

“ROLES OF THE SOUTHEAST ASIAN MARKET ON CHINESE DIGITAL PLATFORMS’ GLOBAL EXPANSION”

Research Note

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“Abstract”

This paper analyzes the roles of Southeast Asia countries’ emerging e-commerce market for two Chinese global companies, Alibaba and ByteDance. It puts the focus on the two firms’ development in e-commerce. This paper finds out that the expanding e-commerce in Southeast Asia’s rapidly growing digitalization provides excellent international opportunities and significant insights for these global Chinese firms to launch their services in the Chinese home market, as well as their expansion in the Western markets. By employing Southeast Asia as part of the external factors in firms’ internationalization, this research proposed a framework to explain the political and economic relationship between China and Southeast Asia. This paper considers that the experiences that the Chinese companies obtained from Southeast Asia made them rethink their expansion strategy in and outside of China. This research provides a diversified perspective when looking into the China-Southeast Asia political-economic relationship and interaction.

Keywords: China, Southeast Asia, Two-Way Relations, EC Platforms, Digitalization

1 Introduction

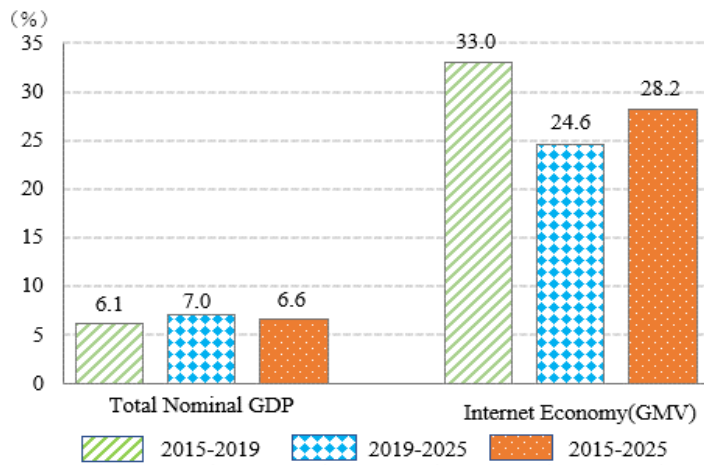
China and Southeast Asia are two crucial economic bodies in Asia and the Pacific. Southeast Asia countries have long been an important trading partner for China, and as a center for exchange. The establishment of ASEAN further improves the economic ties between China and various Southeast Asian countries. The signing ceremony for establishing the ASEAN Economic Community (AEC) in 2015, further liberalized the movement of capital, labor, and various services. Meanwhile, the infrastructure development dramatically increases the connectivity of the entire Southeast Asia region.

Regarding the trajectories of the Southeast Asian digitalization and digital economy market since the 2010s, Figure 1 shows the estimated average annual growth rate of GDP and internet economy (GMV)¹ for six ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam), according to Japanese Ministry of Economy, Trade and Industry (2020). The nominal GDP growth rate in the area over the past five years (2015-2019) was 6.1%, while the Internet economy growth rate was 33.0%. One of the reasons behind this rapid growth is the significantly increased number of young Internet users in Southeast Asia.

During the coronavirus breakout, the economy’s digitalization has also been strongly encouraged at ASEAN. In terms of the hardware, data shows that every household owns at least one smartphone or tablet device. Meanwhile, mobile infrastructure has been improved to connect to the Internet. The emergence of the digital economy is expected to play a driving role in large-scale economic activities eventually. In 2022, ASEAN has more than 400 million digital consumers, a burgeoning tech-savvy

¹ GMV stands for the abbreviation of “Gross Merchandise Value” GMV with the calculation of “the number of transactions times average order unit prices.”

population and an e-commerce sector that generated more than US\$130 billion in revenue (East Asia Forum, 2023).



According to the Yusof Ishak Institute’s estimation (2020), between 2019 and 2025, the Internet economy growth rate (annual average) in these six ASEAN countries will be 28.2%, compared to the nominal GDP growth rate of 6.6%, an increase of 4 times or more than the GDP growth. In these ways, Southeast Asia is expected to expand the digital economy market in the short run, affecting other regions.

Figure 1. The Estimated Growth Rate of the GMV in ASEAN (2015-2025)

Source: Based on METI (2020), authors made.

