



The digitalisation of commerce in Asia

Expanding the rewards and addressing the risks

Written by

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**Foreword by Rama Sridhar,
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Democratising marketplaces, digital engagement with consumers and digital payments is the right thing to do. Much as political democracy has been acknowledged in more than 110 countries as the best way to serve citizens' rights, digital democracy is essential too.

In Asia, the pace at which people are increasing their engagement in digital democracy has been staggering and soul-satisfying to witness. Citizens' rights and freedoms within today's digital economy are also expanding and getting clearer.

The scale of the opportunity (and the risk if digital democratisation does not proceed) are amply demonstrated in this article. Indeed, digital citizens will be the power base that will help Asia master the world of the future.

However, to capture the potential that lies ahead, the region's digital democracy needs to be ruled by a system of laws that are universal, fair, impartial and enforceable by organisations independent from politically motivated bodies. Protections for digital citizens' information and privacy need to be fundamental. Regulations must aim to converge and clarify collective action across ecosystems, platforms, countries.

With these challenges in mind, I would urge thought in three areas that need more consideration:

1. In digital democracies, we need to find simple ways to include the millions that are still excluded, especially older citizens. Targeting youth to create early digital habits is, of course, logical and instantly gratifying. However, a significant portion of potential spending power lies beyond the young. Along with providing commercial benefits, platforms and inclusive policies catering to other demographics will serve the inclusion objective that should be the basic tenet of any democracy.
2. The liberalisation of telecoms, trade and foreign-exchange regulations have shrunk the world to a global nation, at least from a consumer's perspective. Retail spending and tourism are great indicators of this. Today's rising affluence in the youth and middle class enables them to follow international fashion and consumption trends as well as create travel experiences that

reflect their aspirational global identities. To leverage this spending power, there is a need to move towards seamless platforms that are interoperable globally, with uniform governance and protection for consumer experiences.

3. Consumers explore to find domains that will collectively fulfil their digital transaction needs and then seek incentives to stay. These include richer services, simpler transactions, loyalty status and behavioural rewards. However, even the most actively engaged digital consumer uses no more than five apps on a daily basis. Customer-facing organisations know this, which is spurring a race to acquire and keep the consumer. Guarding against fatigue caused by constant wooing, misguided promotional marketing, service delivery failures, a lack of dispute resolution rules and ill-considered information management is crucial to maintaining the digital diversity of online commerce.

Efforts to address these challenges should all be aimed at protecting and promoting the excitement and potential of the emerging digital nations in Asia as well as the new choices and opportunities that their citizens are just beginning to enjoy. By fostering rules, regulations and digital environments that support today's digital democracy, the palpable and buoyant rising tide that is carrying huge swathes of people—including consumers, technologists, aspiring entrepreneurs and wealth-seekers—can continue to grow.

ABOUT THE RESEARCH

The digitalisation of commerce in Asia: Expanding the rewards and addressing the risks is part of a three-part research programme commissioned by Mastercard entitled *The future of digitalisation in Asia: The challenges and opportunities ahead*.

We would like to thank the following experts for contributing their time and insights:

- Ang Choo Pin, senior director, government and corporate affairs, Asia, Expedia Group
- Penny Burt, CEO, Asialink
- Florian Hoppe, partner, Bain & Company

