

The Competitions of China's Internet Giants in Southeast Asia

Heran Yang^{1,*}

¹International School Singapore, Singapore

*Corresponding author. Email: YANG.HR@STU.HCIS.EDU.SG

ABSTRACT

Under the background of the “spillover” of China’s comprehensive national strength, the Sino-US trade war, and the global economic recession caused by COVID-19, this study aims to analyze the e-commerce ecology in Southeast Asia by investigating the competitions between domestic, cross-border Internet giants, taking online shopping platforms - Shopee and Lazada as examples. In China’s retail industry, e-commerce is approaching saturation, and the ambition to further expand the international market makes Southeast Asia the preferred “blue ocean” for domestic Internet giants. Geopolitical uncertainty brought about by the trade war between China, and the US has also led to the relocation of industries from eastern China to western China to Southeast Asian countries. In addition, the fierce competition among cross-border e-commerce has accelerated the development of the e-commerce industry in Southeast Asia. The epidemic has also played an important role - the significant growth of online users, the further popularity of mobile Internet, the application of electronic payment, etc. All this suggests that Southeast Asia's e-commerce ecosystem will have unique development potential and future.

Keywords: Southeast Asia, China, E-commerce ecology, Cross-border e-commerce giants

1. INTRODUCTION

Over the past four decades, few imagined that China could become the giant today, the world’s second-largest economy after the United States. Even fewer could have predicted that once impoverished China would become the dominant player in e-commerce 40 years later. As China’s e-commerce industry booms to the forefront of the world, Southeast Asia is catching up even though its e-commerce today may still be at the stage of China’s development 10 years ago. As a region with relatively more mature e-commerce development, China is capable and willing to play an important and active role in the Internet industry in Southeast Asia, where the market potential is huge and promising. On a macro level, China also has reasons and ambitions to do so. In the context of the Sino-US trade war in recent years, China must increase its efforts to open up to the outside world to cope with the long-term oppression of the United States. Supporting domestic, cross-border e-commerce enterprises have become an integral part of relevant policies. At this very juncture, the Southeast Asian market, which has a population advantage of 583 million and is still in the early stage of Internet development, has undoubtedly become the priority

target of any e-commerce platform. Behind the fierce competition between Lazada, dubbed as ‘the Amazon of Southeast Asia’, and e-commerce upstart Shopee is a real battle between China's two Internet giants, Alibaba and Tencent, in Southeast Asia. This paper aims to look at the essence through the phenomenon. It gives an in-depth exploration through two aspects: Southeast Asia’s e-commerce development status quo and the opportunities and challenges of China and Southeast Asia.

2. LITERATURE REVIEW

2.1. The Benefits of Network Marketing

Putra et al. explore the process of E-Marketing adoption by the micro, small-medium enterprise (MSMS) in Central Java in response to the business impact of COVID-19. Non-probability sampling (snowball technique) is being used to accomplish the explorative qualitative research. Network marketing is an effective alternative to improving the viability and competitiveness of current and future micro, small and medium-sized enterprises that can further push technology-based market management [1].

2.2. China's Economic Strategy

Bieliński puts forward the hypothesis that PRC authorities contribute to the success of all existing large Chinese internet companies to a great extent and positively verify it by investigating case studies. Using the common excuse of protecting national security, China's economical strategy has proved to be very effective in blocking their US competitors from access to the enormous Chinese market. It proves that no big company from the PRC would not benefit from governmental support, which allows most of them to grow and expand abroad confidently and successfully [2].

Lin looks into the causes of the reason for china's extraordinary performance in transition and gives a clear explanation that china utilized the exploitation of the advantage of backwardness by reducing the costs of innovation, industrial upgrading, and social and economic transformation. Besides, he answers other related questions: why did china fail to achieve rapid growth before 1979? why did not other transition economies perform equally well? What costs do china pay for its success? Will china continue the dynamic growth for the coming decades? As well as developing countries can learn the lessons from China's development [3].

The text taken from China Story Yearbook 2018: Power sheds light on the strategies and actions that have been taken by Alibaba, helping to put its position far ahead of Amazon in Southeast Asia. In general, it achieved this by building up hard infrastructure and soft infrastructure and cooperating with local businesses and government agencies. While Singapore's e-commerce companies reference and even copy the 'Chinese e-commerce model' first rather than thinking on their own, Alibaba taps the advantage of its world's leading educational system and strong talent pool to achieve a win-win situation. In a sense, it is Alibaba's ambition that led to the kind formation of the E-Silk Road in Southeast Asia [4].

