

# EMERGING ECONOMIC DRIVERS IN ASEAN

Changing Political  
Landscapes in SEA

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Towards a Regional  
QR Code

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Rise of Unicorns  
in SEA

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A New Chapter in  
ASEAN-Japan Relations

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Live Music Industry  
in SEA



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ISEAS-Yusof Ishak Institute (formerly Institute of Southeast Asian Studies) is an autonomous organisation established in 1968. It is a regional centre dedicated to the study of socio-political, security, and economic trends and developments in Southeast Asia and its wider geostrategic and economic environment. The ASEAN Studies Centre (ASC) was established in 2008 under the ISEAS-Yusof Ishak Institute to research on issues pertaining to the Association of Southeast Asian Nations (ASEAN) as a regional organisation. The ASC is the first Institutional Recipient of the ASEAN Prize in 2020, a prestigious award to honour outstanding achievements of individuals or organisations who have made meaningful contributions to ASEAN.

# Editorial Notes

**The first half of 2023** reminded us how resilient the global economy is. Despite persistent inflationary pressures and continued monetary policy tightening, there have been undeniable signs of progress. Headline inflation has moderated, energy prices have eased, whilst household consumption has strengthened. That said, challenges to ongoing recovery have become more prominent, especially as China, a major economic engine, is starting to exhibit waning growth momentum. The International Monetary Fund (IMF) projects global growth to slow to 3.0% in 2023, from 3.5% last year - the lowest it has been in three decades.

For Southeast Asia, growth prospects look comparatively better against the global backdrop at 4.6% as forecast by the Asian Development Bank (ADB). This was a slight downgrade from earlier predictions, due to lower export growth and a deceleration of industrial activity. Regional growth has been anchored by domestic demand and services, and the recovery of tourism activities. The need to fully leverage the region's growth momentum amidst economic uncertainty and rising geopolitical risks was aptly highlighted by Indonesia's ASEAN Chairmanship theme, *ASEAN Matters: Epicentrum of Growth*. The conclusion of the 43<sup>rd</sup> ASEAN Summit and Related Summits in September was once again a testament of Indonesia's leadership, with over 90 documents issued and concrete deliverables announced throughout the three-day meetings that include several dialogue partners. Now that it has passed the baton to Laos, our *Analysis* contributors assess Indonesia's Chairmanship and whether it has lived up to expectations.

Although it was unable to move the needle on the Myanmar crisis and the South China Sea, Jakarta managed to reaffirm ASEAN Leaders' commitment to strengthen economic resilience. Among the Summit's key economic outcomes were the launch of the Digital Economic Framework Agreement (DEFA) negotiations and the adoption of the ASEAN Blue Economy Framework. These outcomes embrace the region's new growth drivers in an inclusive and sustainable way. With this in mind, this issue casts a *Spotlight* on the region's many different emerging economic drivers. Our contributors look at potential growth engines in the region, from the quest for an ASEAN single QR payments

network to the rise of unicorns, and the role of innovation in advancing digital health. Looking at external partners, regional experts examine how the Indo-Pacific Economic Framework for Prosperity (IPEF), the European Green Deal, and the Korea-ASEAN Solidarity Initiative can help unlock new economic and development pathways.

Beyond the economy, the region is facing another momentous development with several Southeast Asian countries undergoing leadership transitions. To help make sense of this changing political landscape and what it means for regional cooperation, *ASEANFocus* convened a roundtable featuring views from experts on seven ASEAN countries, namely Cambodia, Indonesia, Malaysia, the Philippines, Thailand, Singapore, and Vietnam.

ASEAN also celebrates the 50<sup>th</sup> anniversary of Friendship and Cooperation with Japan this year. *ASEANFocus* is privileged to feature the *Insider Views* of Dr. Kunihiro Hirabayashi, Secretary-General of the ASEAN-Japan Centre, who highlights achievements of the partnership over the last half-century and areas of joint interest going forward, under the new Comprehensive Strategic Partnership with ASEAN established this month. To commemorate this occasion, we examine Japan's soft power influence in the region under *Sights and Sounds*. To jazz up this issue, we visit cultural hotspots and chart the emergence of live music in Southeast Asia.

**On a final note, we would like to take this opportunity to announce that this will be the last printed issue of *ASEANFocus*. We will continue to publish timely articles on ASEAN affairs under the rebrand of *ASEANFocus+* on *Fulcrum.sg*, our Institute's commentary site and on our social media platforms.**

**To our faithful readers, we thank you for your steadfast support over the last eight years of our print edition and hope you will continue with us onwards in our digital journey.** 📺

**ASEANFOCUS PLUS**

# Advancing the Digital Health Ecosystem in Southeast Asia

**Katrina Navallo** and **Keith Detros** highlight the importance of infrastructure, trust, and innovation to foster a thriving digital health ecosystem in Southeast Asia.



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A phone screen showing different telehealth options in Indonesia

**W**ith access to medical care heavily disrupted by COVID-19, the adoption of digital health technologies had an unprecedented uptake in Southeast Asia. Notably, ASEAN countries were quick to shift to telehealth as governments adapted existing medical regulations and policies to allow for teleconsultation and promote remote access to medical care during the pandemic.

