Evolving Regulatory Stance Toward Internet Ride-hailing Companies Poses Challenges

Application-based ride-hailing companies in Southeast Asia face fluid and uncertain regulatory conditions that eventually could constrain their operations, suggesting companies most able to leverage their technology and customer and driver base to establish complementary revenue streams will be best positioned in the face of any regulatory setbacks. Singapore's Grab and Indonesia's Go-Jek, along with US-based Uber—all private companies—are the leading internet ride-hailing companies in the region, but there are many others.

- In late October, the Indonesian government announced that all internet ride-hailing operators provide life insurance for the driver and passenger(s), limit the size of their fleets, and follow minimum and maximum fares, according to The Jakarta Post. In early October, the province of West Java—home to approximately 47 million people—suspended all internet ride-hailing operators until Jakarta provided greater regulatory detail, according to The Jakarta Globe.

- In late October, Ho Chi Minh City, Vietnam, planned to instruct internet ride-hailing services to suspend new additions of automobiles of nine seats or less, according to The Edge Markets. In June, Vietnam's transportation ministry banned ride-hailing applications from offering a carpool service—where passengers can share a car to save money—because it violated local contract law, according to Toui Tre News.

- In late July, the Philippine government banned approximately 40,000 Uber and Grab taxis because they lacked proper paperwork, according to The Manila Standard. In March, Thailand's transport authorities stated their opposition to ride-hailing services and requested the government ban them, according to Reuters.

Figure 1.1: Leading application-based ride-hailing companies operating in Southeast Asia

Country	Go-Jek*	Grab	Uber
Cambodia		X	X
Indonesia	X	X	X
Laos			
Malaysia		X	X
Myanmar		X	X
Philippines		X	X
Singapore		X	X
Thailand		X	X
Vietnam		X	X

**In early October, Go-Jek's founder and CEO indicated the company would expand to four additional, but unspecified, countries in Southeast Asia, according to The Jakarta Post.*

Southeast Asian governments—similar to governments throughout the world—must balance multiple and sometimes competing priorities when formulating legislation covering internet ride-hailing firms, suggesting regulation in this industry will continue to evolve. Safety, wages, and traffic congestion, along with the impact internet ride-hailing firms have on traditional transportation providers, are some of the concerns most frequently brought before policymakers.

- Governments throughout the region are devising requirements that foster responsible driving and use of road-worthy vehicles, and they are implementing policies that reduce the chances of physical harm to passengers and drivers, according to The Jakarta Globe, Channel News Asia, and The New Straits Times.

- In Indonesia, a ride-hailing driver told the transportation minister in late October that regulation was needed because his wages were decreasing, according to The Jakarta Post. In August, Grab drivers in Vietnam staged a strike to protest the increase in drivers and shift in company policies that have led to a significant reduction in wages, according to Tuoi Tre News.

- In Ho Chi Minh City, internet ride-hailing operators accounted for 25,000 "under nine-seat cars" as of late September, compared to 11,000 traditional taxis, according to Vietnam Investment Review (VIR). The total of 36,000 vehicles is far more than the 14,500 taxis expected in the city's 2020 plan, leading officials to believe ride-hailing cars are exacerbating traffic congestion, according to the same VIR article.

- Traditional transportation operators, from taxi drivers in Indonesia to Tuk-Tuk drivers in Cambodia, are earning reduced wages and facing financial uncertainty because of the changes confronting the industry, according to The Jakarta Post and The Cambodia Daily.

Iterative Regulation of Internet Ride-hailing Businesses Portends Similar Response to Other Digitally-disrupted Industries

Southeast Asian countries' fluid regulatory approach toward internet ride-hailing companies portends a similar stance toward other digitally-disruptive businesses that upend existing industries, such as the retail sector. Global e-commerce firms, including Alibaba, Amazon, JD.com, and Tencent, as well as regional companies, such as Singapore-based Lazada and Indonesia-based Tokopedia, are expanding their presence throughout Southeast Asia.

- In late October, Indonesia's finance minister stated the government was monitoring the retail industry following the recent closure of several stores and would look at other sectors facing digital disruption to formulate regulation, according to The Jakarta Post.

Greater regulation of internet ride-hailing firms probably will increase costs in the passenger-transportation segment of these companies, which could reduce earnings and dampen investor sentiment. Companies that best leverage their technology and customer and driver base to expand into complementary businesses, particularly ones that are underserved or less developed, probably will have the greatest growth opportunities.

- With a large and concentrated driver network, these companies could play a key role in "last mile delivery," which traditionally is the most expensive and least efficient segment of the logistics sector, according to Logistics Viewpoints.[1] Grab offers a parcel delivery service in most countries it operates, according to its website, and in Indonesia, Go-Jek has become a key node in transporting goods throughout Jakarta, according to CNBC.

- Go-Jek offers more than a dozen services, including house cleaning and automobile repair, but the company's greatest focus is building its digital wallet, called Go-Pay, according to its chief technology officer, as reported in Inc42. Grab is positioning its mobile payment platform, GrabPay, to become the primary cashless service in Southeast Asia, according to The Jakarta Globe.

[1] For information on the logistics sector in the Philippines, please see "Relative Valuation of Philippine Logistics Firms."