ASEAN Research Digest

SPECIAL EDITION

Research Partner: **ATKearney**

FORUM 2014

RETAIL
+ Lifting-The-Barriers Report

IN THIS ISSUE

BORDERLESS BY NATURE, E-COMMERCE SHOULD BE USED AS A VEHICLE TO DRIVE ASEAN RETAIL INTEGRATION
Lifting-the-Barriers Report 2014: Retail

OVERVIEW

RETAIL

LEGAL & TAX

FOOD & BEVERAGES

AUTOMOTIVE & MANUFACTURING

FINANCIAL SERVICES & CAPITAL MARKETS
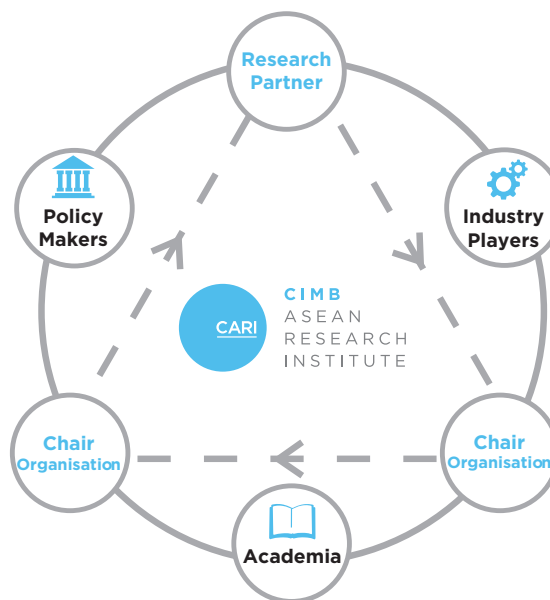
MINERALS, OIL & GAS

Research objectives:

The CIMB ASEAN Research Institute (CARI) in collaboration with the ASEAN Business Club (ABC) launched the Lifting-The-Barriers Initiative (LTBI) in 2013 as an integrated year long research platform involving core research as well as stakeholder engagement.

The objective was to adopt a vertical approach by means of identifying bottlenecks and barriers hindering free trade of prioritised sectors in the context of the ASEAN Economic Community (AEC).

The LTB Initiative 2014 targets six identified sectors which have pressing relevance to the business landscape in ASEAN and will play a major role in the successful formation of the AEC. The six sectors were Retail, Legal & Tax, Food & Beverages, Financial Services & Capital Markets, Minerals, Oil & Gas and Automotive & Manufacturing.

RESEARCH STRUCTURE

Research Partner

Policy Makers

Industry Players

CIMB ASEAN RESEARCH INSTITUTE

CARI

Chair Organisation

Chair Organisation

Academia

Two leading **ASEAN corporations** were selected to champion each sector, providing the direction and experiential insight into their industry. The input from these champions, or chair organisations, were key to understanding the issues faced by industry stakeholders and to develop the recommendations as part of the discourse.

CARI's Research Working Committee and its Strategic Advisors also worked closely with each of the six nominated Research Partners in producing these reports.

The Research Partners were either top management consulting firms or academic institutions who provided the technical knowledge and quantitative analysis required.

METHODOLOGY

The Lifting-The-Barriers Inititive (LTBI) is divided into four phases.

PHASE I

PRELIMINARY RESEARCH

Core research and compilation of qualitative and quantitative input from targeted sectors.

PHASE II

ABC FORUM

LTB Roundtables   +   Plenary Sessions

PHASE III

LTB REPORTS

The final outcome, a set of white papers, for ASEAN policy makers and community to effect real changes in the region.

PHASE IV

FINDINGS SOCIALISATION

The findings from the LTB reports will be prioritised and presented to various stakeholders including policymakers.

Title of Study: Lifting the Barriers Report: Retail
By: A.T. Kearney **Published by:** CARI, September 2014

ATKearney

BACKGROUND

Research objective:
To provide a structured understanding of the main barriers to e-commerce whilst providing guidance on the way forward. The report specifically shares an overview of the retail e-commerce across the ASEAN-6[1] and suggests how each barrier can be lifted to unlock the full potential of retail e-commerce in the region.

- Economic integration is currently at the heart of the ASEAN political agenda and in that context, retail e-commerce, which is borderless by nature, offers a unique opportunity to connect millions of merchants and consumers across the region, contributing to the integration of the different markets.

- ASEAN's e-commerce market is still relatively underdeveloped with online retail accounting for less than 1% of total retail sales compared to 6–8% in Europe, China or the US.

- ASEAN online retail has potential to grow at up to 25% annually in the coming years, driven by increasing purchasing power, growing internet penetration and development of online offerings.