By 2030, the ASEAN’s digital economy is forecasted to grow by 6 percent annually, reaching 1 trillion dollars. Contextualized within the expanding digital economy, this research will focus on the digitalized Southeast Asia, and then explore the dynamic relationship it develops with one of its most important neighbors—China, during this highly digitalized era.

2 Literature Review

2.1 Intricate ties between China and Southeast Asia from the past till present

The interaction between China and Southeast Asia can be traced back to the middle of the 17th century when colonizers encouraged trade and recruiting merchants from South China. The interaction and communication further expanded because of several waves of immigrants from China to Southeast Asia. Local merchants reached out to Chinese ancestry living in Southeast Asia to do trade (Lockard, 2013). During the later times, labour from China in the 19th century contributed to the development of the local economy and society. In another word, the influx and outflux of people between the two regions had never stopped.

In recent years, the relationship between China and Southeast Asia became a hot topic after Chinese President Xi Jinping announced its Belt and Road Initiative(BRI) in 2013 (Rana and Ji, 2020). China’s economic footprint has quickly expanded around the region, including some key infrastructure projects like the China-Laos-Thailand high-speed railway, the New Yangon City in Myanmar, etc. Not only the state-owned enterprises (SOEs), but many Chinese individual entrepreneurs, private firms, and semi-public entities, also flocked to this area. Between 2006 and 2015, export exposure to China has risen for Vietnam, Laos, Myanmar, Cambodia, and Malaysia. In the trade between China and Southeast Asia, electronics, mineral fuels, and machinery, are the top three categories (Oh, 2017). The agricultural exports to China keep on increasing, because of China’s huge demand for food. However, the operation of Chinese investors, firms, and government-sponsored entities brings about significant challenges and unexpected consequences to the region at the same time. For instance, China’s increasing need for corn directly led to deforestation in Myanmar, and the demand for rosewood also caused the environmental crisis in the Mekong countries. There is also an increased Chinese demand for exotic animal products, such as pangolins (Keng-We, 2018). Chinese businessmen’s role in Southeast Asia’s shadow economy has become a significant issue. The Chinese gangsters settled down in Cambodia and Myanmar to operate casinos and international phone frauds have caused many problems in public security (Han-E, 2021).

While looking into Chinese firm's relationship with Southeast Asia, many focus on the trade and manufacturing between the two entities. Southeast Asia countries are providers of certain kinds of products, like raw materials, or semi-finished products. Lang and Chan' article puts Southeast Asia as an important part of the trade chains and explains how China's growing furniture and plywood exports to the EU, indirectly caused deforestation in Southeast Asia (Lang and Cathy Hiu Wan, 2007). Another body of research focuses on how China's developing supply chain affected the manufacturing of Southeast Asia. For instance, a recent study explores the consequences when many companies relocate labor-intensive manufacturing to Southeast Asia from China by transnational corporations (Yang, 2016). Southeast Asia has become the most important research subject when looking into cross-border industrial relocation in today's increasingly globalizing economy.

2.2 Digitalization in Southeast Asia and expanding e-commerce

Southeast Asia and China had developed close economic ties and relationships in the traditional trade and manufacturing genre². In recent years, with these two economic entities heading into the digitalization era, it is of great significance to investigate their interactions during the proliferating digital economy.

According to the United Nations Conference on Trade and Development (UNCTAD, 2017), the digital economy is defined as an economy that utilizes information and communication technology (ICT) in the production and distribution of goods and services. The digital economy in Southeast Asia can mainly be categorized into electronic commerce, including the buying, and selling of products on EC websites, travel arrangements (reservations for hotels and airline tickets), digital media (including games, videos, and music), and services (food delivery, car sharing, etc.). Furthermore, cryptocurrencies like Bitcoin also contribute to the digitalization of the economy.

The following graphs demonstrate digitalization in Southeast Asia and China. Figure 1 represents the Rates of Individuals Using the Internet (RIUI) in Southeast Asia and China between 2010 and 2022, which indicates a significant rise in both areas. Malaysia, which stood at the figure of 56.3% in 2010 increased to 97.4% in 2022, the highest among the regions. Thailand had the second largest RIUI increase from 22.4% in 2010 to 87.98% in 2022. Vietnam had 75% RIUI in 2022. On the other hand, in several middle-income economies, including Indonesia, Lao P.D.R., and the Philippines, which had reached from 50 to 60% in 2022, a bit lower than the other countries. China's RIUI achieved around 75% in 2022.

