ASIAPROSPECTS
twai TORINO WORLD AFFAIRS INSTITUTE
BUSINESS

ASEAN E-COMMERCE: TAKING STOCK AFTER ONE YEAR OF COVID-19

Luca Sartorelli

When we last analysed ASEAN e-commerce trends it was March 2020, just over one year ago. Few of us, if any, could have imagined then that we were only at the beginning of a game-changing catastrophe that would be remembered for years to come. In the following months, worst-case scenarios came true and the COVID-19 pandemic dragged the world into what is now a radically different reality from the one we knew before. Social interaction, work, travel and many other aspects of our daily lives have changed, some of them forever.

in collaboration with

CPS CULTURE POLITICA SOCIETÀ
CENTRO LUIGI BOBBIO PER LA RICERCA SOCIALE PUBBLICA E APPLICATA
UNIVERSITÀ DEGLI STUDI DI TORINO
ICCS Italian Chamber of Commerce in Singapore

THE *ASIAPROSPECTS BUSINESS* SERIES
IS EDITED BY **GABRIELE GIOVANNINI** (T.WAI & UNIVERSITY OF TURIN)

ASIAPROSPECTS BUSINESS NO. 4, APRIL 2021

[1] eMarketer, *Global Ecommerce Update 2021*, January 2021.

In a recent report,[1] eMarketer estimated that global retail e-commerce sales grew almost 30% in 2020, reaching a total of USD 4.280 trillion. This figure is equal to more than twice the yearly GDP of Italy. The same study also shows a decline of 3% in total worldwide retail.

This double-digit growth of e-commerce varies substantially from country to country, with some Southeast Asian countries standing out (i.e., growth in Singapore totalled 71.1% in 2020), and with e-commerce in Africa and the Middle East growing, but not exponentially. eMarketer's report also suggests that this year China will become one of the first countries to transact more than half of its retail sales digitally, confirming Beijing's leading role in global e-commerce trends.

Significant limitations of movement and physical interaction triggered the wave of success of e-commerce platforms and cemented the e-shopping culture in the retail world. At the same time, the online revolution of retail and trade pushed all kinds of companies to rethink their strategies to include innovation and digitalization in order to survive, and radical changes were introduced. Their approach to and relationship with digital markets, online commerce and customer care were revisited and restructured in a matter of months, not always successfully. 2020 saw a race to create more user-friendly solutions and easier access to and exchange of products. Investments in online money transfer technologies also soared. However, the pandemic only accelerated a trend that was already in the air, obliging most companies to rush towards digital trade to stay alive, while rules and regulations were somewhat left behind or disregarded. Issues such as cybersecurity, geo-blocking and intellectual property became more and more crucial in the regulatory agencies' agendas, but not all businesses have the right instruments and the capacity to understand and take advantage of these regulations.

Looking at 2020 trends in more detail, we notice that not all industries have been benefitting from the online sales wave. Among others, businesses anchored to travel and outdoor leisure activities, office furniture and office wear suffered a painful fall in most countries. This taught companies and online platforms a lesson – the hard way – in business and service diversification. The e-market is fast and unpredictable, and flexibility is key to staying afloat.

	VIETNAM		INDONESIA		MALAYSIA		THE PHILIPPINES		SINGAPORE		THAILAND	
	Mar-21	Mar-20	Mar-21	Mar-20	Mar-21	Mar-20	Mar-21	Mar-20	Mar-21	Mar-20	Mar-21	Mar-20
1	Shopee	Shopee	Tokopedia	Tokopedia	Shopee	Shopee	Shopee	Lazada	Shopee	Qoo10	Shopee	Lazada
2	Tiki	Tiki	Shopee	Shopee	Lazada	Lazada	Lazada	Shopee	Carousell	Lazada	Lazada	Shopee
3	Cho Tot	Cho Tot	Lazada	Bukalapak	Mudah	Mudah	Amazon	Zalora	Lazada	Amazon	Kaidee	Kaidee

Table elaborated by the author based on data from SimilarWeb.

Comparing the performance of the most trafficked e-marketplaces in ASEAN countries before and after the pandemic wave, we notice some small but significant changes. In only one year, Shopee, a subsidiary of the conglomerate Garena (Sea Limited), originally an online game developer and producer, became the favourite platform in five of the six countries we examined. Shopee recorded 10 to 60 million visits to each of its subsidiary sites in February 2021, for a total of over 200 million, as shown in the clustered bar chart below. Recently, this Singapore-based e-marketplace became the number one in Taiwan, surpassing Ruten and the Chinese giant Taobao of Alibaba Group. Indonesia is a country that should be closely watched: with steady growth in GDP and a massive population – equal to that of Thailand, Vietnam and the Philippines combined – Indonesia is a country whose market potential may produce big surprises in the near future. Tokopedia – the top Indonesian unicorn that attracted nine-figure investments from Softbank (Japan) and Alibaba (China) – continues to dominate its country's growing e-marketplace, with more than 120 million visits in February. This booming platform is now in talks with another Indonesian company, ride-hailing and e-wallet service giant Gojek. They are negotiating a merger valued at no less than USD 20 billion (some say double that), which would place the digital firm among the top digital players in the ASEAN region.