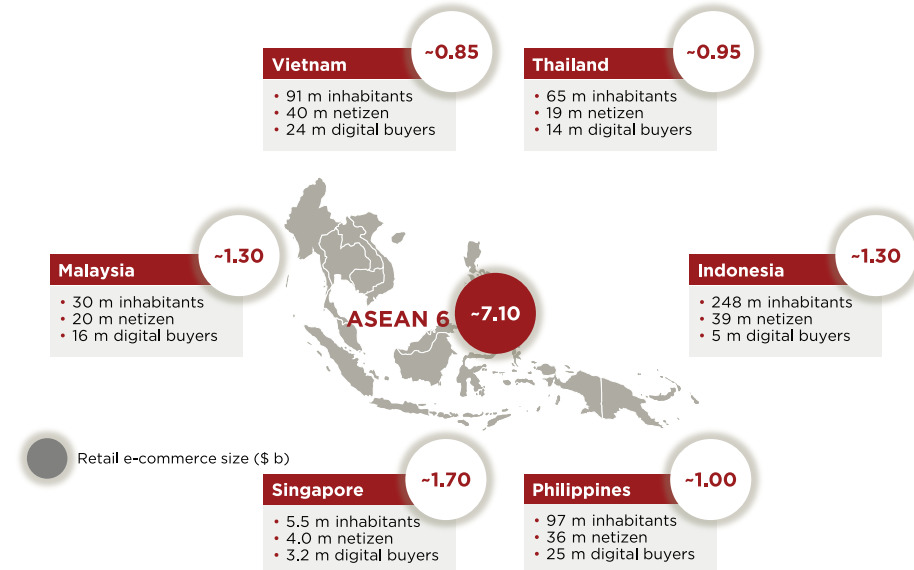### Expected benefits from regional e-commerce integration

Consumers
• More choice
• Access to better products at lower prices
• New shopping experience

Environment
• Greener delivery
• Paperless exchange

Businesses
• International reach
• New niche opportunities
• Increase in productivity

Regional e-commerce integration

Citizens
• Equal opportunities
• Access to foreign culture
• More social exchanges

Workers
• Larger job market
• New work arrangements
• Facilitation of private initiative

Source: European Commission, A.T. Kearney

1. Malaysia, Indonesia, Singapore, Thailand, Philippines, and Vietnam

- The online retail market in ASEAN-6 is estimated to be worth at least US$7.1 billion.
  ▶ Singapore is the largest market estimated at US$1.7 billion
  ▶ Malaysia and Indonesia are estimated at US$1.3 billion each

ASEAN-6 retail e-commerce market size (2013, US$ billion)

Vietnam ~0.85
• 91 m inhabitants
• 40 m netizen
• 24 m digital buyers

Thailand ~0.95
• 65 m inhabitants
• 19 m netizen
• 14 m digital buyers

Malaysia ~1.30
• 30 m inhabitants
• 20 m netizen
• 16 m digital buyers

ASEAN 6 ~7.10

Indonesia ~1.30
• 248 m inhabitants
• 39 m netizen
• 5 m digital buyers

Retail e-commerce size ($ b)

Singapore ~1.70
• 5.5 m inhabitants
• 4.0 m netizen
• 3.2 m digital buyers

Philippines ~1.00
• 97 m inhabitants
• 36 m netizen
• 25 m digital buyers

Source: IMF, eMarketer, eCommerceMILO, DigitalFilipino, Frost & Sullivan, Hybris, VECITA, A.T.Kearney estimates

- The size of the global retail e-commerce was US$1,221 billion in 2013[3]
  ▶ The US: US$395 billion (32%)
  ▶ EU-5[2]: US$230 billion (19%)   US$925 (76%)
  ▶ China: US$181 billion (15%)
  ▶ Japan: US$119 billion (10%)

- ASEAN's share of the global retail e-commerce market is less than 1%
  ▶ This is far below ASEAN's share of the global population (7.7%) or the global GDP (4.2%).

2. Germany, France, UK, Italy, Spain
3. Source: eMarketer - June 2013, IMF, ITU, AT. Kearney estimates

ASEAN-6 online users / shoppers

	Online Users					Online Shoppers		
	# online users (m)	% total population	% below 35 year-old	Time online (hours/ week)	Time spent on social media	# online shoppers (m)	% online population	%using mobile to buy
ASEAN 6	158	29%	70%	19.4	29%	87	55%	57%
Indonesia	39	16%	70%	13.5	25%	5	12%	61%
Malaysia	20	67%	63%	16	32%	16	80%	47%
Philippines	36	37%	71%	16.4	42%	25	70%	62%
Singapore	4	73%	51%	16.6	16%	3	80%	48%
Thailand	19	29%	74%	27.2	31%	14	75%	58%
Vietnam	40	44%	74%	26.2	22%	24	60%	58%

Source: iTU,, ComScore via UBS, Nielsen Global Survey of e-commerce, QI 2014, E-marketer, TrendMacro, MasterCard, PayPal, VECITA

- **Online users** – The share of internet users is highly heterogeneous across ASEAN.
  - Only 16% of Indonesia's population uses the internet.
  - Internet penetration in Thailand (29%), Philippines (37%) and Vietnam (44%) is still below the 50% threshold.
  - Singapore (73%) and Malaysia (67%) are close to the advanced economies.
- ASEAN online users are young (around 70% are below 35 year-old), they spend between 2 and 4 hours a day on the internet and are addicted to social media (29% of time spent online for ASEAN vs. 20% global average).
- **Online shoppers** – The share of online shoppers among internet users in most ASEAN 6 is close to the levels found in Japan (78%) or in the US (73%).
  - It is far lower in Indonesia (12%), meaning that only 5 million out of the 248 million Indonesians buy online.
- The use of mobile phones for online purchases in ASEAN is higher than the global average (57% vs. 44%).

