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A closer look at the new market entry strategy driven by Chinese tourists

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**Alipay Entered Malaysia: A Closer Look at the New Market
Entry Strategy Driven by Chinese Tourists**

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Alipay Entered Malaysia: A Closer Look at the New Market Entry Strategy Driven by Chinese Tourists

The Purpose-This case study investigates the entrance of Chinese-based Alipay's mobile-payment (m-payment) technology into Malaysia. Malaysia allowed this entry of the first foreign m-payment company **because** it would allow Chinese tourists spending while they are visiting Malaysia. It will view this entrance from a Malaysian perspective.

Design/methodology/approach-The views of Malaysian players (Bank Negara Malaysia officers, three Malaysian banks' officers, the Alipay-Malaysia officers, the Airport Section Manager, the Convenience Store Manager and the Airport Store Sales Executive) were sought via qualitative interview concerning Alipay's entry into the Malaysian market. Respondents who had relevant knowledge and/or were involved in Alipay m-payment technology development in Malaysia were contacted **while the** remainder were obtained by snowballing. Secondary data was collected from Bank Negara Malaysia's policy, three Malaysian banks' reports, the Alipay-Malaysia public statements and the Airport and Convenience Store reports. Triangulation using primary data and secondary data was employed to safeguard the validity and reliability of the outcomes.

Findings-The entry strategy used by Alipay was different from those reported in previous studies. The establishment of Alipay-Malaysia was the first element of the 'mode of entry' gaining pioneer status in Malaysia. The next stage was gaining support from Bank Negara Malaysia (BNM)-Malaysian Central Bank, and three Malaysian banks (Maybank, Public Bank and CIMB) through collaborative ventures with Alipay-Malaysia Sdn. Bhd., leading to acceptance nationwide by local merchants. The key driver of acceptance being Chinese outbound tourists in Malaysia.

The Research Limitations-This case study was conducted during the early implementation of Alipay in Malaysia from 2015 until April 2019. **During** this period, there were challenges due to the lack of primary data. This was overcome by the support from the respondents and the secondary data.

Practical implications- This study contributes to insights from a different entry strategy which used tourism as a leading force. This can give guidance to other m-payment service providers or other countries as m-payment technology recipient about 'market entry strategy' and 'modes of entry' following Alipay's approach.

Originality- To date, no study has been **conducted** to investigate the nature of Alipay m-payment in Malaysia. This qualitative study has examined the new phenomenon regarding how Alipay entered **the** Malaysian market. Moreover, this study can also contribute new insights into the existing theory of 'market entry strategy' in terms of Alipay's tourist-based approach.

Keywords: Alipay-Malaysia Sdn. Bhd. (Alipay-Malaysia), Mobile payment (m-payment), Market Entry Strategy, Mode of Entry, the Chinese outbound tourism.

Paper type: Research paper

1.0 Introduction

Alipay is launched in 2004 as a **third-party** payment platform in China and it is operated by Ant Financial Services Group (Ant Financial). The company provides consumer finance services **including** account transfer, payment, repayment, small amount loans and digital money management. Shen (2018) **reports that during its** evolution from being a digital wallet to a lifestyle enabler in China, the company has 700 million registered users in China with a 54% home market share.

Lee and Shin (2018) research established that cashless m-payment is the most commonly used method for day-to-day transaction in China, which is dominated by two major companies-Alipay and WeChatPay (40% market share). Alipay has low charges and has been innovative in the consumer financial sector. Customers of Alipay enjoy m-wallets, peer-to-peer payments, foreign exchange, real-time payments and digital currency solutions as well as utility payment and other bills for retails, catering, transport and tourism (Alipay, 2020). Hence, Alipay has become attractive to Chinese consumers.

This study considers the entry of Alipay into Malaysia from 2015 until April 2019. In 2015, Alipay-Malaysia Sdn. Bhd. (Ant-Financial's subsidiary) was established. Alipay's operation received local media coverage from May 2017. Since then, increasingly shops nationwide accepted Alipay indicates by **displaying** table cards, wall stickers, and door stickers.

The entry of Alipay mobile payment (m-payment) into Malaysia has so far had little attention in the research literature. There are many examples of successful foreign market entry by international manufacturing firms and global retail companies such as Intel, Samsung, Walmart, Tesco, H&M, GAP, KFC, McDonald's and Starbucks. These are the sellers of tangible products. **The** Alipay consumer finance service provides intangible service. Hence Alipay's entry is worthy of examination. The classic theory of Market Entry Strategy and Market Entry Mode has been covered by many authors such as Hill and Jones (1998), Haak and Haak (2008) and Hopkins (2017). A distinct variant **of** a classical entry model is the manner in which Alipay m-payment entered the Malaysian market. The Alipay's strategy is based on Malaysia hosting Alipay.

2.0 Literature Review

Foreign market entry strategy is a dynamic international marketing paradigm (Hallbäck and Gabriellsson, 2013) and the choice of a strategy plays an important role in determining the future international market operations of the firms (Casillas et al., 2012; Brouthers, 2013). There is a considerable literature that examines market entry modes according to the company backgrounds, capabilities and the host orientations (Prange and Verdier, 2011; De Clercq and Zhou, 2014).

