THE DIGITAL ECONOMIST

Opinion Piece

Investing in Asia: Go East, but Go Smart

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July 29, 2022

Corporations and investors are drawn to the dynamic growth and rising affluence of Asian countries. And the allure of China's vast consumer base and manufacturing opportunities is especially irresistible. Yet a single-minded focus on China could lead investors to miss other significant opportunities in Asia.

No wonder so many startups and established companies pursue a global presence at a very early stage—if not from day one. The same goes for backers like VCs with investment focusing on startups and projects with global ambitions. And for entrepreneurs and investors, going global means going East with eyes on the prize: China's 1.4 billion consumers, characterized by growing buying power and openness to new concepts and technologies.

This China-centric globalization strategy is logical, widely accepted—*and has ended in tears for some of the biggest Western digital players.*

In my view, there is much more to the project “Go East” than meets the eye. First of all, the part of the world we call the “Asia-Pacific region” is a vast and highly heterogeneous collection of geographies. There are, in fact, many different APAC countries where huge potential can be found and dynamic growth is happening. But first, let’s look at China.

Have digital giants misjudged China?

Some of the world’s biggest, best capitalized and most innovative companies have tried and failed to set up shop in China. These include Amazon, Facebook, Google and Uber (which tanked in Southeast Asia too, but that’s another story). The reasons for these disasters include regulatory issues like the government firewall that blocks access to Google, Facebook and Twitter. A broader view reveals that these US-based digital giants had bad timing and a dismal understanding of Chinese consumers and their expectations.

For example, Amazon allows users to read seller reviews, but not to contact sellers. Chinese consumers—whether doing business online or face to face—are accustomed to talking with a seller, developing a relationship, and negotiating. Amazon ignored these needs—with dire consequences.

Alibaba, on the other hand, integrated a chat feature in its online sales platform “Taobao marketplace.” This compels sellers to work at winning and retaining customers, giving smaller businesses the opportunity to compete effectively with larger entities: whether through services, fast delivery or aggressive pricing. The result is precisely the user experience that price-sensitive Chinese consumers want.

Of course, this is just one of many different factors that have given Alibaba a huge competitive advantage and enabled it to crowd out Amazon (and eBay). Even if Amazon had tried to adjust its user experience, Alibaba was simply too strong and too fast for Amazon to beat. Amazon had 2 million sellers. Alibaba had 8.5 million.

Facebook (now Meta) would also be up against an array of immensely popular incumbents, even if Beijing were to stop blocking access. These include Weibo, a feature-rich portal that combines elements of Twitter and Facebook, as well as the student-oriented options Renren and Qzone. Wechat, the social networking, messaging and payment app owned by China's Internet service and gaming giant Tenscent, had a user base of more than 1 billion as of 2019.

Odds would be similarly stacked against Google, which has also been blocked in China since 2009. A generation has grown up using Chinese search engines like Baidu, and users are accordingly accustomed to the experience they offer. Luring these users away from their favorite online search platforms would be a very costly and time-consuming enterprise.

Perhaps the most telling story of failure in China is Uber’s ill-fated attempt to gain traction in the People’s Republic. When Uber China cut its losses and sold out to rival Didi Chuxing in 2016, a two-year price war that Uber had no chance of winning came to an end. The US transportation pioneer was reported to have been losing US$ 1.2bn each year due to discounting rides by up to 90% and even offering free rides. The burn rate was high for both sides, as Didi was also using aggressive pricing, but the arithmetic clearly favored the local player. It was capitalized with US$ 10bn and owned 80% of the market, while Uber China was a newcomer that had US$ 1.2bn at its disposal. China Investment Corporation, the country's sovereign wealth fund, is an investor in Didi, so Beijing obviously did not want to see Didi buckle.

But again, pointing to government influence as the cause of Uber's demise would be an oversimplification. Didi appealed to the Chinese consumer's love of variety, with an array of options like taxis, private cars, express travel, free rides, buses and designated drivers. It enabled users to pool together and provided affordable intercity rides during Chinese New Year. And the Didi app is designed to function well even when Internet coverage is less than optimum.

Eyes on South and Southeast Asia

Don't get me wrong: more than 1.4 billion (and counting) consumers with constantly increasing affluence should not be ignored. But is China always the best initial point of entry into Asian markets? It may (still) be the world's most populous country, but India is a close second and Indonesia ranks No. 4. As world economies emerge from the hardships and uncertainties of the COVID-19 pandemic, perhaps the vast potential of the different markets across South and Southeast Asia should also be included in Asian expansion strategies. Uber is a big hit in India. Facebook is widely used across South and Southeast Asia.

Despite taking a big hit from the pandemic crisis, India currently boasts the world's fastest-growing economy, at 7.2 percent, and is widely projected to become the most populous nation on earth. In the coming decades, the country's economy is expected to grow to globally leading proportions. India's consumer base—its middle classes with disposable income—are growing at a breathtaking pace. In addition, it is awash with highly educated, technologically versed young professionals. What's not to like about that?

