Fuel-efficient and new energy vehicles

Despite years of joint ventures, Chinese automobile companies are not domestic market leaders, and struggle to gain international recognition, e.g. in the passenger sedans segment, Chinese brands have a market share of 22% compared to German brands' share of 27%.[20] However, the absence of existing market leaders in the new energy vehicle categories provides an opportunity for local brands to innovate and hopefully, dominate.[21] Backed by strong government support, Chinese companies are also plugging into the autonomous vehicle market:

- Auto maker SAIC Motor and tech giant Alibaba have invested US$160 million in a fund to develop Internet-connected cars to be launched in 2016.[24]
- Baidu has partnered with BMW to develop an autonomous car by end-2015.[25]

If successful, these collaborations will reshape the auto-industrial chain, and create a market worth approximately US$600-950 billion.[26]

INTERNET PLUS

The "Internet Plus" programme works in tandem with "Made in China 2025" to develop e-commerce as a new growth engine, and accelerate SOE reforms by integrating the 10 key industries with the Internet.[22] This includes connecting supply and demand more efficiently to correct existing information asymmetry, forcing SOEs to become more competitive and efficient. We have seen similar dynamics at play with Alibaba's disruption of the state-dominated consumer finance sector.

If successful, "Internet Plus" will boost economic growth and create an estimated 46 million new jobs by 2025.[23] This may end up blurring the lines between government and digital conglomerates further.

WRITING CHINA'S NEXT ECONOMIC CHAPTER

If "Made in China 2025" and "Internet Plus" succeed, China will cut deeply into market segments that developed economies currently enjoy a lead in. At the same time, by reducing reliance on imported industrial equipment and components, China would also cut out developed economies from cross-border production chains that have developed in the past three decades to supply the "world's factory." This rosy scenario, however, does not account for the fact that existing advanced manufacturing economies like the US, Germany and Japan are themselves scrambling to keep their lead. In the end, we may see that China is still left with a lot of catching up to do.[27] 一F

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ASEAN SURPRISES

Calvin Chu and Tan Zhi Rong

Developing Asian economies face a different set of challenges in the search for a new growth model compared to Northeast Asia. Heavy reliance on foreign capital and ineffective technology transfer from MNCs to local businesses has meant that, despite decades of being plugged into global value chains, Southeast Asian SMEs continue to specialise in low-technology industrialisation while MNCs occupy the higher value-added segments.[1]

With notable exceptions, many ASEAN countries have yet to produce high-tech hubs with a global reputation. The current crop of indigenous corporate champions are more likely to be found in sectors supporting the growing ASEAN middle class such as consumer goods. Indigenous digital champions along the lines of China's Xiaomi or Alibaba are conspicuously absent. ASEAN's innovation capacity is also limited – Indonesia and Cambodia rank in the bottom half of the Global Innovation Index and Global Creativity Index, while Vietnam and the Philippines fare better.[2]

However, as the region rapidly goes digital, the expanding pool of Internet and mobile users is stimulating ASEAN's innovation scene, and opening new windows of opportunity. We are starting to see signs of a startup culture within selected clusters across the region, and emerging contenders for digital champions.

ASEAN IS RAPIDLY GOING DIGITAL

ASEAN is one of the fastest growing mobile markets – mobile penetration rates exceed 110%, with 350 million mobile subscriptions added from 2008 to 2013.[3] The region is also home to the 4th largest internet population in the world, with its internet population growing by 16% during the same period.[4]

TECHNOLOGY ADOPTION IN ASEAN IS INCREASING RAPIDLY

Million users, 2013

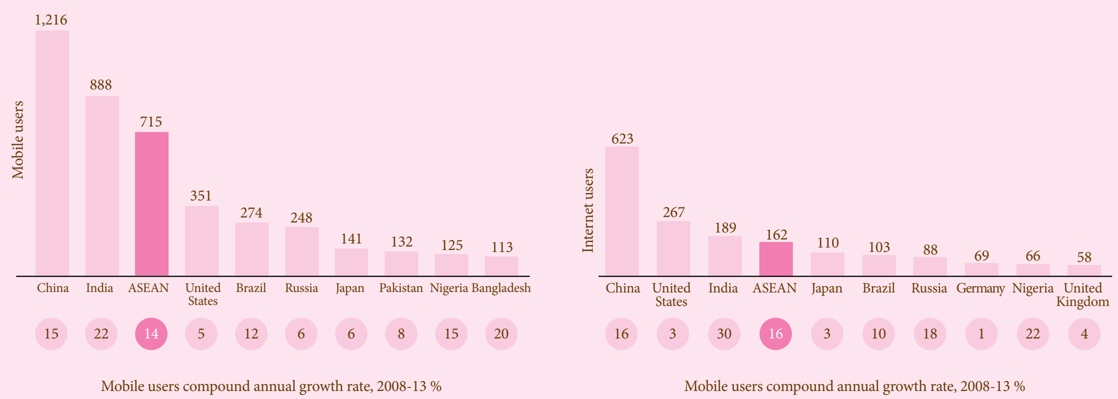

Figure 1 Source: Woetzel et al, "Southeast Asia at the Crossroads: Three paths to prosperity," *McKinsey Global Institute*, Nov 2014