Online retail as a % of total retail sales (2013)

7.8% | 7.2% | 5.8%

ASEAN 6 < 1%

5.1% | 1.2% | 0.6% | 0.3% | 0.1% | 0.1%

Europe | China | U.S. | SG | MY | TH | PH | ID | VN
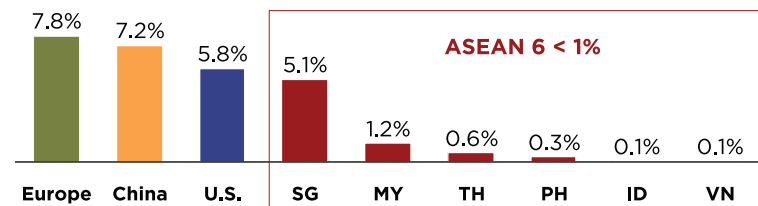
Source: Frost & Sullivan

- The authors estimate that the potential ASEAN market size could be almost US$80 billion, compared with only US$7.1 in 2013, if the share of online shoppers and the share of GDP per capita spent on online retail were the same as in mature economies
  - 60% of inhabitants online shoppers
 - 3.6% of GDP per capita spent on online retail

Market size (2013, $ b)

		2013 level	Potential
1.3	ID		28.4
1.3	MY		11.5
1.0	PH		9.9
1.7	SG		7.3
1.0	TH		15.2
0.9	VN		7.4
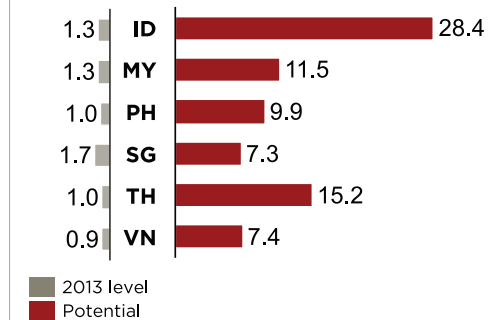
Source: A.T. Kearny analysis

- The ASEAN online retail market grew about 15% annually between the years 2009-2013, twice faster than GDP.
- In the coming years, ASEAN online retail has the potential to grow even faster, up to 25% annually, driven by:
  - Increasing purchasing power
    - GDP per capita in ASEAN-6 expected to reach **US$8,721 in 2017**, up from US$6,867 in 2013
  - Growing internet access:
    - Fixed broadband in ASEAN-6 expected to reach **9.5% in 2017**, up from 4.4% in 2013
    - Mobile broadband in ASEAN-6 expected to reach **85.2% in 2017**, up from 36.5% in 2013
  - Development of online offer
    - Annual amount spent per internet user expected to reach **US$70 in 2017**, up from US$45 in 2013
- With online retail growing at a speed more than double that of the US, the EU and Japan, ASEAN has the potential to narrow the gap with those countries.
- Only China's online retail market is expected to grow at similar speed.

Expected annual growth rate per region (2013-2017)

25% | 25% | 11% | 10% | 6%

China | ASEAN 6[2] | U.S. | EU 5[1] | Japan
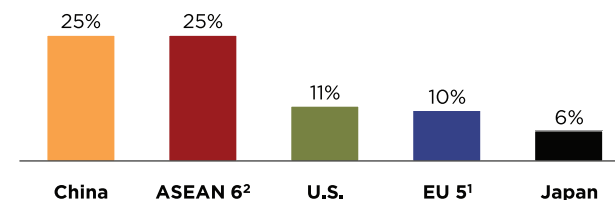
Source: eMarketer, A.T. Kearnev estimates

KEY FINDINGS

- To drive this growth outlined above, ASEAN has already launched some initiatives across the region. However, to reach the full potential of growth, several structural barriers need to be overcome. The report highlights five specific barriers that ASEAN should act upon to unleash the full potential of e-commerce in the region.
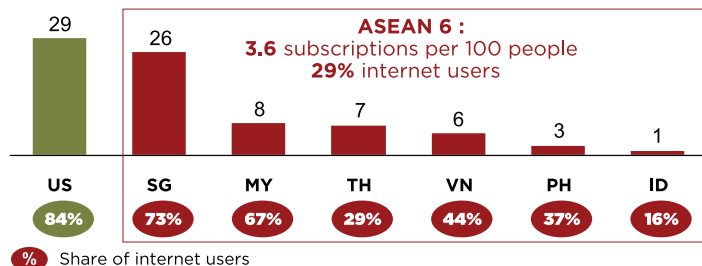
Barriers to ASEAN retail e-commerce development
1. Broadband access
2. Local offer
3. Online security
4. E-payment
5. Logistics & Trade

1. Broadband access

A. Understanding the barrier – i. Current picture

- Online connectivity is still relatively low in ASEAN
  - Only Singapore has comparable access to fixed broadband as the US
  - The rest of the ASEAN-6 has have less than 10 subscribers per 100 people

Fixed broadband subscribers (2013, per 100 people)

ASEAN 6 :
3.6 subscriptions per 100 people
29% internet users

US	SG	MY	TH	VN	PH	ID
29	26	8	7	6	3	1
84%	73%	67%	29%	44%	37%	16%

% Share of internet users

Source: World Bank, ITU, A.T. Kearney analysis

- Mobile broadband is much more common in ASEAN than fixed broadband
  - 100% of people in Singapore have access to mobile broadband.
  - The Philippines, Indonesia and Vietnam however are far below 50%.