Similarly, there is an increased number of users per 100 people in the fixed-broadband subscriptions (FBS) in both Southeast Asia and China (2010-2022). According to Figure 2., Fixed-broadband subscriptions in Vietnam increased from 4.2 persons in 2010 to 21.65 persons in 2022, followed by Thailand's 18.45 persons in 2022. The number of FBS in Indonesia, Malaysia, and the Philippines is around 10 persons per 100 in 2022. China, which stood at the figure of 9.37 persons in 2010, and in 2022 the number is 41.35 per 100 persons.

² Primarily because of the vital roles of the ASEAN, which stands for the Association of Southeast Asian Nations established through the Bangkok Declaration in 1967. Initially, it consisted of Thailand, Indonesia, Singapore, the Philippines, and Malaysia as its founding members. Brunei became a member in 1984, and later, Vietnam, Cambodia, Laos, and Myanmar, all situated on the Indochina Peninsula, joined as well. As of the year 2022, ASEAN comprises 10 member countries according to information from the Ministry of Foreign Affairs (MOFA) in 2022. In a recent development, the signing ceremony for the creation of the ASEAN Economic Community (AEC) took place in Kuala Lumpur on November 22, 2015. The AEC's establishment is set to enhance the liberalization of capital, labor, and various services, and it will significantly boost infrastructure development, improving connectivity across the entire region. Consequently, the AEC is anticipated to foster further economic growth within ASEAN (Hara, Karikomi, and Hashi, 2023).

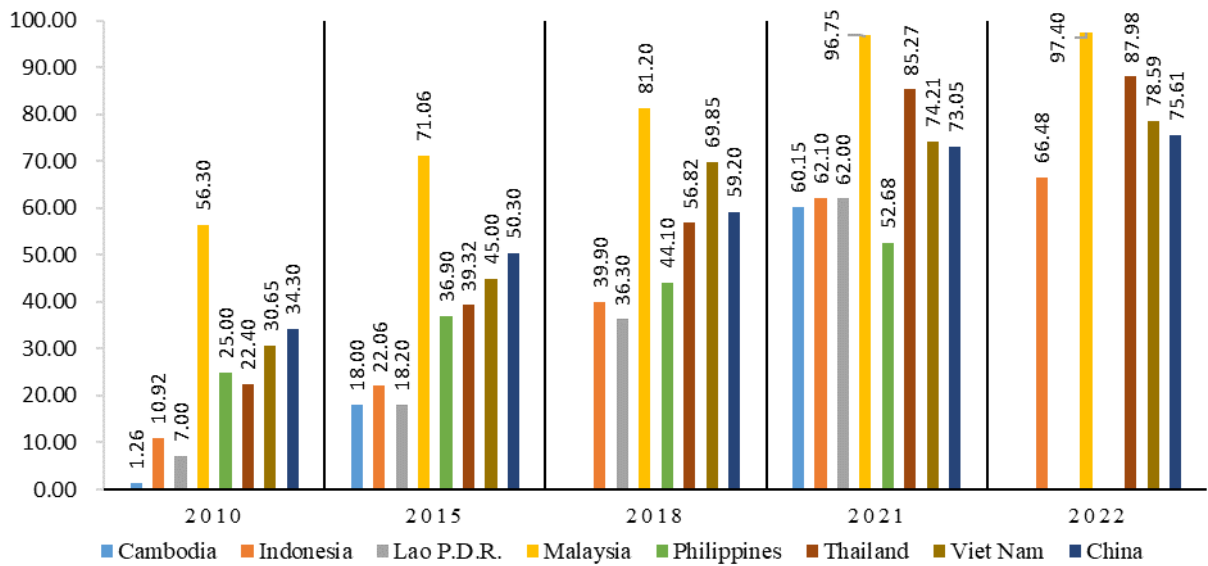


Figure 1: Rates of Individuals Using the Internet in Southeast Asia and China (2010-2022, %)

Source: Based on ITU (2023), authors made.

