

**4 June 2019****Malaysia's corporates to gear up for the next wave of Chinese tech investment**

2018 was a high watermark year for ASEAN's technology sector with inbound investments in 2018 alone reaching S\$11billion almost doubling the S\$5.8 billion invested in 2017, according to Singapore-based venture capital firm, Cento Ventures.<sup>1</sup>

Amongst this, China's tech giants have caught the lion share of the headlines with the likes of Alibaba and Tencent Holdings entering the region, and JD.com investing into Thai online fashion brand, Pomelo. In Malaysia, Jack Ma launched Alibaba's first office in Southeast Asia in Kuala Lumpur last year. A Digital Free Trade Zone (DFTZ) was also launched in Malaysia in 2017 in collaboration with Alibaba Group to enable SMEs to capitalise on the confluence and exponential growth of the internet economy and cross-border eCommerce activities<sup>2</sup>.

That China has begun to increasingly invest in Southeast Asia's technology should not come as a surprise given the commercial and manufacturing potential that Southeast Asia presents.

With more than half of ASEAN's 650 million citizens younger than 30<sup>3</sup>, its young and tech-savvy consumer base is open to trying – and buying – new things, preferably online or via mobile devices. Indeed, according to a Google/Temasek report, ASEAN's digital economy is projected to exceed US\$200 billion by 2025<sup>4</sup> and many Chinese companies are looking to capitalise on this potential.

On the manufacturing side, ASEAN has been perceived as a strong production option for multinationals given its role within existing supply chains, growing consumer base, and strong trade and investment ties<sup>5</sup>.

The rapid and all-consuming nature of digital and technology means that nearly all sectors are impacted by technology and can benefit from the opportunities that it presents – from medical to education to traffic. The sectors are only going to widen into areas like construction, real estate, and logistics,

So if 2017 and 2018 have been the break-through years, what's next for China's tech investment into the region?

An interesting space to look out for will be investment into tier-two tech players in Southeast Asia.

China is among the top three countries for venture capital investment in digital technologies<sup>6</sup>, and ASEAN remains relatively under-represented in terms of start-ups, so the potential to scale up is huge. This is starting to happen with the likes of Malaysia-based Glueck

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<sup>1</sup> <https://www.cento.vc/wp-content/uploads/2019/01/Cento-Ventures-SE-Asia-tech-investment-FY2018.pdf>

<sup>2</sup> <https://www.mdec.my/news/malaysia-launches-worlds-first-digital-free-trade-zone>

<sup>3</sup> <https://www.asean.org/wp-content/uploads/2015/12/AEC-at-a-Glance-2015.pdf>

<sup>4</sup> <https://www.thinkwithgoogle.com/intl/en-apac/tools-research/research-studies/e-economy-sea-spotlight-2017-unprecedented-growth-southeast-asia-50-billion-internet-economy/>

Technologies - which develops sophisticated AI<sup>7</sup> - and Singaporean e-grocery site RedMart – having both received substantial investment from mainland investors<sup>8</sup>.

A further avenue could be ASEAN's Smart Cities Network<sup>9</sup> which aims to use technology to improve urban planning in areas like transport management and other utilities across 27 ASEAN cities. With more than 500 smart city projects underway, China has the largest number of smart cities in the world and certainly has the experience to make a meaningful contribution<sup>10</sup>.

A third area could be improving ASEAN countries' ability to further insert themselves into global supply chains in areas like electronics and automotive. Chinese businesses want to see Southeast Asia position itself as a viable alternative for lower-end production, but Southeast Asia cannot expect a wide-scale widening of supply chains to the region unless production technology and capacity increases. A clear example is Chinese car-maker, Geely, being able to cut production costs for Malaysian car-maker, Proton through technology transfer.

But for every Geely there are others staying in China. For example, Tesla sees China's production reliability, technological sophistication, and ease of business as unparalleled and are moving their production from the US to the mainland.<sup>11</sup>

"ASEAN's urbanisation, digital adoption and consumer growth make it an attractive investment destination. However, its geographic diversity, ease of business, and different foreign investment laws can sometimes make it a tough nut to crack", said Stuart Milne, CEO, HSBC Malaysia.

Despite this, Chinese companies have signaled their intention to expand, and ASEAN seems keen to reciprocate. For example, driving the digital agenda is the focus of Thailand as part of its 2019 ASEAN chairmanship.

The digital marketplace is both an opportunity and a challenge to businesses as it brings both customers and competitors to corporate doorsteps.

Investment and growth-hungry local companies are alive to the commercial opportunities spinning out of ASEAN's burgeoning digital consumers as well, seeing the potential of China's tech companies as potential partners or investors.

But the competition for funds is heating up.

"Attracting investment requires setting up the right environment, culture, and mindset within the company to actively seek technology disruption before it gets thrown upon you. More specifically, this means adopting an open and digital-first mindset to engage the tech community, encouraging innovation, and being open to new ideas. It also requires an openness to see investors as partners who can drive a business to higher levels of growth and performance", Milne added.

For many companies, beefing up their technology credentials will not be a straight-line process nor will it be without its challenges, but it is important to start making the shift now to capitalise on these opportunities. After all, the digital arena – like time – waits for no one.

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<sup>7</sup> <https://www.crunchbase.com/search/principal.investors>

<sup>8</sup> <https://aseanup.com/top-e-commerce-sites-singapore/>

<sup>9</sup> <https://internetofthingsagenda.techtarget.com/definition/smart-city>

<sup>10</sup> [http://www.china.org.cn/china/2017-04/21/content\\_40665652.htm](http://www.china.org.cn/china/2017-04/21/content_40665652.htm)

<sup>11</sup> <https://www.bloomberg.com/news/articles/2019-01-07/elon-musk-in-china-to-break-ground-for-tesla-s-china-factory>

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**Media enquiries to:**

Marlene Kaur +603 2075 3351marlenekaur@hsbc.com.my  
Rhia Sarah George +603 2075 6043rhia.sarah.george@hsbc.com.my

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