2.3. Overseas Chinese Online

In the context of the decrease in satisfaction of overseas Chinese online shopping, Chen focuses on consumers' satisfaction after taking part in online shopping on "Sea.taobao.com" a program pushed out by Alibaba in 2014, and carries out a research study. The survey method is the type of research being used. After processing population and sampling group, question distribution, data collection, and data analysis using SPSS, these four procedures, the paper lists some of the concerns that most consumers are most worried about. Recommendations have been since the primary and targeted Chinese people live in Southeast Asia [5].

2.4. ASEAN's Role in Helping Economic Growth

Bong explores whether regional integration - ASEAN has significantly helped Southeast Asia's economic growth and ensures peace and prosperity among the participating countries and whether economic and social factors affect economic growth. With the help of a cross-country growth model observing the level of

initial GDP per capita, physical and human capital, population growth, inflation, and trade openness. The paper answers both questions in the affirmative and clarifies that a stronger and more resilient economy can also be achieved by eliminating corruption and stabilizing macroeconomic and political stability [6].

Economic integration in Southeast Asian countries has been significant and growing in decades, but socio-economic and institutional differences remain significant. Does Hill raise the question 'does it improbable to contemplate a Southeast Asian development model'? And discusses it accordingly. Given the extreme diversity in their histories, economies, living standards, political systems, resource endowment, and institutions, there has never been such a model, and there ever will be. But their ambitious objectives in common is the glue that truly makes these economies become better integrated and more cohesive throughout the years [7].

2.5. Common challenges faced by cross-border e-commerce giants

Wu discusses whether there is a future for Chinese multinational e-commerce companies in the Southeast Asian market. According to the background of the two markets, it analyzes the advantages and disadvantages of Chinese e-commerce companies in entering the Southeast Asian market. As for these companies' conditions that want to gain a foothold in the Southeast Asian market, the involvement of local governments and the improvement of enterprise management and innovation is indispensable [8].

Using the Southeast Asian market as an example, Lu and Long identify common challenges limiting the further development of cross-border e-commerce giants. The discussion mainly focused on four aspects which are backward areas logistics lag, payment inconvenience, tariff barriers, policy lag. In addition to mutual learning among enterprises, relevant policies also need to be reformed promptly to adapt to changes in the industry to truly promote the development of the cross-border e-commerce industry [9].

Whatley elucidates the ambition and strategic layout of China's rapidly developing Internet industry to "go public", taking Baidu and Tencent as examples. By analyzing the two companies' business models, the authors also clarify that they still have a long way to go before they are known and recognized in markets outside China. Global competition is fierce, and if Chinese tech giants fail to overcome cultural, political, and regulatory hurdles, it's going to be tough for them to take the lead [10].

3. THE DEVELOPMENT OF CHINA AND SOUTHEAST ASIA

3.1. The Domestic Market is Close to Saturation

While in the past, no one associated China with conquering the world, China's online retail sector is the largest throughout the world - worth RMB39.19 trillion or US\$6.08 trillion. The prolonged COVID-19, which contributed to the global recession, has certainly made

the pie larger. The past decade has been the most active for China's homegrown retail industry. With the popularity of WeChat and Alipay, retail digitization has become the basic form, and more importantly, the competition in the retail industry has become more saturated. Internet giants began to realize that online retail is the ultimate battleground for consumption.

Although the epidemic has led to the rapid development of the online retail industry and brought dangerous pressure to the traditional brick-and-mortar retail industry, the advantages and disadvantages of the online and offline retail industry have become more and more clear after the experience of the past ten years. The integration and being integrated is no longer an issue to be considered. Chinese online sales soared 10.9% percent year-on-year to reach 11.76 trillion yuan in 2020 as consumers tended to buy products online to avoid going out. But behind the market size, growth rate, and business model innovation - and its quick recovery - which is the envy of many countries lies a trend towards saturation in the retail sector. Internet user growth in China is on the verge of drying up, with only 23 million monthly active users growing in the first half of 2018, according to QuestMobile. Figures show that although the epidemic's impact has not been eliminated, online demand continues to grow - new netizens in the first half of 2020 exceeded that in the whole of last year, the number of active users only increased by 8.47 million. The statistic about the penetration rate of online shopping in China from 2010 to December 2020, provided by Statista, more intuitively illustrates that this sector has gradually approached saturation. As of December 2020, around 79.1% of internet users in China had shopped online, or 80% of Chinese netizens.