This rapid digital transformation of the healthcare industry highlighted the potential of digital health services to transform how societies can access and efficiently receive medical care unconstrained by time and geographical location. At the same time, it provided the much-needed momentum for health service providers and digital startup companies to showcase their innovative solutions in the fields of medicine, health, and biotechnology.

Although huge strides have been made in digital health adoption in recent years, there are still fundamental challenges for Southeast Asia to address to foster a thriving digital health ecosystem. Regional countries need to develop digital transformation guidelines specific to the healthcare sector. In addition, governments need to overcome policy implementation issues to fully embrace the digital revolution in healthcare. Patients still prefer an in-person mode of healthcare delivery as there is still a lack of trust in digital services.

To further comprehend these issues, it is crucial to take stock of where Southeast Asia is in its journey towards fully embracing digital health.

## *The State of Digital Health Readiness in Southeast Asia*

A recent report by the World Bank outlined three stages leading towards the maturity of digital health demand and supply: digitalisation, digital-for-health, and digital-in-health. The first stage, “digitalisation”, lays the architectural framework and administrative processes for health information systems, connecting health providers and facilities, and collects standardised medical data. The second stage is “digital-for-health”, where medical data and digital technology become part of daily business processes. Last, the final stage is the full realisation of “digital-in-health”, which envisions the merging of digital technology and health data into a seamless process embedded in mature and transformed health systems.

Based on ongoing research on digital health readiness in ASEAN by the ASEAN-Japan Centre and the Tech for Good Institute, most countries in the region are in the early stages of digitalisation. Roadmaps are currently being developed to integrate health information systems, digitise medical records, and improve digital infrastructure to allow inclusive access. While this is a step in the right direction, there are key fundamental pillars of digital health that need attention from policymakers. Through interviews with thought leaders and health experts in Singapore, Malaysia, the Philippines, Lao PDR and Vietnam, key themes identified to advance the digital health agenda include: a) setting up the digital infrastructure, b) building trust among users and service providers, and c) fostering innovation by promoting the digital health startup ecosystem.

### **Developing Standards for an Interoperable Digital Health Infrastructure**

Among ASEAN countries, the lack of established and integrated digital health data infrastructure remains one of the main challenges. At the most basic level, some countries have started digitising medical records at the national level. Singapore, Malaysia, and Indonesia have made efforts towards a national electronic medical records system, albeit in varying stages of implementation. However, the seamless utilisation of medical data across various platforms remains a challenge among these countries. This has implications for the continuity of care and adds friction to the experience of digital health users.

Experts identified that the lack of data standards and alignment were key stumbling blocks against fully leveraging the potential efficiency gains of electronic medical health records. For example, public and private hospitals may use different platforms to encode medical data, which also come in different data formats, in recording a patient's medical history. Without clear data standards, harmonising digital systems and improving interoperability remain a daunting task.

Data encoding is another challenge for developing a data ecosystem for the healthcare industry. Some level of digital literacy is needed for healthcare professionals to transition from paper-based records to electronic data. This is especially important for medical care facilities in rural areas where training is needed to ensure healthcare professionals are familiar with digital technologies.

### **Building Trust Through Data Protection and Governance**

On top of improving the interoperability of the data ecosystem in healthcare, promoting trust among users is also crucial to advance the digital health ecosystem in the region. Digital health experts highlight the need for strong regulatory frameworks and mechanisms that balance innovation and data protection. Getting this right is critical as it would promote trust in the ecosystem. Trust is a key element in promoting digital health technologies to users, especially for patients using electronic health solutions for the first time.

Patients must be able to access digital health services with confidence that their data is stored, used, and shared in a responsible manner. Hospitals and medical facilities must also adhere to set standards and guidelines as provided by law to ensure that patient data records are safe and secure.

One key best practice to promote trust while ensuring that appropriate guidelines are in place is through adopting sandbox practices. Digital health sandboxes would allow for new technology solutions to be tested in a controlled environment first before being rolled out to the public. This would also be an opportune time for regulators to ensure that clear data governance, robust

cybersecurity guidelines, and data protection policies are in place. Currently, Singapore, Malaysia, and Indonesia have sandbox programmes with respect to digital health technologies.

### **Promoting Digital Startups to Foster Innovation**

Aside from having traditional healthcare industry players such as hospitals and clinics adopt digital technologies, digital health experts point to the importance of startup companies in advancing the digital health ecosystem. Startups play a huge role in developing tech-enabled solutions that can further promote digital health adoption for users and introduce innovative business models.

To foster innovation in the healthcare industry, countries such as Singapore and Malaysia have established dedicated agencies to support digital health startups. For example, Startup SG provides funding, training, and infrastructural support for startups, accelerators, and investors while Malaysian Research Accelerator for Technology and Innovation (MRANTI) is an accelerator that provides research incubation support from ideas to market access and scaling-up.