Mobile broadband subscribers (2013, per 100 people)

ASEAN 6 :
36.5 subscriptions per 100 people

US	SG	MY	TH	PH	ID	VN
100	100	70	51	39	30	27
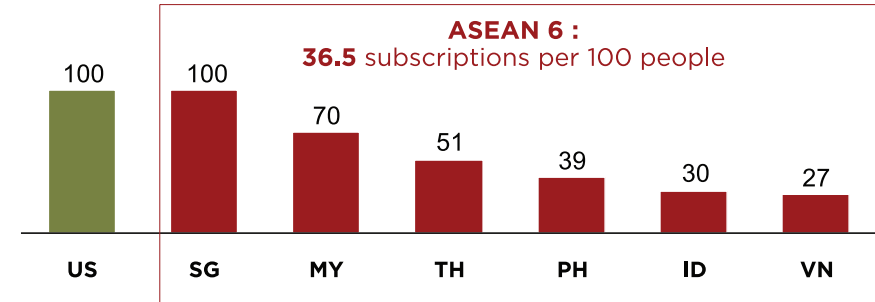
Source: GSM Wireless Intelligence, A.T. Kearney analysis

A. Understanding the barrier – ii. Root causes

- **Limited network coverage** – high speed internet is not available in in many areas across the region, contributing to the urban-rural divide.
  - In Indonesia, connecting thousands of islands is a big challenge.
  - In Vietnam, there is a big gap between coverage in the two main cities and the rest of the country.

- **Slow internet** – internet speed in ASEAN is relatively slow compared with the rest of the world.
  - Even Singapore is only ranked 20th worldwide in internet speed
  - Philippines, Vietnam and Indonesia rank close to the bottom

- **High cost of connection** – cost of broadband is still very high in the region despite the increase in internet penetration.
  - Only Singapore and Malaysia are under the affordable broadband threshold, which is 5% of the GNI.

- **Limited awareness** – Population from rural areas or older generations are still reluctant to use the internet and need additional guidance.

B. Lifting the barrier - i. What is being done today?

- **ICT ASEAN Masterplan 2015** – the Masterplan was launched in 2011 as the regional framework for digital strategy.
  - Initiatives include the ASEAN CIO Forum, training programs for elderly and disabled people, and the ASEAN Broadband Corridor.

- **Local investment in broadband infrastructure** – especially mobile broadband.
  - Indonesia invested to connect eastern islands to the country's network.
  - Thailand successfully migrated from 2G to 3G and also introduced 4G.

## B. Lifting the barrier - ii. Key recommendations

- **Use state-aids to increase broadband coverage**
  - ▶ Application of ICT in the public sector is one of the key initiatives of the ASEAN ICT Masterplan, but ASEAN has left the implementation of these initiatives to individual states as they have different levels of development.
  - ▶ However, local action has its limitations and it is foreseeable that coverage of remote areas will soon be an issue. Private players are reluctant to invest in these areas, which will accentuate the digital divide.

- **Enhance cross-border connectivity**
  - ▶ International infrastructure is also key to ensure regional connectivity. The UNESCAP has called for an intervention by governments to implement a Pan-Asian Terrestrial Fiber Optic Network.
  - ▶ The commission also identified priority projects, including one between Malaysia and Indonesia.

- **Increase efforts to raise online awareness**
  - ▶ Digital awareness programs should be further generalised in the educational systems of ASEAN countries.
  - ▶ Private players should also be encouraged to be involved in raising awareness to bring additional insights and strengthen existing initiatives.

2. Local offer

A. Understanding the barrier – i. Current picture

- ASEAN consumers appear to be more attracted by offer from foreign players
  - ▶ In Singapore, almost half of the market is made of extra-ASEAN players
  - ▶ In Malaysia, Groupon is the most popular for online shoppers
  - ▶ In Thailand, Amazon and eBay are the most popular

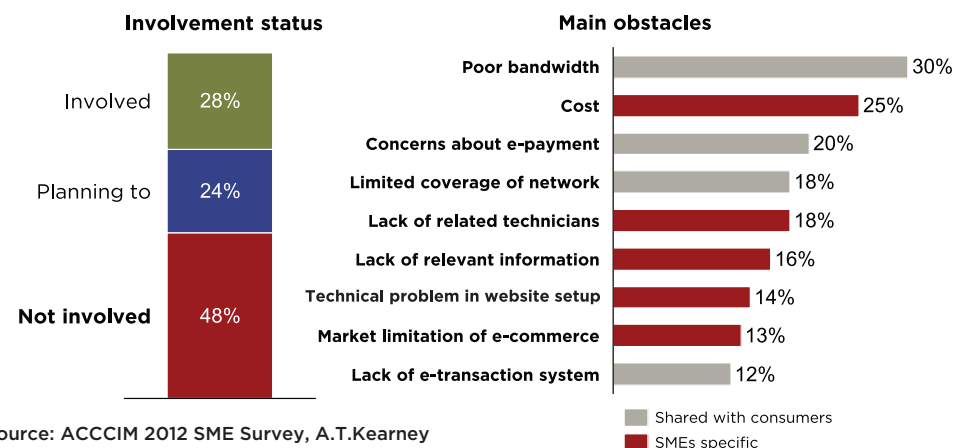**Share of online retail sales made outside ASEAN (2013)**