3.2. The Blue Ocean Strategy

Back in the olden days, many progress and success in China primarily rested on cheap labor from the mainland (so-called migrant workers). Cheap labor was the cornerstone of China's economic boom. A large, well-educated workforce ensures not only a sufficient labor force but also a low wage cost. However, this distinctive advantage is dwelling. With China's economic boom and gradual urbanization, its supply of cheap labor is going to deplete sooner, even sooner than most people think. To a great extent, rising affluence and an ever-improving educational profile also mean higher expectations among the employees. The more affluent the country, the greater the demands from the labor force for higher wages and better benefits, which can commensurate their improved standard of living. Many economists and business analysts are aware of this coming demographic reality of an aging population of workers. In a keynote speech presented in late October at the annual conference of the Harvard Business Review in Beijing, W.Chan Kim pointed out that most Chinese companies adopted a low-price strategy because of the availability of cheap labor in China. After all, it was common for them to enter global markets based on the price at that time. But in a cross-border e-commerce

industry as diverse and dynamic as today's, it is clear that the old strategy is impracticable if China wants to gain a foothold in the global market. This is also the perfect explanation of Chinese Internet enterprises looking for the "blue ocean" due to increasing competition and saturation of the domestic market. At the same time, Internet penetration in Southeast Asia has been increased rapidly. Therefore, Southeast Asia becomes one of their top targets. Next, this paper will comprehensively evaluate this region from three aspects: social environment, economic environment, and e-commerce infrastructure. Six countries, including Singapore, Malaysia, Thailand, Indonesia, Vietnam, and the Philippines, were selected as the core research objects.

3.3. The Social Environment of Southeast Asia

Population

The core six countries have a total population of 583 million. Compared with China, Japan, Europe, and the United States in terms of population structure, most Southeast Asian countries have a lower average age and many young people. Take the Philippines, which today has the largest generation of young people in its history. As of January 2020, the average age is expected to reach 25.7 years, while the figures for China and Japan are respectively 38.4 and 48.4 years. Southeast Asia's e-commerce industry is expected to continue to enjoy a demographic dividend as young consumers grow and the corresponding rise in their purchasing power.

Internet penetration Over the past five to ten years, while Southeast Asia's Internet companies have made strides in growth and change, the year 2020 marks a clear twist to the story. With the "help" of the coronavirus pandemic, Southeast Asia seized the vast economic opportunity embodied in the use of digital services. According to a new report from Google, Temasek Holdings, and Bain & Company, a total of 40 million people in the core six countries came online for the first time in 2020 - a large proportion of them came from non-metropolitan areas in Malaysia, Indonesia, and the Philippines. That pushed the total number of internet users in Southeast Asia to 400 million, or nearly 70% of the region's total populace.

3.4. The Economic Environment of Southeast Asia

In recent decades, the rapid growth of ASEAN's GDP - regional integration has played an unignorable role in helping economic growth - mirrors the region's economic prosperity. According to Statista, the estimated total GDP of ASEAN states in 2020 is expected to reach US\$3.08 trillion, which is a remarkable increase in comparison with previous years. The economic powerhouse formed by the ten-member state has paved the way for ASEAN to become one of the largest economic zones in the world. If it were a

single country, it would already become the seventh-largest economy. Based on forecasts by IHS, ASEAN can rank as the fourth-largest economy by 2050.

Besides, the digital population of Southeast Asia is likely to hit 310M by year-end, and the increase in

consumption online would allow the Gross Merchandise Value (GMV) growth rate to outpace markets in India, China, and the US, according to a report from ZDNet published in August 2020.