However, identifying a successful business model and proof of concept with actual market value and demand is just one step in promoting innovation. Governments should also promote market entry for digital startups by enabling a level playing field. Allowing startups to scale and grow is crucial for them to have meaningful impact on the healthcare industry.

### **Moving Forward**

The use of technology will be critical in Southeast Asia, not for short-term gains in efficiency, but for the long-term care of its citizens. As World Health Organization (WHO) data shows, the region is slowly transitioning to an ageing population. WHO estimates that 13.7% of Southeast Asians will be 60 years old and above by 2030, a number that is expected to increase to 20.3% by 2050. Leveraging digital health technologies will help to promote access and improve the quality of care as Southeast Asia faces new health challenges brought about by an ageing population.

While digital health adoption has received a significant boost during the pandemic, it is important to highlight the role of ASEAN governments to sustain this momentum moving forward. Embedding digital transformation strategies into the larger national health plans would help guide digital health ecosystem players' focus on infrastructure, trust, and innovation, all of which would drive the digital health agenda forward.

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# 43<sup>rd</sup> ASEAN Summit: B for Outcomes, A for Grit

Joanne Lin, Sharon Seah, Melinda Martinus, and Kristina Fong examine the key deliverables of the 43<sup>rd</sup> ASEAN Summit and assess Indonesia's Chairmanship.

Just nine months after taking over the Chairmanship of ASEAN, Indonesia concluded the 43<sup>rd</sup> ASEAN Summit and related Summits on 7 September 2023.

With the region's geostrategic outlook appearing gloomier, Indonesia has struggled to forge unity among its members and to promote ASEAN's relevance amidst the growing divide within the regional bloc. Indonesia has delivered on making ASEAN an engine of economic growth but the jury is still out on whether it managed to make sure that ASEAN matters.

## Strengthening ASEAN as an Institution

When the first ASEAN Summit was held in 1976, Indonesia as Chair delivered a historically important document called the Bali Concord (also referred to as the ASEAN Concord I) that succeeded in expanding the grouping's limited functional cooperation to political, economic and social spheres. The expansion to include political cooperation was especially significant at that time.

In typical Indonesian leadership style, Indonesia pushed for the ASEAN Concord IV (similar to the Bali ConCORDs I, II and III) to add strategic heft to the grouping, and ensuring that ASEAN counted in the lives of its own people. Interestingly, Indonesia made sure that the promotion and protection of human rights in ASEAN was placed front and centre in the 7-page document. This was done in inimitable Indonesian style: just like the Indonesia of decades past, Jakarta put ASEAN's interest first. It put in place measures in the Concord to ensure that ASEAN do more for its own people in order to remain relevant.

No other Chair of ASEAN has tried as hard as Indonesia in trying to strengthen the grouping. ASEAN has come under intense criticism in recent years for its slow and ineffectual decision-making processes as it confronts crisis after crisis – from Myanmar to Ukraine to the South China Sea. ASEAN adopted a set of non-legally binding rules to guide decision-making in issues that concerned a potential breach of the ASEAN Charter, emergency situation, and where consensus can't be reached. Indonesia also tried to improve the standing of the ASEAN Secretariat by renaming its premises to "ASEAN Headquarters" to signal the key diplomatic role of the Secretariat.

## Powering Regional Economic Integration

In light of disruptive geopolitical tensions, ASEAN prioritised the deepening of regional integration and advocacy for multilateralism. As such, trade facilitation

initiatives such as negotiations to upgrade the ASEAN Trade in Goods Agreement (ATIGA) have now entered into the text-based phase and the process is expected to be completed in 2024. Notably, eleven out of sixteen Priority Economic Deliverables (PEDs) under the Indonesia 2023 Chairmanship covering areas of digital economy transformation and sustainable economic growth, amongst others, have been delivered.

The much-anticipated launch of the negotiations and the accompanying endorsement of the Framework for Negotiating Digital Economy Framework Agreement (DEFA) were key highlights of this Summit. With the first meeting set to take place before the end of the year, this announcement is viewed as a substantial accomplishment, especially when such a big ambition of crafting the world's first regional digital economy agreement is running two years ahead of schedule. In its original timeline, negotiations were only to start in 2025. To attain the goals of DEFA, ASEAN will need to work towards effectively managing the differences in technical capacities, institutional readiness and regulatory frameworks amongst the AMS.

Other than the DEFA development, notable progress was also made on the ASEAN Leaders' Declaration on the Blue Economy mooted in 2021, with the release of the ASEAN Blue Economy Framework. This serves to advance the region's commitment to prioritise value creation, resilience and sustainability in the blue economy. Moreover, this framework is also designed to support ongoing work on the ASEAN Carbon Neutrality Strategy and the ASEAN Regional Action Plan for Combating Marine Debris in ASEAN Member States.