According to Elsner (2012), a company has to choose an international strategy and the targeted markets for foreign expansion. A company must decide on the market entry mode for the coordination of foreign units and activities. Furthermore, the timing of entry, the business environments and the forms of control play a vital role in selecting an effective market entry strategy (Nielsen and Nielsen, 2011; Zhou *et al.*, 2012). Factors that are related to the culture, politics, economic, social and level of industrial development should be considered (Yeoh, 2011; Papadopoulos and Martín, 2011).

2.1 Global Operational Strategy as Framework for Market Entry Strategy

Market entry is a strategy developed by a company to enter a new market (Littler and Wilson, 1995). The company that intends to operate internationally should use a global operational

strategy. There are four global operational strategies advocated by Hill and Jones (1998) shown in Figure 1: (a) multi-domestic strategy, (b) international strategy, (c) global strategy, and (d) transnational strategy.

(a) Multidomestic strategy aims to establish a **semi-autonomous unit** in each country of operation. It is capable of customises product to suit a **local market need**. It is applicable in a market where the pressure for local responsiveness is high, whereas the pressures for cost reductions is low. This strategy cannot realise location economies, could not exploit the experience curve effects and cannot transfer distinctive competencies to foreign markets (Hill and Jones, 1998).

(b) International strategy centralises marketing and research-and-development activities at home while functions are decentralised to national units. This strategy **can transfer** distinctive competencies to foreign markets. However, it lacks local responsiveness, unable to realise location economies and could not exploit experience curve effects. This strategy is only appropriate if the company has a valuable distinctive competency that indigenous competitors lack. It is applicable in a market where the pressure for both local responsiveness and cost reduction are low (Hill and Jones, 1998).

(c) Global strategy centralises all value creation functions at a single global location. This strategy benefits from the experience curve effect and capable to exploit location economies. However, it lacks of local responsiveness. This strategy is applicable in a market where pressures for cost reductions are high, whereas local responsiveness is low (Hill and Jones, 1998).

(d) Transnational strategy centralises some functions at an optimal global location while decentralises others to achieve local responsiveness. It allows customisation of product and marketing under local culture, to benefit from experience curve effects, to exploit location economies and speed up global learning. This strategy is applicable in a market where the pressures of both cost reduction and local responsiveness are high. In other words, a company has to achieve both low cost and advantages of differentiation. Generally, this strategy is the most difficult to implement due to high pressures of cost reductions and local responsiveness (Hill and Jones, 1998).

2.2 Mode of Entry

Mode of entry is critical after deciding to venture into a foreign market. Alexander and Doherty (2004) conceptualise the market entry mode depends upon firm-specific resources, capabilities and environmental conditions. According to Hill and Jones (1998), Haak and Haak (2008), there are five modes of entry shown in Figure 1: (a) exporting, (b) licensing, (c) franchising, (d) strategic alliance/joint venture, and (e) setting up a subsidiary.

(a) Exporting is the transfer of goods across national boundaries which carries several advantages. First, a company can maintain production facilities at home and transport goods abroad. This is to ensure the company can avoid the production costs in foreign countries. Second, a company benefits the economies of scale from the experience-curve, cost-economies and from location-economies. Third, exporting does not require a company to be present abroad (Hill and Jones, 1998; Hopkins 2017).

(b) Licensing is an arrangement where the licensor gives the right to the licensee to use (i) patents, (ii) trademarks, (iii) copyrights, (iv) registered designs, (v) utility models or (vi)

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3 product/process/technical/commercial know-how; in exchange for payment. On the other
4 hand, the licensee agrees (i) to produce the products covered by the rights, (ii) to market these
5 products in the assigned territory, and (iii) to pay a royalty to the licensor (Hill and Jones,
6 1998; Haak and Haak, 2008, Hopkins, 2017). Thus, **manufacturing companies employ**
7 **licensing**.
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10 The licenses allow the licensor to market assets (patents, brands) that are successful at home
11 by generating additional income (Macharzina and Oesterle 2002). The advantage of licensing
12 is that it consumes **fewer** resources. The financial commitment can be **low**, as the licensor
13 does not have to bear the development costs and risks associated with establishing itself in a
14 foreign market. It is the most effective option for a company which lacks capital for the
15 overseas establishment, or wants to avoid the costs associated with research-and-
16 development, tariff, exchange rates and **transportation** costs; while benefit from local
17 production and gaining local knowledge. Besides, it is often the quickest way to enter a
18 foreign market because some governments favour licensing (Hill and Jones, 1998; Haak and
19 Haak, 2008, Hopkins, 2017).
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23 (c) Franchising is an agreement in which the franchiser sells the rights to use its brand to the
24 franchisee for payment and a share of the franchisee's profit. Creating a franchise is an issue
25 of sales and distribution which employed chiefly by services and marketing companies. The
26 advantages of franchising are: first, the franchiser does not have to bear the development
27 costs or the risks associated with expansion into a foreign market. Hence, it is an effective
28 mode of entry for any company that wishes to expand quickly with low capital investment.
29 Second, the franchiser benefits from the local knowledge, capital and participation in the
30 franchisee's management through a certain degree of control (Hill and Jones, 1998; Haak and
31 Haak, 2008, Hopkins, 2017).
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34 (d) Strategic alliances (SA) and joint ventures (JV) are discussed together because SA is a
35 weaker form of JV which is defined as an agreement between two companies to combine
36 their value chain activities for competitive advantage. In most cases, SA **involves** competitors
37 with the objectives of technological swaps, research-and-development exchanges, distribution
38 and marketing relationships, manufacturer-supplier relationships and **cross-licensing**.
39 Meanwhile, a JV **is defined** as a venture between companies to combine complementary
40 resources, skills and competences, which the major shareholder has enough equity to have a
41 voice in the management but not to dominate the venture (Terpstra and Sarathy, 1997, Haak
42 and Haak, 2008, Hopkins, 2017).
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45 SA and JV have many advantages. First, they give a greater return from equity participation
46 than other modes of entry. Second, they enable greater control over production, marketing
47 and operations. Third, they reduce political and economic risks **because of** the involvement of
48 the partners. Fourth, they are the most suitable mode of entry where total foreign ownership
49 is not permitted under a country's legal provision. Fifth, they could be the quickest mode of
50 entry which allows rapid access to the local market (Hill and Jones, 1998; Haak and Haak,
51 2008, Hopkins, 2017).
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54 (d) A wholly-owned subsidiary is where the parent company has 100% ownership of the
55 subsidiary. It can be set up either by acquisition or by establishing a new entity. Although
56 there is **a** high cost involved, the advantages of a wholly-owned subsidiary are: first, a
57 company whose competitive advantage is based on technological competency need not fear a
58 loss of control over it. Second, it enables a company to benefit from global strategic
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coordination. Third, it enables a company to benefit from location-economies and experience-curve effects (Hill and Jones, 1998; Haak and Haak, 2008, Hopkins, 2017).