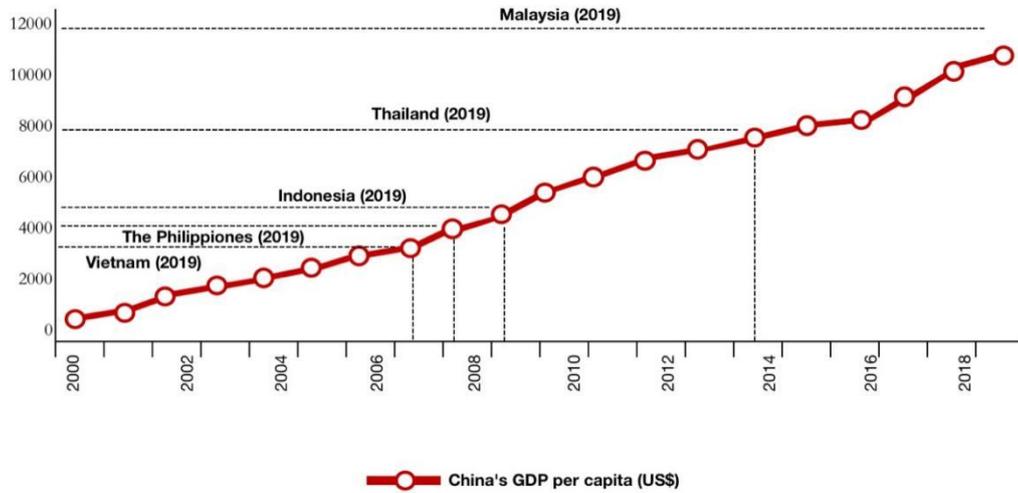


Figure1 Comparison of GDP between China and Southeast Asian countries

3.5. E-commerce Infrastructure of Southeast Asia

With the constant development of urbanization in Southeast Asia, online payment will develop rapidly. According to the expectation of BCG, the e-wallet penetration rate among the urban population is 49%, which will continue to rise to 84%. Besides, the proportion of people with bank accounts varies widely across the six countries. Due to the poor logistics infrastructure, the duration of delivery times and transport costs are also problems waiting to be solved. Recently, the per-capita consumption of e-commerce in Southeast Asia is 5%. This means that for every S\$100 spent, about S\$5 is spent through e-commerce, just as it was in China a decade ago, where per-capita e-commerce consumption is now 31%. It is not hard to see that South-East Asia still has a lot of room for improvement. While Southeast Asia's e-commerce market is still at a nascent stage, the e-commerce platforms, digital payments infrastructure, and logistics framework have been continuously improved, with Chinese e-commerce giants like Alibaba, Tencent, and JD.com stepping in.

4. THE PROSPECT OF E-COMMERCE INDUSTRY IN SOUTHEAST ASIA

4.1. Intensified Competitions Among Domestic Transnational E-commerce Giants

Shopee has been using its strength to become the leader of e-commerce in Southeast Asia by leaps and bounds since its parent company Sea was listed in the fall of 2017. GMV for Q3 2020 was \$9.3 billion, up

102.7% from the same period last year. It's even more surprising to look at GMV and gross orders for Q1 to Q3 2020, which totalled US\$23.5 billion and 1.78 billion, respectively. With its bloc, the biggest American-listed company in Southeast Asia - Sea, Shopee has a strong presence and roots that have left Lazada a bit floundered. When it comes to Lazada, once the king of e-commerce and the largest B2C platform in Southeast Asia, the story is different. It was an online shopping platform set up in 2011, then acquired by Alibaba group in 2016. Through November 2018, Alibaba has invested \$4 billion for the third year in a row. This move is undoubtedly its bold attempt to replicate successful experiences in China to Southeast Asia. But things did not go as smoothly as expected. In this region, Alibaba ran into some obstacles, proving that merely replicate the success of its dominant position in the Chinese market will not work. For instance, the "toilet paper initiative," which was conceived by Alibaba for its Vietnam business in 2018, had proved the point clearer. Lazada completed only a fraction of its initial target simply because consumers in Vietnam did not snap up the toilet paper as Alibaba had expected, despite enormous online sales in China. Issues like payment mean - mobile payment has not been fully popularized, regulatory level - relevant departments in Southeast Asia will not support Alibaba as much as in China, localization level - different management styles has arisen. As we can see, behind the competition of platform-based e-commerce companies is the vigorous ambition of domestic internet giants.

4.2. Diversification of E-commerce Ecosystem

With the gradual formation of the e-commerce platform monopoly, the e-commerce ecosystem

becomes more diversified in the world.

One of the most obvious examples is live streaming e-commerce, in other words, live streaming marketing. More, after the live streaming e-commerce is verified positively in the Chinese market, the global e-commerce wind has been affected substantially. Various forms like social e-commerce have rapidly appeared in the Southeast Asian market. This is because of the lack of major capabilities of local brands of middle and lower status, which directly leads to a cruel result that consumers' trust in people is much higher than that of brands. According to PayPal, more than 80% of merchants surveyed in Indonesia, Thailand, and the Philippines sell through Facebook. Therefore, celebrity e-commerce has great potential in Southeast Asia, with the consistent improvement of the e-commerce ecosystem as a whole.