47%
30%

SG   MY
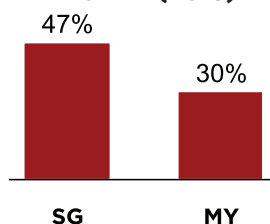
Source: Payvision, eCommerceMiLO, A.T. Kearney analysis

A. Understanding the barrier – ii. Root causes

- **Scepticism to develop an online offers**
  - ▶ SMEs, which represent a substantial part of the economy in most ASEAN countries, are reluctant to sell their products online.
  - ▶ Almost half of Malaysian SMEs surveyed by the ASEAN Chambers of Commerce and Industry (ASEAN-CCI) said "they are not involved in e-commerce and are not planning to be".
  - ▶ Brick and mortar SMEs who decide face strong competition. Pure retail e-commerce players see about 40 times more traffic than traditional brick and mortar stores

- **Lack of resources**
  - ▶ The lack of financial resources, limited access to digital talent and general information, are the main obstacles to SMEs involvement in e-commerce.
  - ▶ Hence, SMEs are either unable to:
    - afford an e-commerce presence
    - acquire capabilities to develop one
    - obtain the information required to develop one.

Survey on Malaysian SMEs involvement in e-commerce (2012)

Involvement status

Involved 28%
Planning to 24%
Not involved 48%

Main obstacles

Poor bandwidth	30%
Cost	25%
Concerns about e-payment	20%
Limited coverage of network	18%
Lack of related technicians	18%
Lack of relevant information	16%
Technical problem in website setup	14%
Market limitation of e-commerce	13%
Lack of e-transaction system	12%

Shared with consumers
SMEs specific

Source: ACCCIM 2012 SME Survey, A.T.Kearney

B. Lifting the barrier - i. What is being done today?

- **Financial support**
  - ▶ In Malaysia, the national ICT agency Multimedia Development Corporation has an e-commerce reward program to boost adoption by local SMEs with prizes worth up to US$50,000 for the top 25 SMEs.
- **Education**
  - ▶ In Singapore, the Infocomm Development Authority has launched the programmes FutureSchools@Singapore, designed to encourage innovation and entrepreneurship at schools.

- **Best practices sharing**
  - ▶ The US-ASEAN Business Council in partnership with the SME Corporation of Malaysia have organised an ICT focused workshop for SMEs in Malaysia. Major players from the US such as Google, eBay and PayPal attended and shared information and best practices.
  - ▶ The partnership is also working towards establishing a cloud-based portal to support ASEAN SMEs.
- **Provision of e-services**
  - ▶ Malaysian E-government is one of the best examples of e-services portal in ASEAN. Even though it is not dedicated to e-commerce, it helps SMEs access general information or apply for licenses to start operating business in the country.

B. Lifting the barrier - ii. Key recommendations

- **Improve access to finance**
  - ▶ ASEAN should develop public or private financial support programs to help entrepreneurs pay for their high start-up costs.
  - ▶ These programs should be "marketed" to SMEs at the very local level to make sure that they reach the largest possible audience.
  - ▶ Provision of financial advisory services for SMEs should also be encouraged.
- **Foster integration of digital talent into businesses**
  - ▶ Most ASEAN countries have developed digital educational programs but there is still a shortage of digital talent in ASEAN and therefore more emphasis should be put into digital education.
  - ▶ With more digital talents in the market, SMEs will find it easier to acquire digital expertise to develop and manage their e-commerce presence, either by hiring in-house or obtaining external expertise.
  - ▶ The link between the school system and businesses should also be encouraged, giving employers access to train and leverage new digital talents.
- **Promote awareness of e-commerce 'marketplaces'**
  - ▶ SMEs can efficiently circumvent their lack of financial resources and limited access to digital talent by utilising established e-commerce platforms such as eBay.
  - ▶ SME associations in each country should promote awareness of the services and benefits of using such 'marketplaces'.

3. Online security

A. Understanding the barrier – i. Current picture

- Improving consumers' confidence in online transactions is a particularly important issue in ASEAN.
  - ▶ Across the ASEAN, except Singapore, online shoppers are more reluctant to give their credit card information than the global average

Online shoppers who do not trust giving their credit card information online (2014)

PH	TH	ID	VN	MY	SG
67%	62%	60%	55%	52%	41%

Global average **49%**
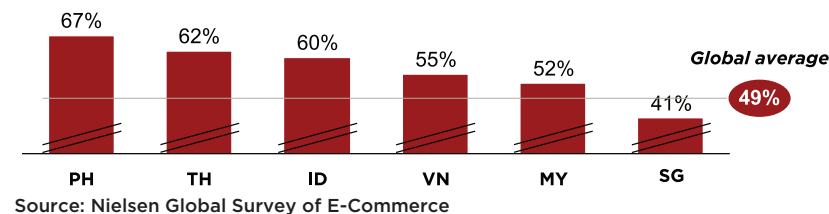
Source: Nielsen Global Survey of E-Commerce

A. Understanding the barrier – ii. Root causes

- **Regulation gaps**
  - ▶ Important pieces of legislation are still missing in some ASEAN countries despite efforts to build a comprehensive e-commerce regulation framework.
- **Absence of cross-border jurisdiction**
  - ▶ There is no regional-level entity to fight against cybercrimes or to settle cross-border disputes, which creates anxiety among consumers, retailers and investors as a significant share of cybercrime is cross-border.
  - ▶ Becoming participants of the International Consumer Protection and Enforcement Network could be a first step in improving regional cooperation.
- **Multiplication of cyber-attacks**
  - ▶ Globally, 80% of countries that are most threatened by cyber-attacks are in Asia, including Indonesia, Thailand, Philippines and Malaysia.
  - ▶ As a result, ASEAN internet users are hesitant to share personal data online.