Asian Frontiers

SOUTHEAST ASIA'S STARTUP FEVER

Startup culture is taking root throughout Southeast Asia, from national capitals like Bangkok to smaller cities like Bandung. This ecosystem for innovation – with research institutions, university initiatives, international partnerships, support of venture capitalists and greater digital connectivity – will be crucial to unleashing the potential of the region:

- **Bandung** plans to become a tech city. Indonesia's 3rd largest city is already abuzz with local startups and tech-savvy entrepreneurs, who come from across the country to study in some 80 higher education institutions.[5] The Bandung government has set ambitious milestones to support the city's aspirations toward becoming Indonesia's Silicon Valley – it has pledged to provide 40,000 WiFi hotspots in Bandung, 800 hectares of land and investments totalling US$800 million.[6]
- **True Incube**, a seed fund and incubator program launched by telecom company True Corporation in 2013, plans to build a vibrant digital startup ecosystem in Thailand. It hosts regular programs to connect local entrepreneurs to a network of more than 200 mentors in 500 startups,[7] with a pledge to invest at least US$15,600 in each startup accepted into its program.[8]
- The **Ayala Technology Business Incubator Network** works with local universities to strengthen private sector involvement in technology business incubation in the Philippines.
- The startup scene in Malaysia has active support, ranging from government players – Multimedia Development Corporation, Malaysian Global Innovation and Creativity Centre, and Cradle – to private accelerators and incubators, e.g. 500 Durians, Founder Institute, and VLT Labs. Malaysia's government launched a program in May 2015 to open up eligibility for startups to acquire MSC Malaysia status, giving startups access to a host of incentives that have thus far only been enjoyed by larger tech companies investing in Malaysia.[9]

Startups in ASEAN countries are beginning to scale:

- **Topica**, a Vietnamese startup, works with 5 local universities to provide online degrees targeting working-age professionals who want to raise their skills profile.[10]
- **Tokopedia**, one of Indonesia's biggest consumer-to-consumer marketplaces, has plans to become the next Alibaba by venturing into business-to-consumer sales. Prospects look bright with the announcement of India's Sequoia Capital and Japan's Softbank investing US$100 million to help it go global.[11]
- **Go-Jek**, better known as the "Uber for motorcycles", has helped Indonesia address some of its traffic woes. The tech startup is now in talks to partner the government and Indonesia's city transport company, TransJakarta Busway, to provide a feeder service to stations.[12] In addition, Go-Jek has also launched a courier service to deliver a parcel to anyone, anywhere – all under 90 minutes.
- **2C2P** is a Thai online payment platform that aims to provide easy payment solutions tailored to the needs of Asian and international businesses operating in the region. Its "123 Service" gives customers a reference number or a bar code that can be brought on any medium to a designated location to make payment. So far, the startup has a valuation of over US$10 million and has processed over US$2.2 billion payments for the 2014 financial year.[13]
- Manila-based startup **Twitmusic**, which participated in the Silicon Valley-based accelerator 500 Startups in 2012, uses Twitter to allow artists and followers to easily launch inexpensive campaigns and share songs in minutes.

> **GrabTaxi**, a ride-booking app originating from Malaysia, has taken Asia by storm. The successful startup has a presence across 20 cities and is reportedly valued at US$1 billion. Creativity is the not-so secret to the company's success – it takes driver welfare very seriously, e.g. the Singapore arm recently launched its Provident Fund, a US$2.8 million scheme for its active drivers who have a good track record.

EMERGING ASEAN DIGITAL CHAMPIONS

Big multinationals dominate ASEAN's digital landscape, particularly in niches like communications, search and networking because of their worldwide outreach and vertical focus. In contrast, most local companies offer community services or serve customers whose preferences do not cross borders. This is changing as regional ASEAN digital champions such as GrabTaxi emerge (see box).

Where are these digital champions more likely to appear? By 2030, new demand centres in the form of new cities and consumers will appear in Indonesia, the Philippines and Malaysia.[14] Successful implementation of development policies and education, as well as infrastructure investment, will likely unlock a virtuous cycle between demand and supply, fuelling a new wave of emerging digital champions in these countries, especially Indonesia.

RARING TO GO?

As the demand and supply pieces of ASEAN's digital ecosystem slowly click into place, will we see more ASEAN "unicorns", with over US$1bn in valuation? How would ASEAN digital champions work with and compete with digital giants from China and the US, and will these digital giants change the existing "technology-less" growth model? 千

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