4.3. The Potential of E-commerce in Southeast Asia

The ten ASEAN countries have a high degree of integration in political, economic, and other fields, so there is strong connectivity. Digital economy, for example, is easy to spread and play scale effect in this region, at a speed that almost no one could imagine. In addition to the huge consumption power of the young population that accounts for a large proportion, Southeast Asia has the same human cost advantage as China does, even more than China statistically. Average manufacturing wages in China just exceeded US\$9000, which already lower than the average one of the world's, while those in Southeast Asia remain far lower. Also, location is a factor that matters. Southeast Asia is located between the Pacific Ocean and the Indian Ocean, guarding the Strait of Malacca, an important oil transportation route, serving as one of the most important shipping lanes globally. Profit from the privileged location also forms part of the steady income revenue stream in some Southeast Asia countries. Further, with the construction of Trans-Asia High-Speed Rail, it has been easier to transport products by sea, land, and air and conduct investment visits. Take Indonesia - the farthest country from China, as an example. It will only take four and a half hours to fly directly from Guangzhou to Jakarta. The speed and potential of the internet industry should not be underestimated. Report from e-Conomy SEA 2020 predicts that the Southeast Asia e-commerce market will hit US\$172 billion by 2025, which means to grow by 23% a year in the future. As an area with the most engaged mobile internet users globally, there are still lots of room for the e-commerce industry to grow. That's because nothing has so far been said about the growth opportunities beyond Metros. The adoption of digital payments for online shopping such as has yet to spread evenly across Southeast Asia.

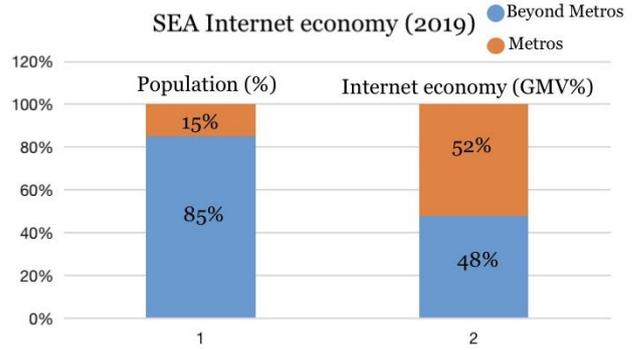


Figure2 Demographic and Internet Economy in Southeast Asia

Yet Southeast Asia's potential is much bigger. Two other factors will influence future trends and accelerate the pace of e-commerce in Southeast Asia from a long-run perspective. One is the "spillover" of China's comprehensive national strength. In the shadow of the trade war between China and the United States, the trend will continue for a long time. The other one is the catalyst of COVID-19. With the rise of labor costs and environmental protection costs in China in recent years, some industrial chains have begun to migrate to Southeast Asian countries. However, this move is aimed to cope with the vulnerability brought by the excessive concentration of supply chain in China, which was catalyzed by the pandemic. This means that Southeast Asia could enjoy the advantages of Made in China for a long time to come. The concentration of Chinese e-commerce talent and the unique supply chain of China will play a significant role in the e-commerce industry here for at least the next two decades. Last but not least, funding remains healthy despite global headwinds. From 2016 to 2019, more than \$37 billion of capital flowed into the Internet economy in the past four years.



Figure3 % of new digital consumers who will continue to use at least one digital service post-COVID-19

5. CHALLENGES AND RISKS

Despite the potential, challenges and risks do exist. There are three major thorny issues that cross-border e-commerce companies, both Chinese and local, face. The first is the substantial regional differences among countries, particularly regarding services like online

shopping. Southeast Asian countries have different levels of development in various aspects. This explains why many teams in China prefer to start with Indonesia, the most populous country among them, or Thailand, a moderately developed country. Economically, purchasing power and consumption habits vary widely from country to country. For instance, Singapore, a developed country with a population of 5.94 million, had a GDP per capita of US\$63987 in 2019. The figure for Vietnam was US\$2739, which has a total population of a 97million. Topographically, the islands of Indonesia and the Philippines are numerous and scattered, while Malaysia's territory straddles both ends of the South China Sea. This is also the reason for the regional differences in logistics efficiency and cost. Other factors such as race, language, currency, religion, and customs only make it more difficult and challenging to satisfy the various taste of consumers with one single product or service. The lack of local talent is also an obvious obstacle. It has plagued domestic companies like Alibaba, trying to gain a foothold in Southeast Asian markets for a long time. Lack of local talent means that localization cannot be done quickly and comprehensively. As a result, the benefits of operating in the mode best suited to local conditions had to be forgone. The third challenge, or risk, is policy stability. In today's complex situation, geopolitics and international relationships are the core risks that must be faced and handled with care when cross-boarding. One is the geopolitics of the South China Sea and the negative impact of the game between China and the US. On the other hand, the political stability of Southeast Asian countries such as Thailand and the Philippines and the degree of corruption also issues that need to be considered.

