

# Media Coverage

## ASEAN's digital economy is key to unlocking growth

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*Can the 10-member bloc step up to the plate, whip up momentum to help the region realise its full potential?*

Resilience and innovation. That's the tagline for Singapore's chairmanship of ASEAN this year. And both are very much needed if ASEAN is to achieve true integration in the form of a single market.

Here's the bottom line going in – while free trade in most goods and some services have been in place for over a decade, the seamless flow of corporate/trade payments and investments remains frustratingly elusive.

Businesses still face restrictions despite a 2015 blueprint mapping steps to eliminate barriers. Some tariffs continue to exist, and new non-tariff barriers have appeared even after the establishment of the ASEAN Economic Community (AEC).

Singapore's vision is to build on ASEAN's resilience, harness opportunities from disruptive technologies to innovate and make the region more competitive.

The plan is to create an environment that is conducive to freer trade and regional interdependence and establish a network of smart cities. This will power the digital economy, improve trade facilitation, encourage the ease of investment and strengthen ties with external partners.

Underpinning all these dynamics – ASEAN's rapidly growing digital consumption market and the demands that come with it.

Southeast Asia is the world's fastest growing Internet region. Nearly four million new users will come online every month for the next five years. According to Deloitte, this translates into a user base of 480 million by 2020. Additionally, there are over 700 million active mobile connections in Southeast Asia. That's a large base. And it's growing and it's young (70% are under the age of 40) and it's increasingly middle class.

Yet these consumers only spend US\$30 billion online. Experts predict that spending could rise six and a half times or 500% to \$200 billion by 2025, fuelled by consumption of electronics, clothing, household goods and groceries and by increased travel within the region.

Clearly ASEAN economies stand to benefit from the potential of this flourishing digital economy. But for that potential to become a reality, changes must be made.

### Harmonizing Standards and an Integrated Payments System

Singapore's Foreign Minister Vivian Balakrishnan paints a vision of a single digital market that would have norms to guard "cyber security and yet enable cross-border transactions at very much lower transaction rates".

And this brings us to the hot topic of integrated e-payments. A single interoperable payment system presents a huge opportunity to enhance intra-regional trade and business activity. Once operational, an integrated ASEAN e-payments system would allow say a Singapore corporate to be able to pay its Indonesian supplier in rupiah by making a cross border payment instantly.

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Removing cost and logistical barriers to international payments is a major step towards unlocking ASEAN's growth potential. Furthermore, if standards such as ISO 20022 are adopted to support this network, the AEC will be globally connected, facilitating the flow of trade and foreign direct investment with the rest of the world.

### Digitizing Trade Processes

Even greater benefits can be achieved if regional integration is paired with the adoption of disruptive new technologies (Industry 4.0, distributed ledger technology or similar). Like integration, adopting these technologies can potentially boost profits to the tune of between US\$25 billion to US\$45 billion by 2030.

More needs to be done to digitize the supply chain process and reduce non-tariff barriers. Regional schemes like the ASEAN Single Window for customs facilitation and clearance and the ASEAN-wide self-certification scheme, are a start.

The same applies to ASEAN's trade finance systems which are still heavily paper-based. The OECD estimates that the 'hidden costs' of trade – the manual processes underlying most transactions – can be as much as 15% the value of goods traded.

At HSBC, we process US\$500 billion worth of trade a year. A team of over four thousand people manually review millions of paper documents. This isn't sustainable for staffing as well as from a cost or risk perspective.

Moving to a structured, transparent and fully digitized platform like distributed ledger technology concepts currently being tested, would cut costs and improve trade facilitation.

In line with the digital economy, Singapore is proposing the development of an ASEAN smart cities network. The rapid pace of urbanisation across Asia means cities have no choice but to become more organised and efficient.

The strain on transport, housing and telecoms and IT networks is evident. Infrastructure development is at the heart of all of this. Roads, ports, airports and telecommunications grids need to be built or retrofitted to handle increased loads.

HSBC estimates that US\$2.1 trillion of infrastructure investment is required across ASEAN. Current budgets will cover only US\$910 million.

ASEAN governments don't seem to be deterred. Plans have been announced to increase infrastructure spending on large-scale projects, including high-speed railways and mass transit systems. Singapore alone has committed US\$1.7 billion of investment in Smart Nation and fintech initiatives.

ASEAN also looks to continue strengthening ties with its key external partners including China, the EU, India and the UK. In play – the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).

RCEP is a trade pact involving all ten ASEAN member states and six countries which ASEAN has free trade agreements with. Negotiations have so far, been slow. Since discussions were launched six years ago, only two chapters on economic and technical cooperation and on support for small and medium-sized companies have been concluded. That's out of 18 chapters listed in the outline.

### Soft Infrastructure

Meanwhile, TPP has transformed itself into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after the U.S. pulled out of it last year. Eleven countries including Malaysia, Brunei, Vietnam and Singapore are set to sign the pact sometime this March.

Whether the accord has teeth or relevancy now that the U.S. has withdrawn remains to be seen. The general consensus is that members will still be better off with the CPTPP than without it. Singapore seems philosophical when it comes to these partnerships. "Whether RCEP or TPP, to us they are just multiple roads that lead to a larger destination," Dr Balakrishnan said.

Establishing smart cities, deepening external ties, digitizing trade processes, building integrated systems ... that's a lot of priorities for Singapore to push forward on the ASEAN agenda. Ideally, ASEAN would lay down a

framework for all these initiatives to build on. But this isn't a perfect world. And if one thing has to take precedence, it needs to be the digital economy.

Without investing in the region's soft infrastructure and harmonizing systems, ASEAN will lose its competitive edge in the global economy. Smart cities can't be developed without embracing the technologies used to build the digital economy. And without a thriving integrated digital economy, the AEC would have less to offer to partners.

ASEAN's young population and burgeoning middle class is driving the growth of the digital economy. It is not an initiative. The transformation of our citizens into digital natives empowered to use technology to enhance their personal and professional lives is happening right now. And it's far better to be in the driver's seat rather than watching from the sidelines.

*ends/all*