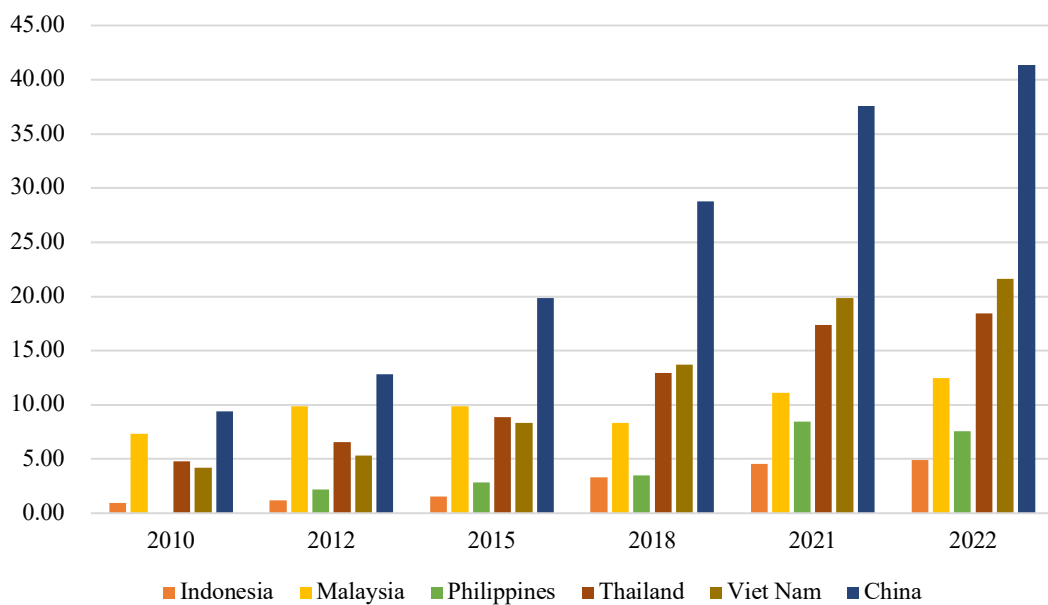


Figure 2: Fixed-broadband subscriptions per 100 people in Southeast Asia and China (2010-2022)

Source: Based on ITU (2023), authors made.

The increased digitalization also accompanies the skyrocketing number of mobile cellular subscriptions (per 100 people) in Southeast Asia. Figure 3 provides the data from eight economies, including Cambodia, Indonesia, Lao P.D.R., Malaysia, Myanmar, Philippines, Thailand, and Vietnam, showing the accumulated number of the mobile phone subscribers in all eight economies between 2001 and 2020. There were merely 100 subscribers in 2001, while the subscription number has been growing continuously. As a result, the figure achieved over 1,000 subscribers in 2018 and still growing in 2020. Except for Lao P.D.R., the data indicates that in 2020 the other seven countries' subscribers were using the services for more than two mobiles.