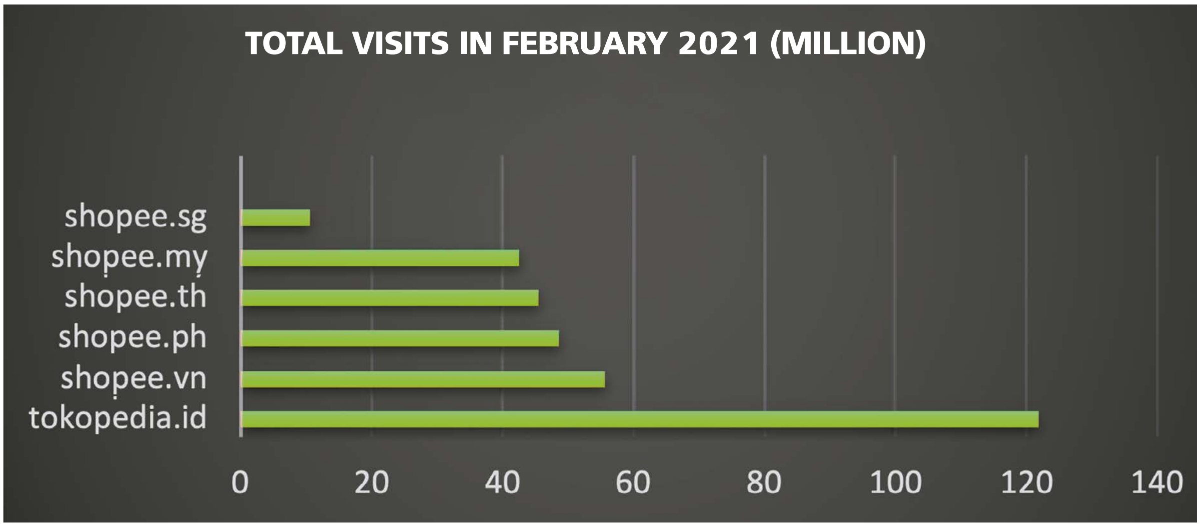

Chart elaborated by the author based on data from SimilarWeb.

As opposed to Italy, the UK and Germany, whose e-marketplaces are dominated and somehow ruled by Amazon and eBay, the ASEAN group has managed to dribble past the giants of the West Coast to develop its own e-shopping economy. Singapore is the place everyone is looking at, expecting it to grasp the latest trends of the digital economy. In this so-called smart state, Amazon has lost position, outperformed by Shopee in the first place, but also Carousell, another Singapore-based e-marketplace which introduced its own integrated payment system, and Lazada, a platform originally backed by the European Rocket Internet but now fully controlled by the Hangzhou-based Alibaba Group. Similarly, eBay no longer appears among the top ranking e-marketplaces in any of the countries we analysed. It seems that the race to conquer the ASEAN 100 billion e-marketplace has favoured those companies that have better knowledge of the territory and its multifaceted cultures and are fastest to create experiences tailored to each country's particular needs. For instance, some ASEAN e-marketplaces have been able to develop solutions to target a huge, but perhaps the most untapped, market in rural Southeast Asia: the 'unbanked'. In many areas of this part of the world, Internet connection is still volatile and there is poor or no access to Internet banking or card payment. The cash-on-delivery model is a perfect fit for these areas, and it is being applied in a number of countries, such as Myanmar, after a successful start in rural India. Here, the vast majority of transactions for online products happen on delivery, using cash, as nearly 80% of people do not have a bank account. One might previously have thought such a culture to be 'backward', but now that banks have been closed for weeks as a consequence of the coup, they have been proven to be right.

We can observe similar trends in Northern Europe, and partly in France, where digital brands linked to the Norwegian Internet group Schibsted and the Dutch Bol.com are also outpacing the Americans.

Turning back to Southeast Asia: there is something that Asian merchants learnt many years ago, before the e-commerce era, and it is the value of customer care. Since the beginning of the e-commerce revolution, merchants have been able to profit from their crucial ability to pamper clients and thus hook them into a sophisticated digital experience. In fact, in markets where client satisfaction is a top priority, poor online performance is a no-go for online vendors, as it can quickly translate to huge commercial losses and reputational damages.