B. Lifting the barrier - i. What is being done today?

- ASEAN countries have developed and enforced numerous laws in the past years, including general regulations on e-commerce data protection or electronic transactions.
- However, these regulatory frameworks lack sharing of best practices on cyber security within the region and a broader harmonisation of legislative frameworks.

Selection of e-commerce legislations in ASEAN

	Year	Regulation
Indonesia	2008	Electronic Information and Transactions Act
	2012	Electronic Information and Transactions Act(update)
Malaysia	2006	Electronic Commerce Act
	2007	Electronic Government Activities Act
	2010	Personal Data Protection Act
Philippines	2000	Electronic Commerce Act
	2008	Administrative Order 01 to Consumer Act
	2012	Data Privacy Act and the Cybercrime Prevention Act
Singapore	2010	Update of The Electronic Transactions Act and the Electronic Transactions
	2012	Personal Data Protection Act
Thailand	2001	Electronic Transactions Act
	2007	Computer Crime Act
Vietnam	2005	Law on E-transactions
	2006	Law on Information Technology
	2010	Law on Protection of Consumers' Rights

Source: UNCTAD, A.T. Kearney analysis

B. Lifting the barrier - ii. Key recommendations

- **Increase information sharing and bilateral assistance**
  - Inter-governmental cooperation in sharing regulatory best practices make the legislation process faster, smoother and more consistent regionally.
  - Bilateral assistance between AMS would be beneficial to create proper measures to boost confidence of online users.
- **Harmonise existing legislative framework**
  - Harmonisation in the fields of cybercrime, consumer protection and recognition of electronic signatures is needed to reduce conflicts and improve cooperation among ASEAN regulators and facilitate smoother cross-border enforcement.
- **Create a regional online dispute resolution facility**
  - The need for such a facility has been highlighted by UNCTAD due to increasing cross-border disputes and fewer case settlements.
  - The EU has been active in creating a collective response to cybercrime, including the the establishment of a European Cybercrime Centre.

4. E-payment

A. Understanding the barrier – i. Current picture

- A large share of payment for online retail is actually made offline.
  - Report by Vela Asia showed that only between 2%-11% of online buyers in ASEAN-6, except Singapore, are using online payments.
  - For Singapore, about 50% of online buyers use online payments.
  - Low e-payment penetration is an obstacle for e-commerce growth because it is less costly and risky for merchants than offline payment methods.

Online shoppers using online payments (% of respondents)
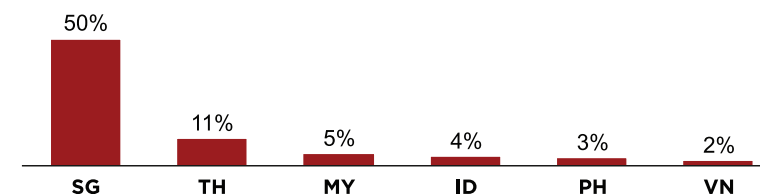
SG	TH	MY	ID	PH	VN
50%	11%	5%	4%	3%	2%

Source: Vela Asia Online Shopper Survey (August 2013)

A. Understanding the barrier – ii. Root causes

- **Large share of "unbanked" population** – ASEAN is extremely divided in terms of financial inclusion:
  - **Singapore:** Only 2% of adults are unbanked.
  - **Thailand and Malaysia:** 20%-30% of adults are unbanked.
  - **Philippines, Vietnam and Indonesia:** 70-80% are unbanked.

- **Concerns about data security** - The lack of online security and consumer protection also has a negative impact on the adoption of e-Payment.
  - According to PayPal, some 58% of Malaysians are concerned about their financial information being stolen by cybercriminals.

- **Heavy KYC process** - Cross border transactions may involve a heavy KYC process in order to ensure compliance with Anti-Money Laundering regulation
  - Such processes can be long and complicated, and generates high compliance costs for e-Payment players and strongly deteriorates customer experience.

B. Lifting the barrier - i. What is being done today?

- A variety of e-payment alternatives to payment cards are now widely accessible to internet users.
  - ▶ In addition to PayPal, Amazon Payments, Alipay, and other popular solutions, there are a number of innovative solutions brought to the market every year.
  - ▶ Malaysian company GHL Systems has emerged as one of the most promising companies in the field and it has developed a presence across ASEAN.
  - ▶ In Indonesia there are multiple players, with at least 17 different online payment companies in 2014.

- In ASEAN there are several local government initiatives in favour of e-Payment adoption.
  - ▶ In Singapore, the Monetary Authority of Singapore worked jointly with Association of Banks in Singapore to adapt payment regulation, ultimately providing inputs on legislative changes and guidelines.
  - ▶ In Malaysia, a new integrated payment system (Entry Point Project) will be created for which the government has set three quantified goals to be achieved by 2020:
    - ▶ Reduce total cash transactions from over 90% to 63%
    - ▶ Increase e-payments to 200 per capita per year
    - ▶ Increase number of point-of-sale (POS) terminals to 25 per 1,000 inhabitants

## B. Lifting the barrier - ii. Key recommendations

- **Promote non-cash transactions**
  - ▶ Development of e-payment has an overall positive economic impact and specifically on e-commerce. Government-led initiatives on cash reduction are fundamental to accelerate e-payment adoption.
  - ▶ Initiatives from Singapore and Malaysia in bringing together government and industry participants provide the key directions for the future.