Figure 1: Theoretical Framework

3.0 Research Methods

Alipay is chosen as the topic of investigation in this study due to its unique market entry strategy-driven by the Chinese outbound tourism, as well as it the earliest foreign m-payment which entered Malaysia. The mode of entry was to establish support from the domestic stakeholders such as Bank Negara Malaysia (BNM)-the Malaysian central bank and three pioneering Malaysian Banks (Maybank, Public Bank and CIMB). It was through a collaborative venture with Alipay-Malaysia. This collaboration provided the mechanism for local merchants to accept Alipay nationwide.

The views of Malaysian players (Bank Negara Malaysia officers, three Malaysian banks' officers, the Alipay-Malaysia officers, the Airport Section Manager, the Convenience Store Manager and the Airport Store Sales Executive) were sought via qualitative interview concerning Alipay's entry into the Malaysian market. Respondents who had relevant knowledge and/or were involved in Alipay m-payment technology development in Malaysia were contacted while the remainder were obtained by snowballing. Secondary data was collected from Bank Negara Malaysia's policy, three Malaysian banks' reports, the Alipay-Malaysia public statements and the Airport and Convenience Store reports. Nevertheless, it should be noted that, access to information related to the early entrance of Alipay into Malaysia was limited. Due to commercial sensitivities, initial development and establishment were not disclosed.

To protect respondents who supplied details, it was agreed that they should be anonymous and the material supplied was kept confidential. Still, most respondents were unwilling to reveal the classified information. The primary data supplied by respondents needed to be screened and validate against official records published by the company, the government and the news media. A method of triangulation was employed to determine the validity and reliability of the primary data with the secondary data. The process required frequent updates as secondary data emerged. In reviewing both sources, it was possible to trace the development of Alipay's market entry into Malaysia. By the end of the screening process, primary data had been acquired from 8 respondents¹. With the interviewees' permission, the interview sessions were recorded and transcribed to provide a basis for reliable data analysis.

¹ The 8 respondents involved in this study were: the BNM Officer 1, the BNM Officer 2, the Alipay-Malaysia Officer 1, the Alipay-Malaysia Officer 2, the CIMB Bank Executive, the Airport Section Manager, the Convenience Store Manager and the Airport Store Sales Executive.

4.0 Discussion and Analysis

4.1 Alipay-China

When Alipay-China was launched in 2004, it supports the e-payment system between buyers and sellers on Taobao-one of the Alibaba online platforms. By the time it evolved into m-payment service, the issues of security and trust within the society (pre-requisites for the m-payment usage) had gone through major tests. The reliability of Alipay in China was established and it had gained 700 million registered users.

Reported by Wang (2017) in a newsletter, the President of International Business of Alipay, Douglas Fagan commented that “Since globalisation is an important development direction, Alipay which is largely implemented at home, we should develop it in overseas markets.”

Alipay system in China has 90 functions², offering consumers a one-stop financial service which covers almost all activities of daily living. To date, m-payments in the Chinese market are concentrated; with Alipay has the largest shareholder with 54% of the total market share, while Tenpay follows closely with 40% (Armstrong and Wang, 2018).

4.2 Extending Alipay Used in China to Overseas Markets

Initially, Alipay in China provides benefits for both the home merchants and the users with a [secure system](#). Both Alipay-Malaysia’s Officer 1 and Officer 2 agreed that the convenience and the security given to both customers and merchants were critical in its development. Alipay had achieved this in its home market.