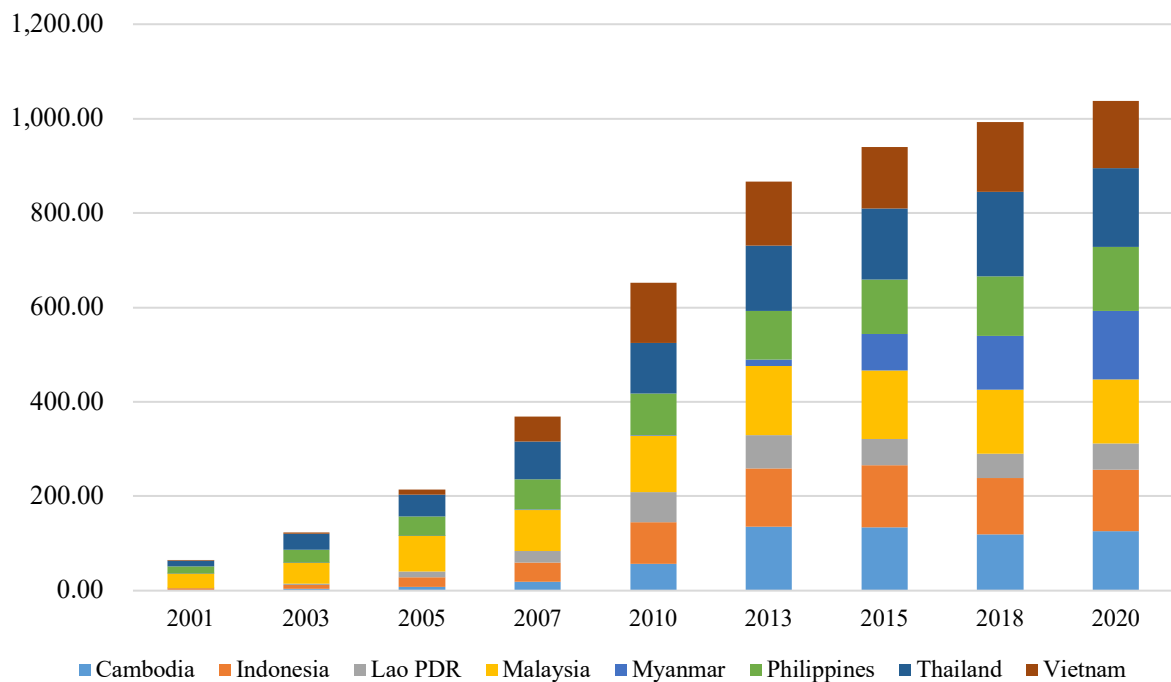


Figure 3: Mobile cellular subscriptions (per 100 people) in Southeast Asia (2001-2020)

Source: Based on the World Development Indicators (2023), authors made.

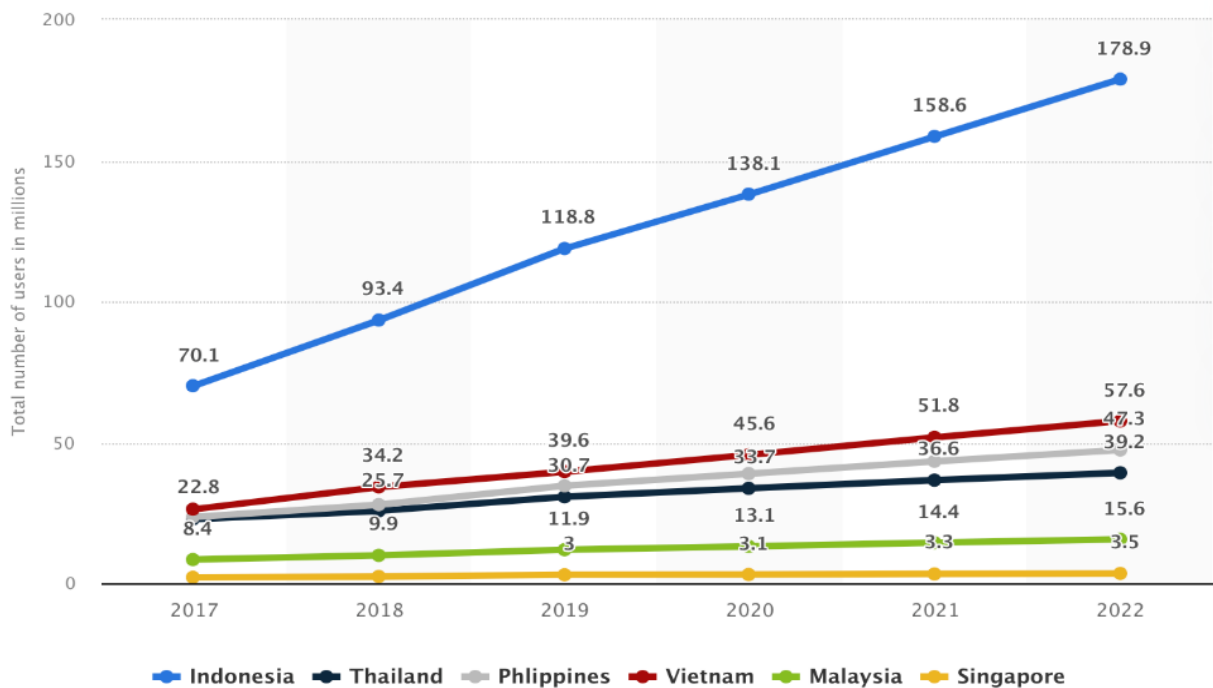


Figure 4: Total number of e-commerce users of selected countries in Southeast Asia from 2017 to 2022, Statista database

Source: Statista (2023).

