in developing regions such as Southeast Asia.

The introduction of successful and advanced business models and technologies also significantly boosts the competitive advantages of those firms backed by Alibaba and Tencent. It is at a development stage
closer to Southeast Asia than other Western giants. Plus, it shares lots of similarity with Southeast Asian countries in culture and consumer behaviours. All these are conducive to the easy replication of China’s success in Southeast Asia. For example, the “new business concept” initiated by Alibaba’s founder, Jack Ma, is to combine both online sales and offline experiences through big data centre and logistics. In China, Alibaba cooperated with retailers like hypermarket chain RT-Mart to upgrade e-payment systems in stores, on-demand delivery, and sophisticated analysis of consumer data. They have exported such a retail model to Thailand as a showcase to the rest of the region and the world. Also, following the boom of Taobao’s celebrity live streaming, Lazada has incorporated in-app live streaming feature to push higher consumer engagement. Tencent has introduced the model of mass distribution in backed platforms (such as Se) in Southeast Asia. Mass distribution requires digital content in the form of music, books, and gaming, making Tencent a formidable rival.

4.1. Big begets bigger

Some global digital platforms achieved very strong market positions in specific areas. For example, Google has 90 per cent of the market for Internet searches. Facebook accounts for two thirds of the global social media market, and is the top social media platform in more than 90 per cent of the world’s economies. Amazon captured around 40 per cent of the world’s online retail activity. Amazon Web Services accounts for nearly half of the global cloud infrastructure services market. In China, WeChat (owned by Tencent) has more than one billion active users. TenCent and Alipay (Alibaba) captured virtually the entire Chinese mobile payments market, with Alibaba holding an estimated 60 per cent of the Chinese e-commerce market2.

4.2. “There’s a SuperApp for that”

Good things take time. Steve Jobs envisioned the app in 1983. Apple’s App Store opened for business only in 2008. Today, some experts see two competing platform models for the app of the future:

**US style** - each product or service has an individual app that users download; and
**Chinese style** - the SuperApp, where user can access all services from one platform.

Effectively, Super App platforms become gateways to consumers; hence, Asean may follow the Chinese example, where the apps that establish themselves as gateways generate significant value. The leading contenders in this space include Grab, Gojek, and Sea. An emergent model is the SuperApp as a background service layer. These only appear on your screen when they explicitly have a message for you, based on their knowledge of your location, preferences, and behavior3.

Growth of the Super App market is geometric; the Singapore EDB estimates its revenue across Asean as ~US$4 billion, and project this to be US$23 billion by 2025. They see five key revenue drivers: Ridesharing, Food delivery, Fintech, Digital banking, and e-Commerce. Each of these online activities creates strong engagement, which drives constant interaction with the app throughout the day. Although fintech players initially represent a small share of the US$23 billion Super App opportunity, this segment could be the most disruptive. The reason: Online payments provide a likely entry point for other services, including insurance, investments and remittance.

Once Super Apps enter the payments market, with the right licences, they could build a deposit base that would allow them to use their strengths in customer intelligence to build a loan book. However, banks will likely resist attempts by gateway products to access

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valuable deposits, as they could lose lucrative fees. If banks win this battle, they will hold on to low-cost deposits, and it will be difficult for Super Apps to break into digital banking.

The big losers from SuperApps are likely to be search engines, as seen with Baidu.

4.3 Digitization of everything

The data we store in digital form now grows at a rate four times faster than the global economy, and data we transmit across digital networks grows even more rapidly. From about 100 megabytes per day in 1992; by 2022 global IP traffic is projected to reach 150,000 gigabytes per second. Yet, our world is in the early days of the data-driven economy. The deluge of data stems from the advent of 5G networks, large populations joining the online world for the first time, and by expansion of the Internet of Things (IoT).

4.4 The Rise of Cross-border Cybersecurity

With the first three trends as a baseline, we see that big players will gradually become even larger, that the platforms we use to interact with business and government agencies will become even more powerful and complex, and that the sheer volume of data flowing to and from our devices will be overwhelming. The question to ask is, “will we have the tools and other resources needed to manage the safety and security of our information and our assets?” The honest answer — the industry doesn’t really have much of a choice. According to Accenture, 68 percent of CEOs report that while their businesses’ dependence on the Internet is increasing, their confidence in Internet security, already low at 30 percent, will drop even lower if nothing changes to improve it. In the next five years, the confidence level in the Internet is forecast to drop to 25 percent, while dependence on the Internet is assumed to remain at 100 percent. Walled gardens — isolated, secured information systems — proliferate as countries and regions tighten regulations to limit the free flow of data across borders.

Cybersecurity is a problem that we must resolve as we move forward. The relevant security standards must be globally accepted, industry-led and accepted by the broad user community. Failure to address this issue will lead to revenue losses estimated at nearly three per cent of turnover, further loss of stakeholder confidence, and missed opportunities to fully develop the digital economy that ASEAN needs.

5 Strategic Responses in Context

Given the four trends above, and taking into account their strengths and weaknesses, how can each type of player in the ASEAN digital economy proceed? Local players might consolidate their domestic market through targeted mergers and acquisitions. This would increase their scope and improve the scale economies they need to compete with regional and global players. They can also differentiate their products and services by using their local knowledge and networks. This will help localize their offerings in niche markets and avoid face-to-face confrontation with their giant rivals.

US digital companies need a better understanding of the important Southeast Asia markets. Specifically, they can build local embeddedness by investing in local digital infrastructures, partnering with and investing in local champions, and localising some products and services. They might try to establish their web of proxies and deepen cooperation with governments. The Southeast Asia market is a big battleground that they do not want to lose.

Although currently leading in Southeast Asia, Chinese digital giants must expect the approaching battle. This is not only to meet a higher level of US competition, but also because intensifying geopolitical rivalry may undermine their legitimacy in overseas markets. Smartphone maker Huawei and social media juggernaut TikTok now struggle to gain international trust. To survive, they may have to seek independence from the Chinese government. They must also upgrade privacy protection and share economic benefits with stakeholders. Such legitimacy issues will be hard to deal with.
The market for digital innovation in Southeast Asia is dynamic, vibrant, and very promising. The impressive growth and potential value of the digital economy may lead to fierce battles among local, regional, and global digital companies. While Chinese digital giants gained the lead by embedding themselves in local ASEAN markets, building a strong web of proxies, and exporting their successful practices, US firms are gearing up. Some local players now invest in niche markets and in upgrading their technology and talent pools.

With rising Internet penetration, improving digital infrastructure, fast-growing wealth, and rapid uptake by users, we see abundant space for more players to thrive in the region. However, the market is now on a fast consolidation track, and we can expect an ongoing reshuffle. Only a few powerful ecosystems are likely to prevail.

We suggest local leaders consolidate their domestic market first by acquiring other smaller local firms while keeping on investing in technology. US firms should pay more attention to localization and build their owner local network. Despite their current dominance in the region, Chinese digital giants may soon find themselves at a crossroads. They need to take more proactive tactics to alleviate legitimacy concerns given rising geopolitical headwinds. The era of digital innovation is full of adventures and surprises. With opportunities and shakeouts simultaneously on the way, the Southeast Asia market waits to see which companies will sustain their roles as leaders over the long run.
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