6. CROSS-BORDER BUSINESS ENVIRONMENT BETWEEN SOUTHEAST ASIA AND CHINA

The complementary industrial structure is a feature. Southeast Asia exports raw materials and has a low level of manufacturing. It relies on imports, especially in China. Whereas China relies on ASEAN for raw materials such as rubber. Close culture, high trade mutual trust is also a feature. If we go back even further, the adjacent geographic position contributed to the success of "Overseas Chinese to Southeast Asia." This also promoted the spread and influence of both cultures. Even to say why Southeast Asian countries have such high trade trust with China is due to the culture of proximity, it is hard to argue with that. In addition to the early factors, the establishment of the China - ASEAN Free Trade Area has deepened the mutual trust between the two sides. The China-ASEAN Free Trade Area (CAFTA) was officially launched on January 1st, 2010, marking the beginning of a zero-tariff era for a region composed of China and 10 ASEAN countries. Since the launch of the FTA, more than 90% of products between China and the six ASEAN members - Brunei, the Philippines, Indonesia, Malaysia, Thailand, and

Singapore - have received zero tariffs. China's average tariff on ASEAN has been reduced from 9.8% to 0.1%, while the average tariff on China from the above ASEAN members has been reduced from 12.8% to 0.6%. The deepening of the Belt and Road Initiative has promoted the formation of a friendly cross-border business environment between China and Southeast Asia. This means there is greater room for further communication and cooperation. Not only for China but also for Southeast Asia, it is a hard-won opportunity. According to figures, ASEAN countries became China's largest trading bloc in 2020 as the trade volumes hitting US\$731.9, a 7% growth year-on-year. It is no wonder that growing political mutual trust and strong regional economic reciprocity are the keys.

7. CONCLUSION

The next 10 years will be a golden decade of both opportunities and challenges for e-commerce in Southeast Asia. Whether China and Southeast Asian countries can seize this opportunity to soar is what everyone is looking forward to, questioning but also afraid of. While China has gone through the PC Internet and entered the Mobile Internet, many countries in Southeast Asia have even skipped the PC Internet and directly entered the era of Mobile Internet. Therefore, it cannot simply consider Southeast Asia as a compressed version of China or anyone else. It should be concluded that the e-commerce ecology in Southeast Asia will present a future that is completely different from that of Europe, the US or China, and belongs to them alone.

REFERENCES

- [1] Putra, F. I. F. S., Budiantoro, R. A., & Haziroh, A. L. (2020). E-Marketing Adoption as an Alternative Solution For Micro Small Medium Enterprise (MSME) Fight Back The Covid-19.
- [2] Bieliński, T. (2018). Competition between Chinese and United States companies in the Internet market. *International Studies: Interdisciplinary Political and Cultural Journal (IS)*, 22(1), 137-152.
- [3] Lin, J. Y. (2013). Demystifying the Chinese economy. *Australian Economic Review*, 46(3), 259-268.
- [4] FEBRUARY, I. BUYING POWER: ALIBABA IN SOUTH-EAST ASIA
- [5] Chunhua, C. (2017). A Study of Customer Satisfaction with Oversea Online Shopping for Overseas Chinese People. *International Journal of Multidisciplinary in Management and Tourism*, 1(1), 47-53.
- [6] Bong, A., & Premaratne, G. (2018). Regional integration and economic growth in Southeast Asia. *Global Business Review*, 19(6), 1403-1415.

- [7] Hill, H. (2014). Is there a Southeast Asian development model? (No. 26). discussion paper series.
- [8] Wu, R. (2019). Research on the Opportunities and Challenges for Chinese Cross-Border E-Commerce Companies in Southeast Asia Market.
- [9] Lu, X., & Long, Q. (2018). The Troubles of Cross-border E-commerce
- [10] Whatley, H. D. (2013, March). Chinese Internet Companies and Their Quest for Globalization. In Proceedings of the 2013 International Conference on Information, Business and Education Technology (ICIBET 2013). Atlantis Press.