Back in China, Alipay is a lifestyle enabler as every business, regardless of their size, employs m-payment. Alipay m-payment reduces the risks of lost money and currency fraud, with minimum handling cost. Alipay Quick Response (QR) code payment is an offline instant payment solution offered by Alipay for the in-store checkout. The QR code identifies the owner of Alipay m-payment and the recipient, with which Alipay knows which customer's account to be charged for which recipient. Besides, these QR codes can be generated at low cost. Consequently, merchants will be able to operate at a lower cost. Since no processing fee is required to use Alipay, the barrier to entry for the customers are low, provided they have sufficient funds they can pay through Alipay.

During the interview, Officer 2 from Alipay-Malaysia claimed that: “In China, Alipay has leapfrogged credit and debit cards. This is because Visa or Master card is banned there. In 2017, USD16 trillion (equivalent) transaction was made in the country through m-payment using mobile-phones and QR-codes.”

Both Officers 1 and 2 from Alipay-Malaysia further commented that: “It is common in China, where you will see Alipay or WechatPay QR-codes are everywhere. You will have difficulty to buy food if you have cash.”

For marketing purposes, the relevant information about products or services and the latest promotion campaign can be produced quickly by the merchants. E-posters, e-vouchers or promotional codes are sent to their customers. In terms of the display on the mobile screen, stores with special offers and higher ratings will be presented higher to the users. Thus, [an](#)

² Health (physical activity tracking and medical appointments), charitable donation, dining, education (tuition payments), entertainment (gaming and video), communication, shopping, paying utilities and social services, paying information services (news) and transportation (Woetzel *et al.*, 2017).

Alipay's review platform for customers provides a beneficial engagement by increasing the trust in the Alipay m-commerce system.

Revealed by Officer 1 of Alipay-Malaysia during the interview, "Alipay-China has surpassed PayPal as the world's largest m-payment platform on point-of-sales, and leads by its QR-code. These recent years, there are more types of m-payment available such as Apple Pay, Google Pay, Samsung Pay, yet Alipay goes global."

Alipay system enables the merchants to have an auto-generated report on trading information³. This business data assist the merchants to gain a better understanding of their customers' spending habits, preferences and customers' feedback (based on rating) which help to improve their business performance. Yang (2010) claims that m-payment in retail and shopping optimises the customer experience in stores, include providing a customised, real-time interaction between retailers and consumers; delivering non-intrusive tailored marketing messages; assisting customers in purchasing decisions; and facilitating many retail/sales processes.

Comprehending Alipay is a lifestyle enabler for its customers in China, Ant Financial decided to extend the m-payment facility from the home market to a global market. This is to ensure the users are able to enjoy the convenience of consumer financial service when travelling abroad while entrenching the customers to keep using the m-payment platform. Based on the information from Alipay Website (2018), Alipay covers over 40 countries and collaborates with over 250 overseas financial institutions, which enable cross-border payments for Chinese travellers. The users can also pay in 25 currencies when travelling, enjoying flexible options for billing after returning.

4.3 International Strategy as One of the Global Operational Strategies for Alipay Market Entry into Malaysia

Among the four global operational strategies proposed by Hill and Jones (1998), the international strategy was utilised by Alipay to enter Malaysia. The international strategy centralised m-payment R&D activities in China, while other functions such as marketing and transaction were decentralised to the national units in Malaysia. The national units were those local merchants and domestic banks that were ready to accept Alipay. This strategy has enabled Chinese tourists to use Alipay m-payments whilst in Malaysia. Hence, Alipay m-payment entered Malaysia, though, not initially available to the Malaysian population.

4.4 Alipay's Two Modes of Entry into Malaysia

Ant-Financial first set up a wholly-owned subsidiary, Alipay-Malaysia which formed strategic alliances with the three largest Malaysian banks.

4.4.1 Wholly-Owned Subsidiary Establishment

Ant-Financial entered Malaysia early in 2015. Under the legal provision of the Payment Systems Policy Department (Bank Negara Malaysia-BNM, 2016), the issuer of e-money is required to obtain approval from BNM under Section 25 (1) of the Payment System Act 2003. Additionally, the issuer of e-money shall be a company incorporated in Malaysia under the Companies Act 1995. Subsequently, in 2017, Alipay-Malaysia Sdn. Bhd. (Alipay-Malaysia) was incorporated in Malaysia and obtained its regulatee status. These two actions

³ (i) transaction data such as the transaction time, amount; (ii) marketing data, such as the response of marketing campaigns, the number of coupons issued versus the number of coupons received (used by customers); and (iii) customer data such as gender, occupation, age, location, comments and others (Alipay Website, 2018).