## Serving up Tangibles at the AOIP Table

Indonesia's determination to promote the ASEAN Outlook on the Indo-Pacific (AOIP) has also paid off. China, the US, and South Korea have adopted joint statements with ASEAN on cooperation to advance the AOIP, joining a growing list of dialogue partners (Japan, India, Australia and New Zealand) who had earlier adopted similar statements. Indonesia had the foresight in 2019 to push through this initiative despite the lack of strong support within ASEAN for this new concept. The AOIP is increasingly becoming an instrumental platform in promoting ASEAN's central role and its mechanisms. Singapore Prime Minister Lee Hsien Loong has praised the AOIP as an initiative that is "omnidirectional and inclusive", allowing ASEAN's partners to deepen engagement with the region through new commitments.



Indonesia passes the ASEAN Chairmanship baton to Laos at the 43<sup>rd</sup> ASEAN Summit

In an attempt to defy criticism that AOIP is lacking actionable elements, Indonesia initiated the ASEAN-Indo-Pacific Forum (AIPF), an inclusive platform to boost cooperation and unlock the region's full potential. Despite being at the centre of major power contestation, the Indo-Pacific region represents more than 60% of the global economy with ample opportunities for trade, investment, and innovation.

The forum on 5 September successfully gathered international organisations and financial institutions to engage in constructive dialogues and identify tangible projects to cooperate on. More than 90 projects with three major themes of green infrastructure and resilient supply chain, sustainable and innovative financing, and inclusive digital transformation worth US\$38 billion were showcased in the forum. Another 73 potential projects worth US\$18 billion have been put together to attract partnerships. Most of ASEAN's dialogue partners pledged their support to the projects, although no time frame for implementation has been set.

### **External Partners are the Lifeline of ASEAN**

ASEAN's convening power to gather world leaders around the table, such as the East Asia Summit is an achievement in itself. On the surface at least, over 20 heads of state/government attended. US President Joe Biden was represented by Vice President Kamala Harris, while Russia was represented by its Foreign Minister (Vladimir Putin had to skip summits given rancour over Russia's much-aligned invasion of Ukraine). Beyond that, the upgrading of relations with dialogue partners, including a Strategic Partnership with Canada and a Comprehensive Strategic Partnership with Japan (on the 50<sup>th</sup> anniversary of relations) demonstrates the progressive engagements between ASEAN and its partners.

The announcement of the establishment of an ASEAN-US Centre also validates the importance of ASEAN to its dialogue partners. Despite criticism about ASEAN's effectiveness in the region, it continues to expand its influence and reach as it welcomes Morocco as a new Sectoral Dialogue Partner and the Netherlands as a Development Partner. The upcoming inaugural ASEAN-Gulf Cooperation Council (GCC) Summit in Riyadh similarly highlights ASEAN's reach to regional organisations.

### **Myanmar and South China Sea Remain Intractable Issues**

This time, expectations were slightly tamped down on areas where it matters most. No headway has been made on the Myanmar crisis, although the grouping stood its ground with the second Review and Implementation Decision where blame for the country's violence was laid squarely on the "Myanmar Armed Forces *in particular*" and rebuffed Myanmar's unilateral decision to give up chairing ASEAN in 2026. Instead, ASEAN decided that the Philippines will chair in 2026 with a continuation of the rotational calendar "until a different decision is made".

The South China Sea disputes also continued to cast a long shadow on the proceedings. Prior to the summit, China doubled down on its aggressive stance on the issue, with the release of a new map of the maritime area a week before the Summits. This took the force out of an earlier agreement between ASEAN and China to expedite the Code of Conduct negotiations. Contrary to expectations, ASEAN did not speak up on China's new national map and instead went on to sign several agreements to deepen agricultural cooperation and strengthen food security.

### **The Indonesian Scorecard**

Indonesia has certainly left its mark in the dozens of documents adopted at this series of Summits. By asserting the importance of human rights and the relevance of ASEAN to its people in the ASEAN Concord IV, Jakarta has stamped its imprimatur on the grouping this year. While the region may be disappointed that Indonesia could not move the needle on key issues such as the Myanmar crisis and the South China Sea, Indonesia did ultimately deliver on numerous key deliverables. Some of the outcomes would eventually be game changers for the region, such as the ASEAN DEFA and the ASEAN Blue Economy Framework, which would propel ASEAN's future economic growth. Other declarations on human rights, gender equality, sustainable resilience, and early childhood care among others are equally important documents to ensure that ASEAN matters to its people. In a turbulent year of ASEAN's history, Indonesia might not be able to boast of a sterling list of achievements. However, it should certainly earn kudos for back-breaking effort and true grit.

**The authors are researchers at the ASEAN Studies Centre, ISEAS—Yusof Ishak Institute.**

# Roundtable on Changing Political Landscapes and Leadership Transitions in Southeast Asia

Electoral politics have been heating up in Southeast Asia after the COVID-19 pandemic. The Philippines and Malaysia elected their new leaders in 2022. Vietnam underwent a major leadership change after President Nguyen Xuan Phuc tendered his resignation. Voters in Thailand, Cambodia, and Singapore headed to the ballot box to elect their representatives and President this year. 2024 will be a fascinating year for Indonesia as the largest democracy in the region is set to hold its presidential election. **ASEANFocus** invites experts to assess the changing political landscape and leadership transitions in Southeast Asia, and its implications for society and regional stability.