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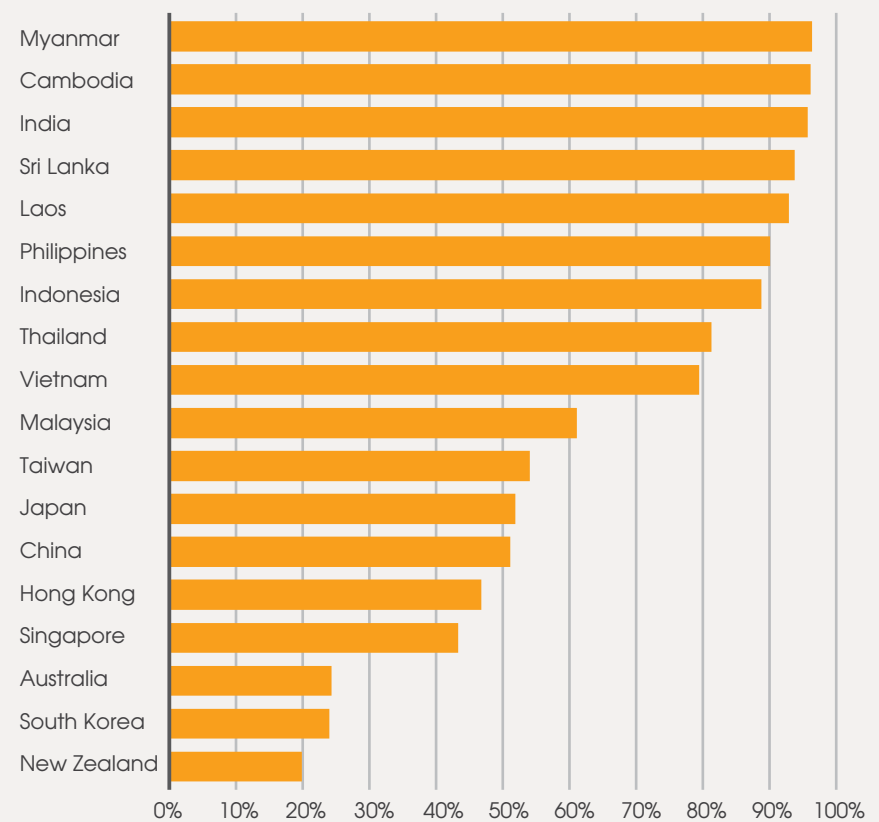
EXPANDING THE REWARDS AND ADDRESSING THE RISKS

The digitalisation of commerce in Asia has created an explosion of new marketplaces that have democratised buyer and seller access to new opportunities. People have more consumption choices than ever before, and sellers have many new digital pathways towards previously unreachable markets.

"There's no place in digital commerce as exciting as South-east Asia," says Florian Hoppe, partner at consulting firm Bain & Company, and it's still early days. Equivalent to 7% of its GDP, ASEAN's digital economy has a long way to go when compared with the shares of 16% in China and 35% in the US. Mr Hoppe sees stronger digital foundations, including greater intra-regional trade, having the potential to bolster ASEAN's GDP by US\$1trn by 2025.¹

Figure 1: Untapped potential

% of populations that have *not used* the internet to make a bill payment or shop online



Source: World Bank Findex 2017²

¹ Bain & Company, *Empowering small and medium enterprises to build ASEAN's digital future*, September 2018, <https://www.bain.com/insights/advancing-towards-asean-digital-integration/>
² World Bank, *Findex*, 2017, <https://globalfindex.worldbank.org/>

However, as Asia's digital economy grows, much of the gains are being enjoyed by only a small proportion of the population. There are millions who have not yet transacted over the internet due to lack of access, an inability to make e-payments, and inadequate education and training.

The Asian Development Bank Institute (ADBI), a think-tank, cites differences in regulations and infrastructure, and a widening digital skills gap between those included and those excluded from the digital economy as key barriers to people gaining equal access to the benefits offered by the digital economy.³

This article examines the rewards the region has and will continue to enjoy as digitalisation expands the wealth of experiences and opportunities for its citizens. It also cites the challenges associated with digitalisation and the risks to digital economies if policymakers do not address them.

³ ADBI, Understanding the Digital Economy: What Is It and How Can It Transform Asia?, 2018, <https://www.adb.org/news/events/understanding-digital-economy-what-it-and-how-can-it-transform-asia>

"Underpinning this growth has been the expansion of digital payments, which enables businesses that have an internet backbone and access to e-commerce to reach a wider range of consumers and inputs"

Penny Burt, CEO of think-tank Asialink.

THE BENEFITS OF DIGITAL DEMOCRATISATION

Rapid digitalisation in Asia is transforming the opportunities landscape for companies and individuals. Small and medium companies can expand and aspiring entrepreneurs can start new enterprises. For example, a person in a small village who has never ventured far beyond his or her hometown can now become a baker selling cookies all over Indonesia. Such businesses weren't possible five years ago, highlights Mr Hoppe.

A follow-on effect of this digitalisation is an expansion of consumers' horizons. "In the past," says Mr Hoppe, "coming from a small place in Indonesia, your horizon was the village store. Suddenly you have huge choices at your fingertips. It changes how consumers think about the world. It stretches their identity beyond past anchors in local roots and communities. People's perceptions and preferences are reshaped for the next 20 years."

