Global Counsel

Southeast Asia’s emerging super apps: key regulatory trends to watch

Blog post by Senior Associates Brigitta Kinadi and Marissa Lee, 16 June 2021

Indonesia’s two most valuable homegrown tech companies announced on May 17th that they are merging, marking an important turning point in the growth of Southeast Asia’s digital economy. Ride-hailing decacorn Gojek and e-commerce leader Tokopedia will be combining their businesses into a new entity called GoTo. At an expected valuation of at least $18 bn, GoTo will be the largest privately held company in Southeast Asia. Intensifying competition is the main driver for the merger, with regional rivals Grab and Sea also vying for dominance. As mega-deals and large-scale consolidations pick up, regulatory considerations are expected to feature more strongly in these companies’ expansion plans.

While tech regulation in Southeast Asia currently lags behind China and the West, the regulatory landscape is already starting to change. The activities of the region’s digital platform companies are drawing more scrutiny as their growing empires result in reduced competition in the multiple industry verticals that they operate in. Gojek, Grab and Sea are racing to develop or acquire an array of digital services in order to mould each of their mobile ecosystems into a “super app” akin to China's WeChat.

The GoTo merger allows Gojek and Tokopedia to combine their user data to draw powerful consumer insights that will give them an edge in pursuing new business opportunities that smaller players are unable to access. This fact is not lost on Grab, which is now rumoured to be exploring a merger with Indonesia’s third-largest e-commerce platform Bukalapak. The concentration of large amounts of consumer data in the hands of only a few dominant players has raised both privacy and anti-trust concerns.

Regulators are under increasing pressure to lay down comprehensive rules for data governance as Gojek and Grab expand swiftly beyond their core ride-hailing business into digital finance and telemedicine, which will allow them to amass highly sensitive personal data. Previous surveys have shown that consumers in the region tend to value convenience over data security, but attitudes are shifting. In a 2020 survey by EY, 58% of consumers in Asia Pacific said that they are now more conscious of the personal information shared through digital communication than they were before the pandemic.

Singapore recently enhanced its Personal Data Protection Act, with the new changes taking effect in February 2021, but the rest of the region still has some catching up to do. While Malaysia and the Philippines have data protection regimes, these frameworks are dated and lack specific rules to deal with privacy issues created by big data. Thailand has adopted a regulatory framework similar to the EU’s General Data Protection Regulation, but enforcement has been postponed twice to June 2022. Indonesia's Personal Data Protection bill, which will set out provisions for the protection of personal data and clarify the rights and requirements of all stakeholders involved, is expected to be passed in the coming months.

The anti-trust issue is more complex. Local competition agencies are cautious about using blunt tools to stifle technological innovation, so regulatory action is likely to take the form of increased measures to promote competition, instead of outright rejection of mergers and acquisitions. For example, Gojek has long held the lead in Indonesia's e-wallet market in terms of monthly active users. A new universal QR code implemented in Indonesia last year to encourage interoperability between different payment ecosystems is expected to give smaller e-wallet players more opportunity to gain market share.

Practically, regulators have only limited power to intervene when tech giants exhibit anti-competitive behaviour. Counter measures aimed at curbing market dominance are also unlikely to change outcomes for consumers, merchants and gig economy workers unless a well-financed newcomer enters the market. When Uber exited Southeast Asia in 2018 and sold its business to Grab, Singapore's antitrust regulator fined both parties a paltry S$13m combined for lessening competition and leading to increases in effective fares. But Uber couldn't be forced to reverse its decision to withdraw from the market.

Regulators must also decide how to deal with platform companies as they join the wave of non-bank entities that are making aggressive inroads into financial services. GoTo, Grab, and Sea are under pressure to monetise their user base, and all have identified consumer lending as a key growth driver. As a result, the high-margin "buy now, pay later" (BNPL) business has quickly emerged as an important battleground within the e-wallet domain. BNPL is essentially a credit card business without the plastic. In developed markets like Singapore, customers are offered zero-interest instalment plans and merchants are charged customer acquisition fees. In developing Asia, customers also take delivery first and settle payment later, but at affordable rates of interest.

Concerns have been raised about the risks of consumers taking on more debt than they can handle. In Indonesia, a 2020 survey by news portal DailySocial found that BNPL is the second most popular fintech service after e-wallets, ahead of payday loans. But macroprudential risk is low as the size of the BNPL market is still small, and countries like Indonesia are unlikely to take severe actions that might obstruct the project of financial inclusion or improve the ability of SMEs to access credit — activities that serve to stimulate economic growth. While Singapore's regulator is studying if some form of regulation is necessary for BNPL schemes, it will likely focus on normalising KYC (know your customer) requirements across credit cards and BNPL schemes.

On the whole, Southeast Asia remains a large and fragmented market. GoTo may be an Indonesian giant, but it still has considerable ground to cover before it can earn the title of regional super app. The same can be said for Grab and Sea. Competition among the three in each country, as well as from smaller, pure-play rivals in domains like e-commerce, food delivery and e-wallets continues to be vibrant, and the risk of regulatory speedbumps is low.

Moreover, Southeast Asia's homegrown tech giants have cultivated a very positive relationship with lawmakers in their home countries. Gojek has close ties to the Indonesian government — co-founder Nadiem Makarim is the country's Minister of Education, Culture, Research and Technology.

President Joko Widodo is a strong supporter of digital economy start-ups and is counting on them to help Indonesia escape the middle-income trap. In Singapore, where many so-called old economy businesses have struggled to innovate and transform, Grab and Sea have cultivated an image as national champions that wield their innovative expertise as their currency. Tan Hooi Ling, co-founder of Grab, and Forrest Li, chairman of Sea, are both members of the board of Singapore's Economic Development Board.

With Southeast Asia's tech ecosystem still in a nascent stage and the goals of tech giants broadly aligned with national priorities for now, regulators are expected to maintain a consultative, light-touch approach to supervising the region's competition landscape.