The breakdown of the digital economic scale in Southeast Asia accounts for E-commerce at 38%, Travel Arrangement at 34%, Delivery service at 14%, Digital Media at 13% in 2019 (GNV, 2023). Among all

these sections, e-commerce users in Southeast Asia, are keeping on increasing in the most recent years. In 2016, Southeast Asia was considered on the verge of an e-commerce boom, of the 150 million digital consumers there, two-thirds already shop online (Bain & Company 2016). *Figure 4*, which was cited from market research company, gave out the user numbers' change between 2017 and 2022 in Indonesia, Thailand, Philippines, Vietnam, Malaysia, and Singapore. The number of e-commerce users in Indonesia reached to 178.9million in 2022, the highest in the region. Followed by Vietnam(57.6million), Philippines (47.3million), Thailand(39.2million), Malaysia(15.6million), and Singapore(3.5million).

3 Identification of Study Gaps

With the rapid growth of digitalization, since the 2010s, the interaction between China and Southeast Asia has intensified, with many players in the digital economy involved. Since the late 2000s, digital platforms have developed rapidly and expanded extensively in both China and Southeast Asian regions. And the digital platform-driven restructuring of industries attracts scholarly attention. Yang (2022) explores the relationship between digital platforms in China and Southeast Asia and global production networks(GPN) in the distribution of fresh fruit between the two regions. Like the other parts of the world, the intensified digitalization changes both. China's economic growth from 2015 onwards, is considered closely related to the rising digital giants, like Baidu, Alibaba, and Tencent (BAT), as well as the burgeoning ByteDance which owns one of the most popular Apps around the world, TikTok.

As previously mentioned, Southeast Asia is a region with a large percentage of young adults in the population, the area is considered to have a promising future and will become the most important market around the world in the near future. The Chinese tech giants therefore also pay close attention to the emerging markets of Southeast Asia. However, the existing research primarily stresses how a big economy like China has a one-way impact on the Southeast Asia region and stresses the region's role in China's national strategy. Alternatively, the Chinese state utilized the region economically and politically to fulfil its own national interests. The existing discussion so far has said little about what an emerging market like Southeast Asia means to those increasingly important global Chinese firms, for instance, companies like Alibaba and ByteDance. There has been a lack of research on the interaction between Southeast Asia and China in this increasingly digitalized world. Therefore, this paper will zero in on Alibaba and ByteDance, the two most crucial tech giants that are expanding globally. This study aims to put more weight on exploring what kind of role the emerging Southeast Asia markets play in the two influential digital giants' strategy-making in their internationalization.

This research employs Alibaba and ByteDance's development in e-commerce as a case to explain the interconnected, and complicated relationship between Southeast Asia and China. China's development in e-commerce is indispensable to the low-cost manufacturing model, which has also made China the "world factory" since its opening and reform in 1978. Alibaba Group, the earliest player in China's e-commerce was established by Jack Ma in 1999. Alibaba's current business operations have expanded to artificial intelligence, finance, cloud service, etc. In the e-commerce section, it owns Taobao, TMall, 1688.com, Alibaba.com, and AliExpress. Alibaba is involved in the online shopping website Lazard (EC Commerce) in Southeast Asia. ByteDance started as an internet technology company in 2012 and is famous for its short-formed video-sharing platform TikTok (in China its name is Douyin). Nevertheless, as a latecomer, ByteDance developed a new format of e-commerce, live commerce. This new format is becoming more and more popular, which significantly affected consumer behaviors. In 2023, ByteDance has ramped up its expansion into global market of e-commerce. And Bytedance's TikTok recently embarked on its online cross-border shopping section in various Southeast Asian countries. For firms like Alibaba and ByteDance, there is no doubt that Southeast Asia is one of the most important international markets for them.

Research Questions (RQs)

To discuss Southeast Asia's role in Chinese firms' global expansion, this paper builds on a combined analysis of various sources, including interview data, the two company's financial statements, and the

media mapping of these two companies' development and strategy. This ongoing research seeks answers to the two following research questions.

RQ1: How does Southeast Asia affect the two Chinese corporations' internationalization strategies?

RQ2: How can the expansion in Southeast Asia's emerging market strategically affect the development of Chinese corporations in return?

To answer these research questions, this paper selected Alibaba and Bytedance as case studies in the Literature Review. The case studies allow us to understand a complex like international firms, and the research findings can be expanded in the future. Most importantly, the case study highlights specific conditions and factors that detailed contextual analysis.