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3 allowed Alipay-Malaysia to become the first foreign FinTech company established in
4 Malaysia.
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7 Therefore, Alipay-Malaysia is lawful, allowed to provide an e-money service in Malaysia. As
8 a wholly-owned subsidiary of Ant-Financial, Alipay-Malaysia became one of the modes of
9 entry into Malaysia. Philips *et al.* (1994) explained that there are two advantages of a wholly-
10 owned subsidiary. First, with its competitive advantage is based on the m-payment extended
11 from China, Alipay-Malaysia can continue its m-payment technology⁴ and implement it in
12 Malaysia with no fear of losing control over it. Second, it also enables the Alipay
13 headquarters to make the ultimate decision of strategic coordination in Malaysia.
14

15 16 **4.4.2 Forming the Strategic Alliance with the Three Largest Malaysian Banks**

17 Nevertheless, wholly-owned subsidiaries have disadvantages too, for instance, the high
18 operating cost involved was highlighted by Philips *et al.* (1994). Based on the respondents'
19 feedback, Alipay-Malaysia did not feel the cost barrier as a hindrance for its subsidiary
20 establishment.
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23 However, the second risk has challenged Alipay's operation in Malaysia since the new
24 company did not have adequate local knowledge. This risk was resolved by the second mode
25 of entry, in which Alipay-Malaysia has formed the strategic alliance with the three largest
26 Malaysian banks-(i) Maybank Banking Bhd. (Maybank), (ii) Public Bank Bhd. (Public
27 Bank), and (iii) CIMB Bank Bhd. (CIMB). These local banks have demonstrated their
28 interest in forming collaborative ventures with Alipay-Malaysia. Their role is to act as the
29 settlement and merchant acquirer bank to facilitate Alipay in Malaysia. Justified by Alipay-
30 Malaysia's Officer 2 from an interview: "Alipay is not satisfied with its current achievement
31 in China. Alipay has made its m-payment app go global via partnerships with domestic
32 financial institutions.
33

34
35 Abdul Farid Alias, the Executive Director of Maybank has also claimed: "I have seen how
36 popular Alipay in China. Alipay has huge potential in Malaysia. That is why I agree to
37 partner with Alipay," in a 2017 newsletter (Zhang, 2017). Additionally, Maybank group
38 strategy officer, Michael Foong responded in a press conference: "Maybank will now offer
39 Alipay customers the added convenience and security of our cashless payment channels,
40 expanding the geographical reach of their digital wallets and enhancing their travel
41 experience in Malaysia" (Maybank, 2017).
42
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45 Evidenced from these two statements, Maybank established the first batch of Alipay-enabled
46 merchant terminals in Malaysia. Effective from 23rd June 2017, there were nearly 2000
47 participative outlets nationwide under Maybank which accepted Alipay (Jaafar, 2017).
48

49
50 Moreover, Public Bank also launched the Alipay m-wallet service. Beginning from 15th
51 August 2017, Alipay m-wallet service is available at approximately 1000 participative outlets
52 of Public Bank's merchants nationwide (Toh, 2017).
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54
55 "We will roll out Alipay service to more merchant partners," claimed the Public Bank
56 Managing Director Tay Ah Lek in a press conference. Furthermore, Dayong Zhang, the
57 General Manager of Alipay South East Asia added, "This partnership enables Alipay
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60 ⁴ big data analytics, cloud computing and artificial intelligence technology which provide secure authentication
and authorisation, risk management, cost-efficient independent payment infrastructure, reliable transaction
management, system integration IT infrastructure (Guo and Bouwman, 2016).

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3 acceptance at a large merchant base of Public Bank. This creates opportunities for local
4 businesses from many Chinese tourists” (Ooi, 2017).
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7 Reported by The Sun-daily (2017), the joint venture between Touch 'n Go Sdn. Bhd. and
8 Alipay has obtained the approval from BNM on 8th November 2017, and TNG Digital Sdn.
9 Bhd. Touch 'n Go⁵ was named as one of the subsidiaries of CIMB Bank. The joint-venture
10 with TNG Digital is to leverage the partners' local market insights and sharing both parties'
11 technological capabilities.
12

13
14 Zafrul Aziz, the Group Chief Executive of CIMB expressed his welcome through a press
15 conference that was held on 22nd March 2017. He commented that “Alipay marks a notable
16 milestone in the growth of mobile wallet payment services in Malaysia. We work with
17 Alipay-Malaysia to provide Chinese tourists with a convenient and secure payment
18 experience while in Malaysia” (CIMB, 2017). Further, Douglas Feagin, the Senior Vice
19 President of Ant-Financial replied in a newsletter, “We work with CIMB to bring the
20 convenience of Alipay services to our users whenever they need them” (Qiu, 2017).
21
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23
24 It has also been observed that the Alipay-Malaysia's aggressiveness in forming partnerships
25 with the three Malaysian banks between 2016 and 2018 was justified by Guo and Bouwman
26 (2016). This relationship was used as the key strategy for Alipay to connect with as many
27 banks as possible as well as to avoid being dependent on one bank. Similarly, Alipay-China
28 has cooperated with over 200 banks in China and this implies that if one or two banks
29 decided to discontinue their cooperation, Alipay would not be overly affected.
30

31
32 Moreover, Alipay provides micropayment services that do not pose a direct competition to
33 banks as micropayments impose high costs for banks. Based on the interviews, it is evident
34 that Alipay does not want to become a bank, [either in China or in other places](#) it operates.
35 Since Alipay has the capability in resources and technologies to process large numbers of
36 micropayment transaction in [real-time](#), this allows banks to focus on their major financial
37 services and mainstream businesses.
38

39
40 Officer 1 from Alipay-Malaysia emphasised that “Alipay server must handle every
41 transaction requested in real time, coming from all the customers at the same minute.
42 Besides, this also ensures the data does not tamper. In case of an anomaly, an investigation
43 could be conducted or even stop the payment from going through.”
44