Underpinning this growth has been the expansion of digital payments, which enables businesses that have an internet backbone and access to e-commerce to reach a wider range of consumers and inputs, says Penny Burt, CEO of think-tank Asialink. Moreover, technology that enables businesses to move from cash-only to accepting digital payments allows for a record of transactions. "That creates an ability for financial institutions to look at those businesses and give them credit," says Ms Burt. "There's a profound impact."

However, while the number of people who can enjoy these experiences is rising—with much attention given to this fact—millions are still excluded. The internet has not yet reached everyone in Asia, particularly in emerging countries. According to the IMF,⁴ more than 70% of the population in countries such as Cambodia, Indonesia, Laos and Myanmar remain offline and can't fully participate in the digital economy.

Furthermore, cash still dominates in most Asian countries, meaning many still can't access the primary onramp into the digital economy. In India alone, digital payments penetration was only 3-5% of personal consumption at the point of demonetisation in 2016, according to Ms Burt. It has since grown to around only 10%⁵ despite India being one of the fastest growing e-commerce markets.

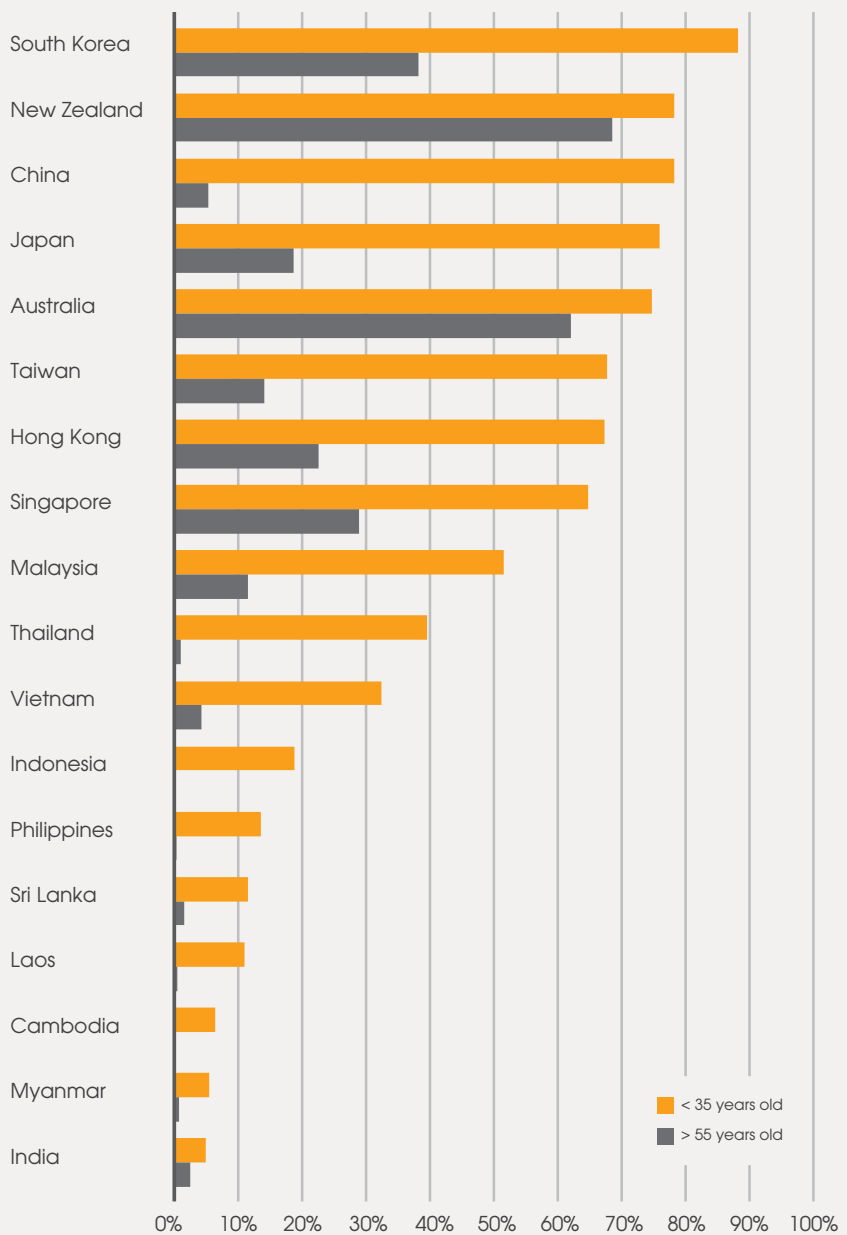
⁴ IMF Blog, The Digital Divide in Asia, 2018, <https://blogs.imf.org/2018/09/25/chart-of-the-week-the-digital-divide-in-asia-2/>