4 Proposed Framework

Chinese tech giants' activism in Southeast Asia forms new channels of influence in this digital age. This research considers that there is a two-way influence between these Chinese tech giants and Southeast Asian economies. The experiences that the Chinese company obtained from the Southeast Asian market, made the companies reconsider their expansion in and outside of China. The Southeast Asian market is an indispensable step for the Chinese tech giants to confirm the efficacy of their business model and to evaluate the ever-changing global market. This research provides a diversified perspective when looking into the China-Southeast Asia political-economic relations. Based on the model of drivers of corporate international performance (Gerschewski, Rose and Lindsay, 2015), and the political economy of Southeast Asia (Rodan, Hewison and Robison, 2006). The markets in China and Southeast Asia could be categorized as external factors in the theory of corporates' international performance, representing the home market environment, and international opportunities respectively. The research framework proposed by this article is as follows. The investigation will also take two firms' internal factors into consideration, including capital, programs, human resources, and technology exchange.

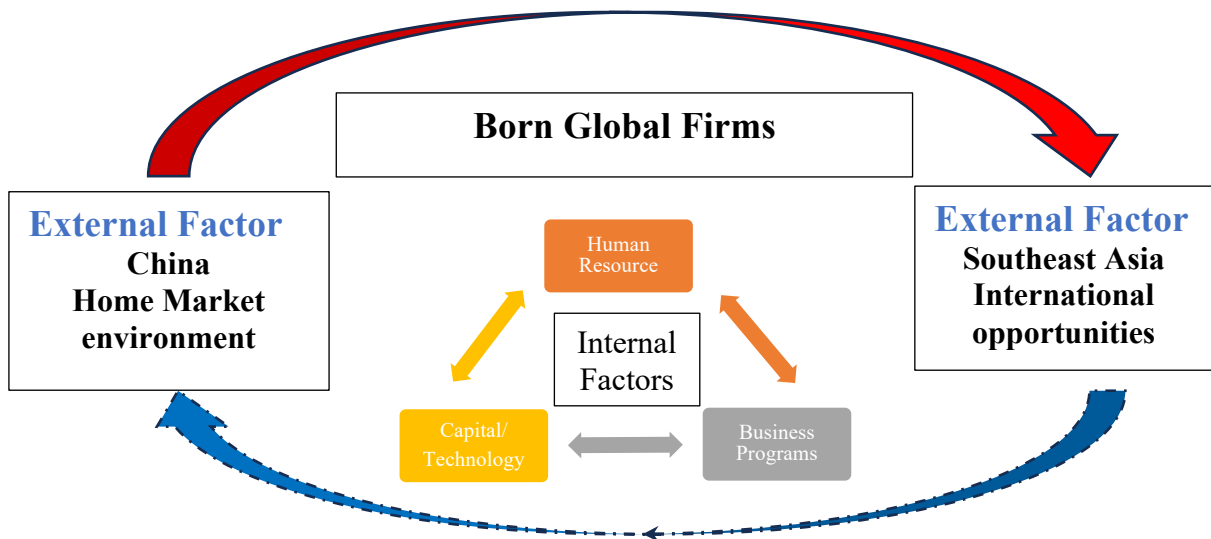


Figure 5. Two-way interaction between the home market in China and international opportunities of Southeast Asia in the Born of Global Chinese Firms' development.

Source: Authors

5 Insights and Conclusion

The business relationship between China and Southeast Asia has been characterized by a mix of cooperation and competition from the past until today. Trade, investment, infrastructure development, and political dynamics all contribute to the complex nature of this relationship, which involves various business entities. As both regions continue to grow economically, their interactions will likely continue to evolve and impact the global economy in the long run. By focusing on the flourishing e-commerce that developed in this digital age, this paper gains insight into the development of the “Born to Global firms”. Through the case study of Alibaba and ByteDance, this study explores the complex of China and Southeast Asia's relationship when they both shifted to the digitalized economy.

More importantly, it presents a hypothetical framework demonstrating the interaction between China and Southeast Asia, which also includes the influx and outflux of capital, human resources, and technology through various business programs. This study put Southeast Asia at the center of the study and calls for attention that the influence between China and Southeast Asia is not just one way, but emerging markets like Southeast Asia are extremely important in many Chinese firms' pursuit of internationalization and global expansion. This paper calls for attention to ASEAN countries' role in global companies' development of business. Although this paper is an entry-level study relevant to economics and business in China and Southeast Asia, it has the potential to contribute to the findings of the mutual, two-way relations between the other economic entities.

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