45
46 The Malaysian banks in collaboration with Alipay-Malaysia both aim to safeguard the
47 stability of m-payment transaction. These partnerships focus on the priority areas as
48 explained by Lee and Khaw (2018): (i) to ensure the effective implementation of the real-
49 time retail payment platform; (ii) to strengthen security controls and risk management of m-
50 payment providers in relation to managing cybersecurity risks; and (iii) to ensure that
51 customers have confidence in using m-payment.
52

53
54 The collaborative ventures that have been established between three Malaysian banks and
55 Alipay-Malaysia allow two industries to integrate their operations, as well as combine their
56 resources and technologies to execute a m-payment system in Malaysia. Hence, with the
57 support of these local banks, the local knowledge and the existing merchants' network (which
58

59 ⁵ Touch 'n Go is selling and managing the national sole preload card used for the national transportation system,
60 all of the Malaysian Expressway tolls, rail transits and the nationwide parking. Touch 'n Go is the major
shareholder of TNG Digital, whereas Alipay-Malaysia is a minor shareholder.

Alipay-Malaysia does not have) enabled the ease of m-payment implementation for the Chinese tourists visiting Malaysia. As for these banks, the association with Alipay's can reduce the risks of m-payment technology internal development while can speed up the execution.

4.5 Alipay used in Malaysia

Based on the recent data, there are 10 countries⁶ that take part in the Alipay system. With this mutual benefiting trade relationship, the Malaysian retailers are aware that the lucrative business opportunity is hard to miss. Considering the economic impacts of Alipay Malaysia in pioneering advantages, it generates experience within Malaysia, a strong reputational and technological leadership based on Alipay experience in China (Lieberman and Montgomery, 1988; Karakaya and Stahl, 1989).

The BNM Officer 2 has stated in the interview that, "Malaysia is a potential market for Alipay. At the moment, Alipay is mainly used by Chinese tourists. We are learning from Chinese tourists and exploring how Alipay will work in Malaysia."

"Malaysia presents an opportunity for our network as more and more Chinese travellers opt to travel to Malaysia for a holiday. With 90% of Chinese tourists preferring to make m-payments, it is important for us to establish our presence in Malaysia. This will provide the Chinese travellers with the same lifestyle they enjoy back home," said Cherry Huang, the General Manager of Alipay Cross-border Business in South and Southeast Asia, as reported by Chan (2018) in a newsletter.

"This is an opportunity to put Alipay into a test. We are improving the m-payment apps based on all the feedback that we gathered. We aim to launch m-payment apps soon for Malaysians," the CIMB Bank Executive has assured in the interview.

4.6 The Malaysian Merchants on Alipay Use

This section discusses the Malaysian merchants, from high street retail groups and companies who have a financial relationship with the three largest banks. Business relationships were established through activities such as getting business loans from the banks or participating within the bank's debit or credit card merchant network. These local merchants are the pioneers who accepted Alipay.

On 12th May 2017, there were approximately 2100 7-Eleven convenience stores across Malaysia that became the first chains to accept Alipay. Subsequently, on 2nd June 2017, Resort World Genting has collaborated with CIMB Bank to apply Alipay m-payment. This significant event marked the first hospitality group to accept Alipay in Malaysia (Hew, 2017).

On 2nd October 2017, Malaysia Airports at KLIA1 and KLIA2 accepted Alipay in all their respective outlets (Tan, 2017). Besides, BNM waived the fee for point-of-sale transactions with an amount up to RM5000 effective from 1st July 2018. This promotion created a positive impact on the merchants, particularly the small enterprises. In September 2018, there were over 18,000 merchants that accepted Alipay in Malaysia, and an increase in the high street retail group⁷ participation was also recorded (Tan, 2018).

⁶ Australia, Canada, Japan, South Korea, New Zealand, Philippines, Singapore, Taiwan, Thailand, United States (Alipay Website, 2018).

⁷ Borneo Starcruises Sdn. Bhd., Degem Diamond Collection Sdn. Bhd., DiGi Telecommunications Sdn. Bhd., Duty-Free Zone, Eu Yan Sang Sdn. Bhd., Lazo Diamond Jewellery Sdn. Bhd., L'OCCITANE Malaysia Sdn.

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3 “To embark on the Alipay payment platform is a major step taken by Malaysia Airports to
4 embrace the future of retail and F&B transactions at its airports. To date, 55.8% and 56.7% of
5 the outlets in both KLIA1 and KLIA2 terminals are already transacting via Alipay. So far, we
6 have seen a 25% increase in sales from Alipay transactions at both terminals. During the
7 shopping campaign period, sales can increase further by 35% to 40%,” said Badlisham
8 Ghazali, the Managing Director of Malaysia Airports in a newsletter (Tan, 2017).
9

10 11 **4.7 Chinese Tourists as the New Driving Force for Alipay Market Entry**

12 During the interview, the Airport Section Manager claimed that: “We look forward to
13 acquiring more merchants and encouraging them to accept Alipay. Chinese tourists can now
14 use their Alipay to make their payments while touring Malaysia.”
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16
17 The Convenience Store Manager also explained that “Nowadays, over 2000 stores of our
18 chain accepted Alipay. Alipay-Malaysia is aiming to attract new merchants and customers
19 into its empire, and the key attraction is the largest consumer base it is holding.”
20