Granted, setting up shop in India—as in many jurisdictions—may require partnership with domestic players, but the upside is having local knowledge and public acceptance from the get-go. Germany's engineering giant Siemens, which has partnered with heavyweights like Tata, has a strong track record in areas including (renewable) energy and transport. These joint ventures add up to a dazzling success story of foreign investment in India.

The fact that Indian Prime Minister Narendra Modi's government encourages companies from all over the world to "Make in India" can be seen as a market barrier—if, say, you have a well-established supply chain and don't want to mess with it—or it can be seen as an invitation. Manufacture and development of products and services close to consumers has enormous advantages in terms of market proximity and logistics, to name just two factors. Confectionary giant Mars International committed to investing US$ 160m in building a factory in Pune in 2015.

And what about fast-growing digital business models? In terms of tech adoption, as early as 2016, 130 million Indians said they planned an online purchase. To place that figure in perspective, it exceeds the entire population of Japan and is up 76 percent from the previous year.

Indian e-commerce companies Flipkart of Bangalore (in which Walmart has since acquired a majority holding) and Snapdeal near New Delhi, founded by a pair of former Amazon employees and a Wharton graduate, respectively, have each received over US$ 1bn in venture funding and entered into a war for customers. Amazon has made India a top priority for growth, projecting that the country will be its second-largest market globally by 2025.

With Indonesia currently holding the G20 Presidency, there should be no doubt about the role the nations of Southeast Asia have in the global economy. Long gone are the days when alliances were formed in line with the Eastern Bloc vs. Western Bloc divide. Dealing with regulatory bodies and partners in the different jurisdictions across the region demands respectful communication among equals. Given the breathtaking economic advances in countries like Indonesia, Malaysia and Vietnam, Western players wishing to get in on the action do well to remember that they are not the only suitors.

It bears mentioning that Southeast Asia has seen per capita income growing at a higher rate than anywhere else in the world since the 1970s. Consumers, an exceptionally large proportion of them young and tech-savvy, are not yet pampered by an overwhelming offering of different services. Regulatory frameworks are relatively liberal. Currency volatility is high across the region and middle classes have limited access to global investment tools, which could make alternative ways of storing value—such as digital assets—attractive. In addition, large numbers of unbanked Southeast Asians can be expected to welcome technologies that enable easy financial services, cheap transactions and micro-loans.

Of course, the potential of Southeast Asia has not gone unnoticed. It's no coincidence that the China Investment Group pointed to Southeast Asia as a key development region for artificial intelligence and blockchain in its recent "Asia-Pacific Science and Technology Innovation Development Report." The number of technology-related gatherings and conferences continues to increase in major cities like Bangkok, Hanoi, Ho Chi Minh City and Singapore.

The region is seeing a surge in investments in the deep tech sector, which is driving expansion of the tech ecosystem. Alongside homegrown players like Singapore-based Signum Capital and LuneX Ventures, the crypto arm of Golden Gate Ventures, a growing number of foreign venture capitalists are looking for blockchain startups in this region to invest in. Technology companies have no time to lose in gaining a foothold here, and should be prepared to face competition from—where else?—China. In fact, Chinese players are already eagerly setting up companies and building partnerships in the region.

Know your market

If you plan to enter new markets across Asia, a strong presence in the digital sphere will be critical for success. In addition, high-impact digital marketing channels need to be identified and utilized. Regional social media dynamics and online habits must be closely examined. For example, it's important to understand that South and Southeast Asia are by and large mobile-first and mobile-only regions. Across Southeast Asia, Internet penetration ranges between around 55% and 85% of the population. Of those Internet users, 85% to 95% use mobile social media. Smartphone-friendly Internet technologies—such as blockchain apps—that take advantage of these high penetration rates could open up unprecedented opportunities. Blockchain-powered applications for creating NFTs, decentralized finance (DeFi), enabling cheap and secure transactions, remittance and micro-loans could offer financial inclusion to the unbanked, enabling sustainable growth.

It might also pay to remember that South and Southeast Asian Facebook users regard it as a space for business topics and networking alongside its original function as a private social media platform. India alone has 270 million Facebook users, making it the single biggest market for the portal, while Indonesia has 130 million users. Facebook is also immensely popular in the Philippines (68 million), Vietnam (58 million) and Thailand (46 million).

Pick and choose

South and Southeast Asia also offer different advantages in multiple countries. For example, you can set up a company and pitch investors in the business hub of Singapore, enter corporate partnerships in Thailand and put together a programming team in India or Vietnam. The next step could then be to target the emerging markets of Myanmar and Cambodia or the growth markets of India, Indonesia, the Philippines or Malaysia—all within the South and Southeast Asian region.

To sum up, startups and incumbents can still find room to boom in the East, but should think twice before entering red-ocean markets. Finding the optimum point of entry for your Asia strategy depends on your business, products and services. And don't forget to check the following boxes:

- Detailed intelligence on the competitive environment and consumer base
- Access to local expert knowledge
- In-depth regulatory intelligence
- Regional support network
- A flexible plan that leaves room for reorientation

China's huge consumer base and large proportion of digital natives are undeniably attractive, yet—as we have seen—fierce competition, market nuances and regulatory complexity make it a very dangerous place for newcomers. For those who move fast and move smart, South and Southeast Asia can become the launching pads to really take off.

About

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