⁵ Economic Times, Demonetisation deepens digital payments in India: Visa's TR Ramachandran, September 2017, <https://economictimes.indiatimes.com/industry/banking/finance/banking/demonetisation-deepens-digital-payments-in-india-visas-tr-ramachandran/articleshow/60702774.cms>

A sizeable share of this population that lives offline includes the elderly and the poor, both of whom most often lack access to the internet as well as the education and skills on how to best use it. These digital divides, says Ms Burt, disenfranchise whole groups from the economy and limit the region's growth potential.

Figure 2: The digital age divide

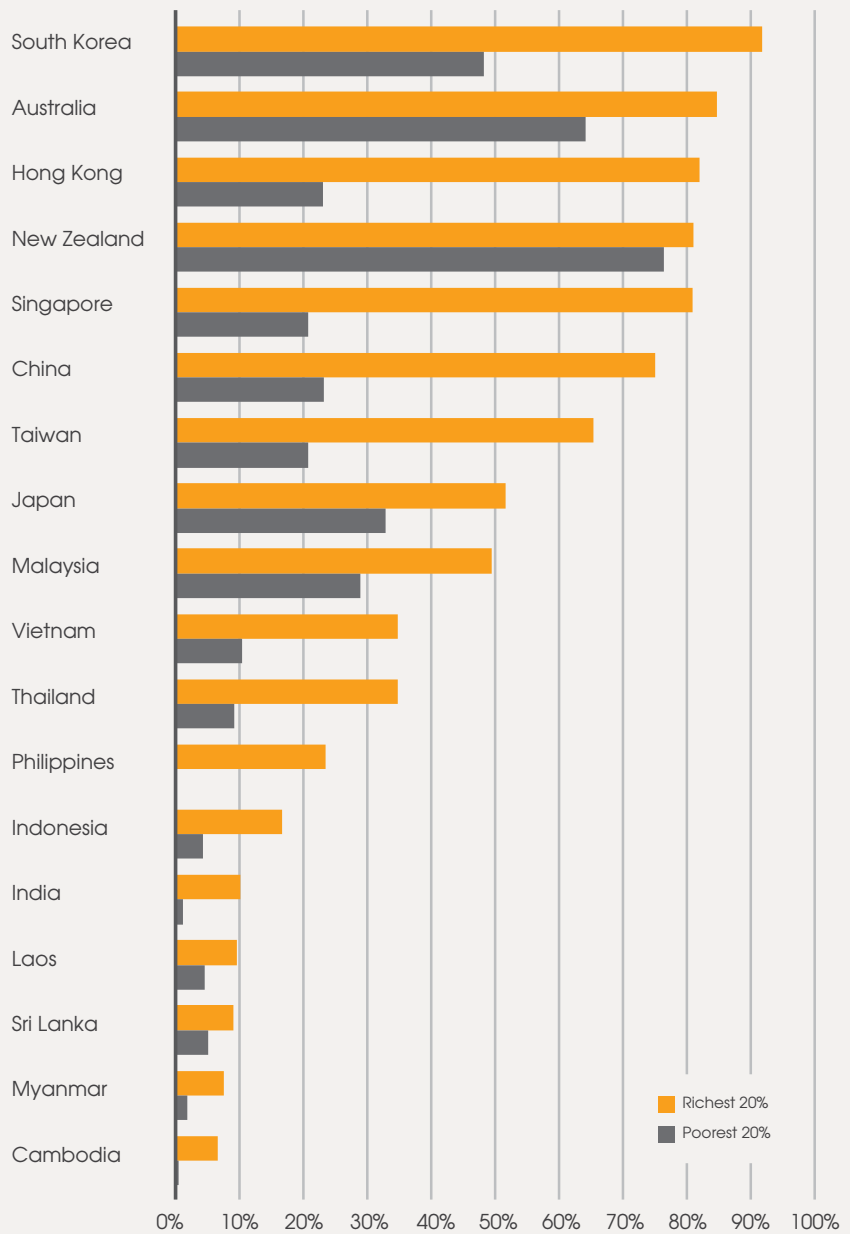
% of populations that *have used* the internet to make a bill payment or shop online