- **Establish e-payment specific regulation**
  - ▶ According to PayPal, KYC processes should be adapted to e-payment using a risk-based approach leveraging functionalities provided by big data analytics.

- **Harmonise and coordinate e-payment regulation at a regional level**
  - ▶ Create a specific e-payments subgroup within the APEC Electronic Commerce Steering Group to provide common vision to local regulators
  - ▶ Create a regional Central Body for e-payment, bringing together stakeholder agencies with the aim of providing regulatory oversight

5. Logistics & Trade

A. Understanding the barrier – i. Current picture

- Logistics and trade do not seem to match expectations of online ASEAN consumers. Logistical costs are for many players too high, and therefore end up passing the cost entirely to the consumers as a delivery charge.

Share of digital buyers who received free delivery (% of respondents)
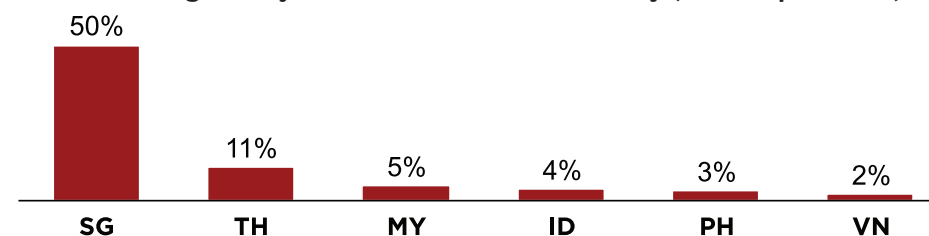
SG	TH	MY	ID	PH	VN
50%	11%	5%	4%	3%	2%

Source: Vela Asia Online Shopper Survey (August 2013)

A. Understanding the barrier – ii. Root causes

- Logistics in ASEAN faces inherent challenges due to the geography of ASEAN.
  - ▶ In Indonesia or in the Philippines, it is especially hard to deliver products due the thousands of remote islands.

- The issue is further exacerbated by these **key logistical inefficiencies:**
  - ▶ Poor transport infrastructure – Rail is underdeveloped in the region and there is also a need to upgrade roads and reduce bottlenecks in ASEAN.

Qualitative assessment of transport infrastructure in ASEAN

	Road network	Rail network	Port quality	Air Transport
Indonesia	Bad	Bad	Fair	Fair
Malaysia	Good	Good	Good	Good
Philippines	Fair	Bad	Bad	Bad
Singapore	Good	Good	Good	Good
Thailand	Good	Good	Good	Good
Vietnam	Fair	Fair	Bad	Bad

Source: Jones Lang LaSalle

▶ **Lack of warehouses readiness for e-commerce** – Apart from Singapore and Thailand, warehouse capacity has not increased at the same pace as economic growth.

▶ **Inefficient last mile delivery** – Last mile delivery is especially important in ASEAN given the high proportion of cash-on-delivery payment. ASEAN logistics companies are however still familiarising themselves with e-commerce last mile delivery and still need to customise their processes to suit e-commerce delivery, for example local post office operators.

▶ **Heterogeneous and time consuming customs** – Currently import duties vary among countries. The limit, VAT and duty fee may also be different for specific product types.

Total customs value of US$100 dress purchased from another ASEAN country

	TH	ID	VN	PH	MY	SG
Total	$39	$35	$32	$29	$10	$0
Other tax		$9				
Duty	$30	$15	$20	$14		
VAT	$9	$12	$12	$15	$10	

■ Other tax ■ Duty ■ VAT

Source: Duty Calculator, A.T. Kearney
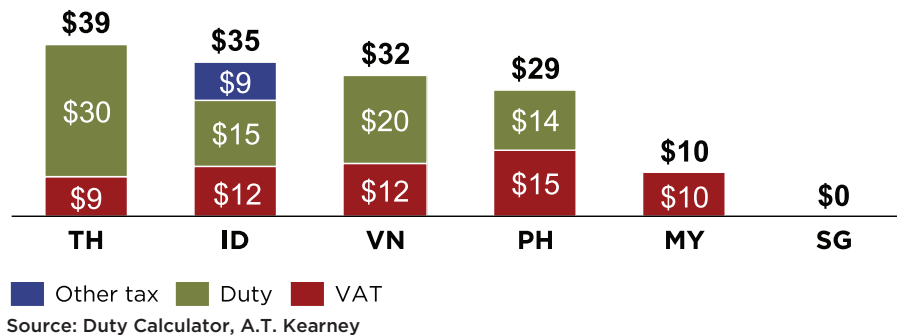
B. Lifting the barrier - i. What is being done today?

● **Significant transport infrastructure projects in the pipelines** – Most ASEAN countries have already decided to invest in their transport infrastructure. Indonesia and Vietnam in particular have launched numerous projects that should directly enhance local supply chain competitiveness.