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**Indonesia will be holding its presidential and parliamentary elections in February 2024. Identity politics, including the use of religious sentiments, have influenced the country's political discourse. The role of Islam in politics is complex. How will this influence the leadership selection?**

**ARIFANTO:** Indonesia has never been a full-fledged secular state; hence religion has played a role in Indonesian politics during much of its history. Its significance has multiplied since the 1998 *Reformasi*, due to the growing religiosity of Indonesians across all faith traditions, but is particularly so within Indonesian Islam.

The rise of identity politics, particularly during election time, is a response by all political parties and politicians since they perceive that they might not be able to win an election without utilising religious symbols and rhetoric on the campaign trail.

The usage of identity politics during the 2024 presidential election is expected to be as intensive as during the 2014 and 2019 elections. However, the three presidential coalitions which incorporate both nationalist and moderate Islamic elements would hopefully mean that the usage of identity politics this election cycle would not be as divisive as in the previous two cycles.





Protesters demonstrate against Indonesian President Joko Widodo's victory in the 2019 elections

**Indonesia is seen as one of the world's advanced democracies, but has the country's democratic system facilitated smooth leadership changes at both the national and local levels, considering that some local leaders have been appointed rather than elected?**

**ARIFIANO:** New measures like the appointment of interim regional and local leaders were introduced in 2020 as transitory measures to fill the four-year time lag between the last regional executive elections held in 2020 and the next round of elections scheduled in 2024. Analysts perceive such measures as yet another attempt to reverse the autonomy granted to these sub-national governments enacted during the early years of Indonesia's *Reformasi*. This includes the introduction of direct elections of regional government executives - governors, mayors, and regents (*bupati*) in 2004.

These new measures were ratified due to concerns that regional and local governments were not coordinating well with the national government on various policy issues. Many analysts, however, see them as an attempt by national-level officeholders and bureaucrats to increase their power over regional governments by keeping out promising regional leaders from national prominence. The fact that none of the 2024 presidential candidates and their (likely) vice presidential appointees are regional or local government leaders seems to add to this perception.

**The current Marcos administration and the previous Duterte administration appear to have different leadership styles, especially on foreign policy. How does foreign policy intersect with the Philippines' domestic politics?**

**ARUGAY:** While the Philippines' national interests have remained largely unchanged, the de facto power given to the president as chief architect of foreign policy has traditionally given every leader a lot of leeway in crafting

the country's strategic policies and external relations. The intensifying US-China rivalry and its implications for the country's defence posture has become the primary security issue faced by the Marcos Jr. administration. This departs from the overly domestic security gaze of his predecessor. However, if history were to be consulted, there could be domestic challenges in the ability of a president to maintain this disposition. While popular at the moment, domestic politics and economic issues may prevent Marcos Jr. from consistently implementing his "friends to all, enemies to none" policy. Balancing the US and China will also be quite difficult as both superpowers no longer tolerate hedging stances of small countries unlike in the past.

**Social media played an outsized role in the lead-up to the 2022 election. What role does social media (including disinformation and misinformation) play in influencing public opinion and electoral outcomes in the Philippines?**

**ARUGAY:** Since 2016, the Philippines became a potent site of deploying fake news for electoral purposes. Given its degree of internet penetration, the Filipinos' good handle of the English language, and its highly polarising politics, a high-ranking executive of a social media platform dubbed the country as "patient zero when it comes to the weaponization of digital platforms during the elections". Social media played two important political roles during the 2022 elections. On the one hand, it mobilized young Filipino voters online as social media were sources of (dis)information about the election campaign. Social media bridged the online and offline modes of political engagement and participation leading to the ballot box. On the other hand, the disinformation narratives that surfaced during the 2022 electoral campaign polarised the electorate into two bitterly hostile camps that revolved around the presidential candidacy of Ferdinand Marcos, Jr. - son, and namesake of the country's late dictator. The interrelated narratives of authoritarian nostalgia and democratic disillusionment



Philippine President Ferdinand Marcos Jr. at the World Economic Forum 2023

Ciaran McCrickard@World Economic Forum

became resonant to digitally wired Filipinos who were potent influences of support for Marcos Jr. However, this undermined the other candidates, resulting in far-reaching repercussions on the state and health of Philippine democracy.

**The ruling Cambodian People's Party (CCP) was sworn into power once again at the recent elections in July 2023. Some observers believe that banning the main opposition Candlelight Party from participating has undermined Cambodia's democracy. Have the issues of human rights and democracy been addressed in Cambodia's evolving political landscape?**

**CHHEANG:** Democracy is a form of government by the people and for the people. The Cambodian people are the ones who will decide on the destiny of the country through democracy. Democracy is a never-ending process that requires the participation of all stakeholders based on national context and driven by the principles of flexibility, openness, inclusiveness, transparency and accountability. Cambodia is a young but progressing democracy.