21 Guo and Bouwman (2016) have also supported these claims by asserting that the platform
22 network effects have been triggered by Alipay. With the establishment of more connected
23 merchants, end-users and banks, value creation and scale will be driven to be more dependent
24 on Alipay.
25

26
27 The Airport Store Sales Executive described during the interview that, “We thought Alipay
28 customers are younger generations. After months of observation, Chinese tourists who are
29 using Alipay are from diversified age groups and they always carry power banks attached to
30 their smartphones.” Nielsen (2019) report has also commented on this scenario where,
31 although Chinese millennials are spearheading the uptake of m-payment, they can no longer
32 claim to be the dominant user group as m-payment is used by Chinese tourists of all ages. It
33 was recorded that 68% of Chinese tourists who were born between 1960-1979 used m-
34 payment while travelling abroad.
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37 Furthermore, The Sun-daily (2018) reported that Malaysia has been ranked ahead of the US
38 to become the ninth largest market worldwide for Chinese tourists’ spending overseas on
39 Alipay between 1st July and 31st August 2018. According to Tan (2018), the average spending
40 per Alipay user in Malaysia was approximately RM921.50, signifying a 106% average
41 increase in spending per Alipay user, and a 511% total increase in spending compared to the
42 same period in 2017.
43

44
45 This achievement shows that the implementation of Alipay system has brought tremendous
46 benefits to both local retailers and Alipay-Malaysia. According to The Edge Markets (2018),
47 despite the introduction of Alipay into the Malaysian market in May 2017, the country has
48 made its mark by becoming one of the top ten countries for transaction volume recorded, with
49 [average per-capita](#) spending of ¥1,021.18 or RM635.97.
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55 Bhd., Malindo Air Sdn. Bhd., Maxincome Resources Sdn. Bhd., Parkson Holdings Bhd., Poh Kong Jewellers
56 Sdn. Bhd., Royal Selangor International Sdn. Bhd., Starbucks Coffee Company Sdn. Bhd., Sunway Resort Hotel
57 Sdn. Bhd., Swiss Luxury Watch & Jewellery Sdn. Bhd., The Swatch Group, Vitacare Pharmacy Sdn. Bhd., YTL
58 Corp Bhd. and others.
59
60

The Airport Section Manager further added, “In 2017, the Malaysian government has facilitated the quick approval of Chinese tourists’ visas⁸, rendering the country as one of the most favoured destinations with 2.6 million of Chinese visitors in the same year. As reported by The Star Online (2018), Bai Tian, the ambassador of China to Malaysia, expected the number to increase in coming years.”

“The large number of Chinese tourists visiting Malaysia is also fostered by the similar cultures and cuisines of the descendants-the Malaysian Chinese who speak and write well in Mandarin. They are also dominant in the business sector of the Malaysian economy. Hence, there is no language barrier for Chinese tourists in Malaysia,” the Convenience Store Manager claimed. This view is supported by the theory of internationalisation, which firm like Alipay China is interested to enter countries (like Malaysia) that are culturally close to their country of origin (Johanson and Vahlne, 1977; Casillas *et al.*, 2010).

BNM Officer 1 also explained, “Now, Alipay is used by Chinese tourists visiting Malaysia. At the moment, you need to have an Alipay-China account to use Alipay in Malaysia. We expect, by the next two years, Malaysians could use Alipay here. This is to achieve our BNM policy of a cashless society.”

“We are looking forward to seeing Malaysians use Alipay in the next few years. We have expanded Alipay in Malaysia, and next year we plan to encourage more Malaysian merchants to accept Alipay,” said Zhang Yong, the CEO of Alibaba in a newsletter (Zhang, 2017).

5.0 Conclusion

5.1 Alipay Entered Malaysia through Chinese Tourism

In 2017, through the wholly-owned subsidiary establishment, Alipay-Malaysia has been established in Malaysia and obtained its regulatee status following the national requirement. Hence, Alipay-Malaysia can lawfully provide an e-money service in Malaysia. Also, the early establishment of Alipay-Malaysia supports the company to preserve its pioneer status in the early m-payment ecosystem. It is affirmed that market pioneers accrue significant benefits compared to later entrants (Robinson and Fornell, 1985; Urban *et al.*, 1986; Robinson, 1988; Kerin *et al.*, 1992; Robinson and Min, 2002; Kalyanaram, 2008).

It should also be highlighted that the Alipay business model **relies on** its approach not being in competition with local banks. As a foreign player in a foreign land, it is crucial for Alipay-Malaysia to gain support from the local partners. Through the strategic alliances with three Malaysian banks, this partnership ties two industries together to integrate their operations using the combination of their expertise, resources and technologies.

The support from these domestic banks and the existing merchants’ network has enabled the founding of the local payment settlement and traders. Also, the QR-code is the signature of Alipay for accepting payment in Malaysia. Meanwhile, for the local banks, the acquisition of Alipay can reduce the risks of development of internal m-payment technology and quicken its adoption.