Source: World Bank Findex 2017

Figure 3: The digital income divide

% of populations that *have used* the internet to make a bill payment or shop online



Source: World Bank Findex 2017



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PROMOTING ASIA'S NEXT GENERATION DIGITAL GROWTH

The digitally excluded will need to be drawn into e-commerce for Asia's digital growth to continue. This will require continued growth in infrastructure and investment, as well as more concerted efforts to provide people with access to the technology and financial skills they need to participate in online marketplaces.

Many private-sector companies are already incorporating this effort into their growth strategies. For example, access to technology, information and training are core tenets of Expedia Group's approach to building a range of business-to-business relationships in the region, says Ang Choo Pin, senior director of government and corporate affairs in Asia for the travel platform. A small independent travel agent or property manager may not necessarily know how to access to the world of online travel supply or travellers, says Mr Ang, so Expedia Group offers programmes that help fill those knowledge and connectivity gaps.

By being able to access open travel marketplaces, people who were previously excluded from the industry are able to not only join but also learn quickly from competition and reviews. This exposure allows them to expand their businesses further and even pick up new skills as they see what is needed.

However, education and training needs are not limited to the digitally and financially excluded. Companies around the region are increasingly demanding more of their digital-savvy employees as well.

For e-commerce companies, for example, the challenge ahead includes keeping up with consumers who are evolving at an unprecedented pace. As an example, Mr Hoppe describes a typical family in Southeast Asia, each member using a smartphone while sitting together in front of the television. Inside each individual's online bubble are local friends, hobby communities, social media acquaintances, influencers, and an expanding group of local and global brands with which consumers interact through online marketplaces and social media. As wealth in the region grows, consumers are using those interactions as people do in the West—to send personal identity signals including matching brand images with their self-concept.

6 *Connecting Commerce, 2017*, <https://perspectives.eiu.com/sites/default/files/ConnectingCommerce.pdf>



Tomorrow's digital economy will require a wide range of technical skills as well, many of which business leaders are struggling to find.

The result of this, says Mr Hoppe, is that consumer behaviour in Asia is both increasingly personalised and more turbulent. On the one hand, consumers might embrace global brands and the homogeneity they offer. On the other, they may also relate more closely to home-grown companies. For businesses navigating the world in which these preferences develop, reacting to this dynamic requires an ever-rising level of skill, perspective and awareness than has been required of Asia's digital economy in the past.

Tomorrow's digital economy will require a wide range of technical skills as well, many of which business leaders are struggling to find. According to a 2017 Economist Intelligence Unit survey of 2,620 executives across the globe on the challenges to digitally transforming their companies, respondents noted difficulty finding digital skills as a key factor second only to financial constraints. Moreover, eight of the ten global cities that ranked highest for their talent shortages are in Asia-Pacific.⁶

As a result, policymakers and business leaders must remain committed to developing and fostering the next generation of technical and soft skills. These efforts should also include prioritising regional connectivity. When e-commerce and trade flows widely, connections between nations and marketplaces foster greater global awareness, opportunity and competition. These dynamics help preserve the open and democratic nature of digital trade. Ensuring they continue is crucial to the future of Asia's digital growth.



For Asia's digital democracies to grow, there must be more emphasis on expanding the benefits to those currently excluded.

KEY TAKEAWAYS

1. **For Asia's digital democracies to grow, there must be more emphasis on expanding the benefits to those currently excluded.** These efforts should include reducing socioeconomic barriers, addressing digital skills gaps across all segments of society, and continuing to extend the accessibility of broadband infrastructure.
2. **Policymakers and business leaders must remain committed to maximising the potential of the digital economy.** By upgrading and extending the information and communications technology infrastructure, and supporting innovation and education, countries will be best placed to reap the benefits of digitalisation.
3. **Policymakers and regulators must harmonise the regulatory environment across the region.** Reducing the variances relating to data privacy, digital consumer protections, regional e-commerce and trade will allow for more seamless connections between nations and fewer barriers to digitally driven economic growth.