**Prime Minister Hun Manet assumed his role on 22 August 2023 together with a new generation of leaders taking over key positions. Do you expect Hun Manet's leadership to be different from his father's?**

**CHHEANG:** Hun Manet will continue to implement the vision and strategic goals of the previous administration, but with more robust reforms at the level of the implementing agencies. His leadership style can be characterised as consensual leadership, one that emphasises collaboration, inclusivity, and the involvement of key stakeholders in the decision-making process.

His world view and open-mindedness has certainly been shaped by his academic journey and practical experiences within the country. Pragmatism will remain the guiding foreign policy philosophy while hedging is expected to be more robust.

**Vietnam witnessed major high-level personnel changes, including its president and two deputy prime ministers, early this year in response to corruption scandals. How do corruption and governance issues impact Vietnam's political stability and public trust in leadership?**

**HIEP:** The ruling Communist Party of Vietnam (CPV) considers corruption a major threat to its political legitimacy and regime security, as well as a hindrance to economic growth. To address the issue, the party has adopted a relentless approach to combatting corruption. Since 2016, its anti-corruption campaign has resulted in the discipline or prosecution of tens of thousands of government officials and high-ranking military and police officers, including several Politburo members. These measures can be seen as a short-term cost that the party is willing to pay for the long-term gain of reducing corruption. The high-level personnel changes made earlier this year should be viewed in this context. So far, these changes have helped improve public trust in the CPV leadership and have had no adverse impact on Vietnam's political stability.

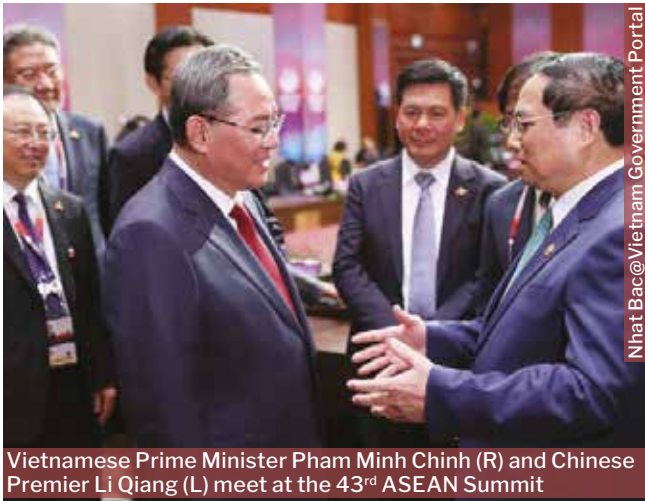
**The CPV attaches importance to China's ideological support as they share similar political system and ideological underpinnings. Will ideological factors influence Vietnam's foreign policy?**

**HIEP:** Ideological considerations used to be a major factor in determining Vietnam's foreign policy, particularly during the Cold War era. However, in recent decades, nationalism and pragmatism have become more prominent forces in shaping the country's foreign policy decisions. Thus, although the CPV may take ideological considerations into account in certain circumstances or issues, its overall foreign policy is mainly driven by how it can best protect or advance Vietnam's national interests. This is exemplified in Vietnam's relationships



Cambodian Prime Minister Hun Manet in a public appearance in Phnom Penh

Tang Chhin Sothy/AFP



Vietnamese Prime Minister Pham Minh Chinh (R) and Chinese Premier Li Qiang (L) meet at the 43<sup>rd</sup> ASEAN Summit

with both China and the United States. Despite the ideological affinity between Vietnam and China, Vietnam has been able to stand up to China in the South China Sea. Meanwhile, ideological differences between Vietnam and the United States have not been able to prevent the two countries from steadily strengthening their ties in various fields, culminating in their recent announcement of a bilateral comprehensive strategic partnership.

**Malaysia held its parliamentary elections in November last year and another round of state elections (involving six states) this year. Amid ethnic and religious polarisation, how has Malaysia's diverse political ideologies shaped its political dynamics and leadership choices?**

**HUTCHINSON:** Malaysia is in a new phase of its political trajectory. From 1957-2008, the country was ruled in uncontested fashion by the Barisan Nasional (BN). From 2008-2020, it operated under a two-coalition system involving the BN and the parliamentary opposition

Pakatan Harapan (PH). Since 2020, multiple coalitions are needed to obtain a parliamentary majority. Due to the unprecedented competition for Malay votes, which is the dominant ethnic group in more than half of all parliamentary constituencies, a single coalition will be unable to secure sufficient parliamentary seats on its own.

Anwar Ibrahim's Unity Government was formed by bringing PH and its former foe BN together along with other coalitions and parties in the wake of 2022 parliamentary elections.

The August state elections confirmed the status quo, as the Unity Government and PN each retained control of three state governments. However, PN solidified its control over the northern states it already has, and made incursions in the three urbanised, ethnically mixed states led by the Unity Government.

Some have labelled this progression by PN as the Green Wave, attributing it to greater conservatism and religiosity of Malay voters. Others have argued that this is simply the search by Malay voters for an alternative means of representation to United Malays National Organisation (UMNO).