Most of the literature reflects how Western firms entering other markets or emerging markets; Masiero *et al.* (2017) conclude that Chinese firms establish special economic zones (SEZs) as

⁸ The eVisa is an online visa application platform that enables foreign nationals to apply for an electronic visa to enter Malaysia. Meanwhile, eNTRI is a visa waiver scheme which allows Chinese tourist to stay in Malaysia for a maximum of 15 days (Immigration Department of Malaysia, 2017).

the market entry strategy. In this study of Alipay, this has not been the case with Alipay entered Malaysia through Chinese tourism. This may be due to SEZ being appropriate for manufacturing, whilst services need an alternative strategy.

From this study, it is concluded that there is high similarities between Alipay and the previous market entry of retailers discussed by Elsner (2012). The main role of Alipay-Malaysia in its early collaboration is to extend the m-payment platform to Malaysia for Chinese tourists. Hence, in this case, the vehicle for entry has been through tourism. This research has extended the theories of market entry strategy (a) the Internationalisation Process Model (Johanson and Vahlne, 1977; 1990) (b) the Ownership-Location-Internalisation (OLI) framework by Dunning (1980, 1983, 1988, 2000, 2001). Further research might see whether other service sectors can make use of tourism to enter markets or if tourist lead entry is a unique case associated with the services offered by Alipay. The model in Figure 2 highlights a strategic local partnership facilitated new reliable and tested technology.

Meanwhile, the development of m-payment for Malaysians has been stimulated by Alipay's entry into the Malaysian market. The Alipay's entry also has brought economic benefits to the Malaysian local merchants and banks, while simultaneously expanding the payment convenience for the Chinese tourists.

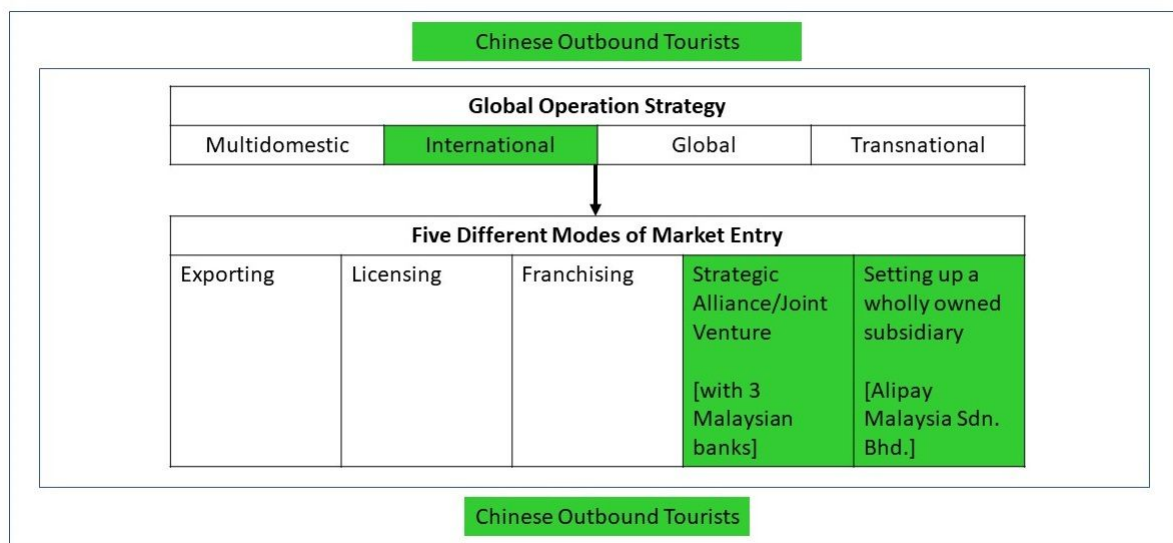


Figure 2: Alipay Entered Malaysia: A Closer Look at the New Market Entry

5.2 Forward-Looking: Social Contemplation for Alipay Adoption

Whilst Chinese tourists are primarily those who can use Alipay-Malaysia product, it makes Malaysians aware of the possibility of m-payment. It also provides for the local banks and merchants an inexpensive testbed for the m-payment. Kardes and Kalyanaram (1992) suggest that consumer exposure to first entrants with pertinent information is perceived as novel and interesting. This is also supported by Alpert and Kamins (1995)'s behavioural perspective, which consumers generally have positive attitudes and positive perceptions toward pioneer brands.

It is expected that the IT-literate Malaysians would be influenced by this technology. They will see transaction mobile-phones by Chinese tourists in the local merchants' shops and so may be encouraged by the experience of the ease of m-payment. The display of Alipay QR-

codes in shops would indicate the popularity of Alipay and might encourage their ‘me too’ desire, generating a wider sense of awareness and acceptance.

For merchants, the launch of Alipay in Malaysia increased their profits. As such, it will create the most likely intensive competition, confirming the theory proposed by Hedman and Henningson (2012). As such, new players will wish to enter the m-payment ecosystem after witnessing the success story, so that (i) more local banks will be willing to adopt m-payment, (ii) more FinTech companies will emerge as foreign investors, and (iii) more merchants will be willing to accept m-payment.

In terms of Malaysian customers’ perspective, given the high mobile-phone penetration rate in Malaysia, and smartphones capable of installing m-payment apps, the establishment of m-commerce will rapidly evolve. As such, a goal of Bank Negara Malaysia in building cashless society will be achieved.

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Figure 1: Theoretical Framework



Figure 2: Alipay Entered Malaysia: A Closer Look at the New Market Entry