Transport infrastructure projects by type (2013)

	Road network	Rail network	Port quality	Air Transport	Total
Indonesia	17	16	9	4	46
Malaysia	1	6	2	1	10
Philippines	1	4	-	1	6
Singapore	2	4	1	1	8
Thailand	2	13	1	3	19
Vietnam	25	10	7	7	49

Source: Jones Lang LaSalle

● **Investment projects in warehouses capacity** – Major players are investing and adding warehouse capacity in ASEAN.
  ▶ DHL has decided to invest US$180 million in the region by 2015. methods.

● **Increasing competition in last mile delivery** – The ASEAN Post++ alliance – gathering the 10 national postal authorities – was created in 2014 with the goal to raise local postal authorities' competitiveness.
  ▶ Third party logistics providers have also emerged, such as aCommerce, a Thailand-based start-up, which raised US$11 million to become a leading player of last mile delivery across ASEAN.

● **Preparation of the ASEAN Single Window** – ASEAN Single Windows is a regional initiative designed to optimise data exchange to facilitate regional customs integration in preparation of the upcoming AEC. Each member country has been working on their own National Single Window taking the form of a unified internet portal and enabling stakeholders to access permits, licenses, and clearance services.

B. Lifting the barrier - ii. Key recommendations

● **Encourage development of online retail logistics services** - While a few players such as aCommerce and TA-Q-BIN provides services solving some of the challenges facing e-commerce, governments can further stimulate growth by providing subsidies or tax breaks to players focusing on online retail logistics, solving challenges such as:
  ▶ Smaller inventories not adapted to minimum volume requirements
  ▶ SIT solutions needed for individual product tracking along the supply chain
  ▶ SIncrease in the volume and complexity of last mile deliveries
  ▶ SLarger share of returns calling for flexible supply chain capabilities

● **Encourage e-tailers and logistics players' partnerships** - As e-commerce grows, ASEAN online retailers will have to be even more vigilant that logistics does not hinder their expansion. Cooperation between retailers, regional and local government bodies, and logistics players is key to tackle this potential barrier.

● **Accelerate integration of logistics systems** - On top of the necessity to invest in transport and warehouse infrastructure at the local level, efforts to bring together national supply chains at the regional level should not be neglected. Regional collaboration would be needed in the following areas:
  ▶ Implementation of an ASEAN logistics database system
  ▶ Encouraging ASEAN businesses to outsource logistics activities
  ▶ Establishing a common standard trading provisions for logistics providers

● **Ensure full implementation of ASEAN Single Window** - The ASEAN Single Window is expected to solve logistic challenges, especially difficulties with custom clearances. Progress made in this field, its concrete impact on e-commerce and the appropriateness of thresholds and other policies should be monitored closely, in order to ensure that the ASEAN Single Window implementation is on track.

CONCLUSIONS

A great opportunity for ASEAN

- At the regional level, benefits of retail e-commerce development go beyond direct economic impact. Retail e-commerce can be a vehicle for economic development, social cohesion and cultural exchanges contributing to regional integration.

- At the global level, retail e-commerce is also a chance for ASEAN to increase its influence and promote an appealing story. Economic partners such as China are already asking for a strong regional response to online retail matters.
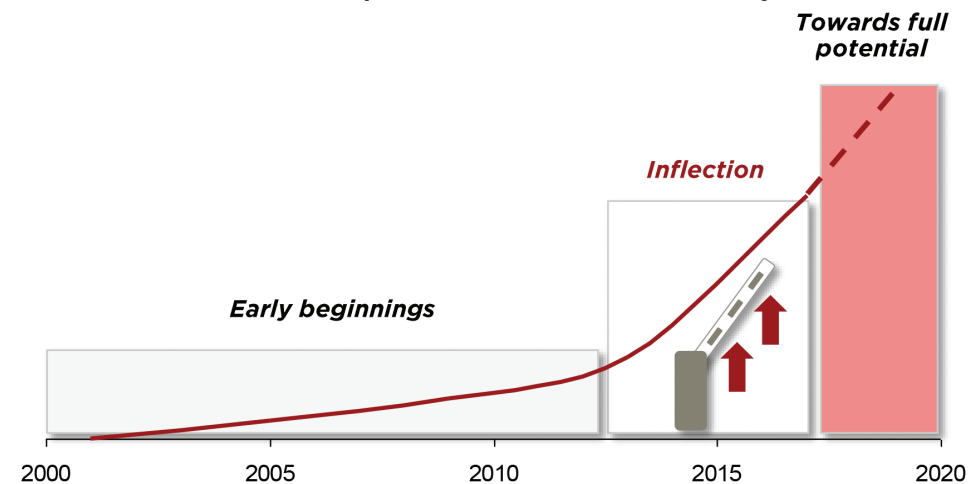
Coordinated approach

- ASEAN has already achieved and launched ambitious initiatives in a multiple number of areas impacting the e-commerce development directly. The need for harmonisation in each of these areas has often been highlighted and progress has already been made.

- Efforts around digitalisation, online offer development, data security, payment, logistics and trade should all be coordinated to ensure that regional retail e-commerce develops as fast as expected and fully benefits all regional stakeholders.

The inflection point

- Forces already at work will not be sufficient to unlock the full potential of e-commerce in the region. ASEAN members need to holistically and collectively lift the e-commerce barriers that have been highlighted in this report.

- Doing so will enable the ASEAN countries to see a true inflection point in the development of regional retail e-commerce, paving the way for a long period of sustained growth.

ASEAN potential retail e-commerce story

Source: A.T. Kearney