**Malaysia had four Prime Ministers in the last five years. How has the fragmentation of political parties impacted economic stability and Malaysia's vision of becoming a high-income economy by 2028?**

**HUTCHINSON:** Malaysia has very durable political parties and has been grappling with how to attain high-income status. It has had middling progress, even during periods of political stability and the long political tenures that used to characterise the country.



Malaysia's Prime Minister Anwar Ibrahim (C) in a press conference after the release of state election results



Supanut Arunoprayote@Wikimedia Commons

Former Move Forward Party leader and prime ministerial candidate Mr. Pita Limjaroenrat addresses supporters in Bangkok

The issues that Malaysia faces in its quest to attain high-income status are formidable. First, as countries attain higher levels of income, they tend to grow more slowly. Second, the benefits of structural transformation, essentially the shift of workers out of agriculture into manufacturing and services have already been reaped.

Malaysia's challenge is to produce goods and services of a higher value-added nature, through fostering advances in production processes, the development of more sophisticated products and increasing technological intensity. This requires very deep, piece-meal, and far-reaching reform in areas such as university and technical education, university-industry linkages, and labour policy. These are long-term processes that will involve considerable political capital, and the benefits will take a long time to reap.

**Thailand has experienced frequent government changes due to protests, coups, and other parliamentary manoeuvres leading to political instability. How has Thailand's history of political uncertainty affected the country's democratic processes?**

**JATUSRIPITAK:** Since the exile of Thaksin Shinawatra in 2006, Thailand's political landscape has been entangled in a vicious cycle of distrust and disenfranchisement that hampers the prospects for stable democracy and effective governance. Successive military coups, judicial interventions, and the tampering of constitutions and parliamentary procedures have eroded public trust in the political system, fueling widespread skepticism about the legitimacy and viability of any government that arises

from it. This sense of doubt is amplified by the absence of effective mechanisms for ordinary Thai citizens to make demands on the government — other than through street protests — in a political environment that stifles freedom of expression and hampers most political parties from establishing robust connections with the electorate. Within this flawed framework, only the elites — those who have the power to either define the limits of “Thai-style” democracy or dismantle it altogether — can exercise influence over the nation's future. This power imbalance has shifted the priorities of governance toward immediate power struggles among the elite, at the expense of the development of a cohesive, stable, and inclusive governance.

**The Move Forward Party (MFP) failed to form a government, although it secured the popular vote. Now that the election runner-up, the Pheu Thai Party, has successfully formed a coalition government, how confident are you that this government can bring stability moving ahead?**

**JATUSRIPITAK:** The Pheu Thai-led government is propped up by an uneasy alliance between Thaksin Shinawatra and the conservative establishment, fronted by a tenuous 11-party coalition in which Pheu Thai is the minority. While there is little incentive for any party to seek new elections, the coalition's fragmented nature and its shaky legitimacy do not promise stability. They underscore the government's need to appease key actors, both within the coalition and beyond, including powerful conglomerates, military generals, and royalist elites, to secure its unstable political foothold in the absence of widespread public support. As it attempts to strike this

precarious balance, the government also confronts the dual challenge of fending off pressures from a formidable parliamentary opposition, spearheaded by the MFP which secured first place in both seats and popular vote in the election while also navigating reformist demands that persisted even after the party was sidelined from power. In short, rather than setting the stage for political stability, the new government seems poised to perpetuate a cycle of stagnation fraught with the potential for conflict and unrest.

**Singapore has just held its third contested Presidential Election since 1991 (following the legislation on elected presidency). What do the 1 September 2023 Presidential Election results reveal about the maturity of political perceptions in Singapore?**

**TAN:** Mr. Tharman Shanmugaratnam's strong mandate of 70% of the popular vote came as a surprise to everyone, including Mr Tharman himself. It underscored the electorate's maturity in understanding the roles and powers of the non-partisan office of head of state, with a limited check and balance capability in a constitutional system of government that remains inherently parliamentary in nature. Voters recognised that the presidency is not a political prize to be captured by political parties for partisan ends. The electorate was also persuaded that Mr Tharman's prior affiliation to the ruling People's Action Party (PAP) would not get in the way of his exercising the president's custodial powers over the national reserves and the public service.

The electorate also demonstrated it could evaluate a presidential candidate's track record, experience and ability, character and values. These were what ultimately mattered for the presidency which has evolved into a unifying institution.

**Singapore will be holding its next general elections by November 2025. Changing demographics appear to be linked to different voting patterns in the region. Do you think Singapore's unique political system of a dominant party can withstand these changes?**

**TAN:** Singapore's one-party system is not immune to changing demographics and changing voting patterns. Much as the more than 60 years of political dominance of the ruling PAP appear anachronistic, the reality of its political legitimacy founded on good governance outcomes is not lost on voters. Moreover, voters are not bent on supporting the opposition blindly even as they lean towards enhanced political diversity and competition. Additionally, the electorate has been socialised to expect the government of the day to be competent and responsible. The challenge for all political parties and the electorate is how to engender incremental political change without undermining the basis of Singapore's success grounded on strong leadership, political-social stability, and openness to the world. The PAP's political longevity, if not hegemony, will depend on its ability to manage, rather than to be dictated to, political change. This will be continually tested.