Let's face it, buying online from an Italian firm, whether it is a local pharmacy selling a face cream, a mill selling its special flour, or a bookshop selling a book, can turn into a nightmare in matter of seconds – or, more accurately, minutes. The registration process is often not straightforward and can be quite nonsensical for customers who do not reside in Italy. Moreover, as mentioned in my previous paper, mobile phones are the preferred tool for buying online in ASEAN countries. There, at least 80% of operations happen via mobile phone. This has profound consequences for any enterprise that enters the ASEAN e-marketplace. Most companies' websites are not mobile friendly, which makes the phone browsing experience painful. We would like to stress this point, as the shift from computer to mobile is becoming a global reality, including in Italy,[2] and companies should focus seriously on an omni-channel structure that allows customers to shift between desktop, mobile and other devices without losing information or compromising their security.

[2] Osservatorio, Innovative payments: da alternativa a necessità, Politecnico Milano, 11 March 2021.

Another consideration concerns payment. For customers who intend to buy from Italian websites, the payment process represents another potential burden. The acceptance of electronic payments and security procedures systems and mechanisms are totally inconsistent. On the other hand, the two mantras of the Monetary Authority of Singapore are these: simplifying payments and reducing risk. Asian customers, used to accessing the products they need in a couple of clicks, seem to live on a different planet; in the Italian e-marketplace, only Amazon offers similar performance. Purchasing online can also be a fun experience in this part of the world. Sometimes clients engage in a sort of virtual flirtation with online help desks, while being continuously bombarded by aggressive brand engagement tactics. Such services, including straightforward payment gateways, can be extremely expensive for companies, not only in financial terms but also in human resources and management. According to a survey by iPrice,[3] general marketplaces and multinational companies are outpacing single-country stores in most of the ASEAN group. Once more, it seems clear that the most cost-efficient way to enter any ASEAN e-marketplace is to pair businesses with one or more already established platforms. For a fee, e-marketplaces can mitigate the risks of entering the ASEAN e-commerce world. For a quick snapshot of the different options, we suggest reading Shikha Sarkar.[4]

[3] iPrice Group, *Southeast Asian map of e-commerce*, Q2 2020.

[4] Shikha Sarkar, *Top 7 payment gateway options for SMEs in Singapore*, SME Quest, 21 May 2020.

ASEAN E-COMMERCE:
TAKING STOCK AFTER
ONE YEAR OF COVID-19

Together with the customer experience, payment transactions are a key element in the e-shopping process, and securing a fast and safe payment gateway requires strong collaboration between public and private actors. Regulators play a vital role in this process.

In December 2020, the European Commission launched a regulatory initiative called the Digital Service Act (DSA), which aims to 'better protect consumers and their fundamental rights online; establish a powerful transparency and a clear accountability framework for online platforms; [and] foster innovation, growth and competitiveness within the single market'. As we can observe from this outline, the Commission's focus is more on protection of EU citizens than on promotion of trade. While the DSA is an overdue step in harmonizing the existing EU regulations and addressing the fragmentation of the legal frameworks of the member states in light of the abysmal changes that have happened in the last 20 years, there is a risk that further regulations will create additional burdens for trade. As highlighted by Luther,[5] companies could face unexpected costs in the technical implementation of new compliance rules and liability risks. On another note, Strong Customer Authentication (SCA), a regulatory requirement long discussed and finally introduced at the beginning of 2021, is a new measure that aims to ensure additional security of electronic payments, but once again the risk is that, instead of simplifying the process, it will create an additional burden. In a recent article, the global payment consultancy CMSPI[6] argued that the introduction of this new regulation might affect those companies that are unable to adopt the system creating a damage in the market for USD 96 billion. The main reason is precisely that many transactions are failing due to the increased security imposed by the SCA procedure. According to CMSPI, Italy has recorded the biggest increase in transaction failures after the introduction of SCA: nearly 50% in the first months of 2021.

[5] Luther, *White paper – Digital Services Act*, September 2020.

[6] CMSPI, Strong Customer Authentication (SCA) – impact assessment – February 2021, 26 March 2021.

In parallel, in the ASEAN region, while total harmonization of the e-commerce legal framework still seems unrealistic, a multilateral agreement is already in place. A public–private sector advisory, called the ASEAN Coordinating Committee on Electronic Commerce (ACCEC), was set up to work on the Digital Integration Framework adopted in 2018. The priority areas of the Digital Integration Framework Action Plan 2019–2025 are the facilitation of seamless trade, protection of data and support for innovation, and the enablement of seamless digital payments. The goal is clear: boosting e-commerce in a safe and controlled environment, while supporting innovation. Is the EU Digital Single Market ready to challenge ASEAN Digital Integration?

THE AUTHOR

Luca Sartorelli is Research Fellow at T.wai and economic development expert with the Italian Cooperation. Previously, he has worked for the UN, private sector and INGOs His academic background includes a Master of Arts in Public Policy and a Master's Degree in Sociology with a specialization in Land and Environment.