Shintaro Tay@SPHMedia via AFP

Mr. Tharman Shanmugaratnam wins Singapore's Presidential Election on 1<sup>st</sup> September 2023

# Connecting the Dots: Towards an ASEAN QR Code Payments Network

**Kristina Fong Siew Leng** takes stock of the progress towards the establishment of an ASEAN QR code payments network, and outlines the challenges faced in the pursuit of a seamless, cost-effective multilateral system.



The commitment to set up a regional cross-border payment network through a Quick Response (QR) code mechanism was mooted at the ASEAN Leaders' Summit in May 2023 with the adoption of the ASEAN Leaders Declaration on Advancing Regional Payment Connectivity and Promoting Local Currency Transaction. This development followed the signing of a Memorandum of Understanding (MOU) on Regional Payment Connectivity among Malaysia, Singapore, Thailand and the Philippines in November 2022, with ambitions to include all ASEAN Member States (AMS) eventually. In August this year, two additional AMS - Vietnam and Brunei - expressed their intentions to officially join this initiative.

## ASEAN Leading the Way

The establishment of a regional QR code payment system would bolster financial connectivity, potentially facilitating more trade and investment activities. Furthermore, it could enhance the use of domestic currencies in trade settlement, thereby deepening local currency markets and reducing reliance on the US dollar as an intermediary. This would provide greater certainty in trade settlement terms and fees, as opposed to US dollar-regional currency pairings which are subject to swings in value amid global liquidity tightening. Apart from this, there are intrinsic wins that can be derived for ASEAN as a bloc. The regional QR code payment network could solidify the ASEAN economic identity without the administrative complications underlying the use of

a single currency and, if successful, the arrangement would be the first of its kind in the world. It has the potential to bring greater recognition to ASEAN and to further deepen its economic integration by proactively engaging regional counterparts to overcome challenges to financial stability.

## Demand Potential Despite Low Take-Up Rates for QR

Like for most digital applications, the COVID-19 pandemic catalysed the adoption of digital payments. In *Visa's Consumer Payment Attitudes Study 2022*, 93% of respondents in Southeast Asia used cashless payments in 2021, with Singapore (97%), Malaysia (96%) and Indonesia (95%) leading the region. Conversely, Cambodia significantly trailed at 68% in this sample. Moreover, 77% of respondents said that they would be using cashless payment means more often, with Thailand being the most positive in this regard at 89%, followed by Vietnam at 83%. Interestingly, these two markets had the highest positive responses with regards to cashless payments, with respondents considering it the 'safer way to pay', reinforcing the notion that trust and security play a significant role in driving the shift to cashless payment usage.

Among contactless payment systems, however, the rate of QR code payments usage is considerably lower across the board. In the same Visa survey, just 38% of respondents around the region utilised QR payments in 2021, only slightly higher from 34% in the previous year,

led by Thailand (52% of respondents) and Indonesia (50% of respondents). The most popular cashless means are online card payments at 57% and mobile wallets at 52%. Interestingly, Malaysia and Vietnam saw the usage of QR code payments fall within the same period, notably quite drastically for the former, from 50% usage to 25% in 2021. This may indicate that QR code payment as a cashless payment choice is still relatively less popular than other payment options in certain markets. This could be attributed to security concerns, more attractive rewards systems offered by other applications, as well as the lack of QR code payment availability, especially in a cross-border landscape where not all vendors and banks are signed up to the established bilateral schemes, such as in the case of the Singapore-Malaysia linkage.

### QR Code Benefits

Despite the slower take-up rate of QR code payments, there are various benefits to this form of technology. One of these is the vast amount of information that a QR code can hold within a compact space, much more than a barcode. Moreover, as their name suggests, data can be efficiently captured in one swift focus of a mobile phone or QR code scanner and transmitted within seconds. With the programming of QR codes to contain unique sets of encrypted information, accuracy and safety in transactions can be ensured. From a merchant-patron perspective, the convenience of using a mobile phone and the cost effectiveness of generating a QR code for payments without the need for a separate point-of-sale (POS) terminal and the accompanying transaction fees by the vendor make it a win-win deal for both sides. For cross-border QR payment initiatives launched in the region thus far (such as the Singapore-Malaysia and Indonesia-Thailand linkages, amongst others), travellers can bypass the need to convert physical cash at money changers whilst obtaining competitive currency conversion rates which are transparent at the point of sale.

### Making the ASEAN QR Payment System Work

Different countries in ASEAN are at varying stages of adoption and regulation of the digital payment space. Although Brunei has recently thrown its support behind the establishment of the regional QR code payment network, it is still in the process of setting up a regulatory framework for domestic payment systems. Though QR code payments hold huge potential, the main

drawback may be cybersecurity and criminal risks from users potentially being duped by malicious QR codes created by scammers. This is one of the main issues that governments must urgently address to prevent and manage the occurrence of such incidents in a cross-border environment. It would be integral for countries to have the relevant institutions and regulations in place as a prerequisite for the introduction of a region-wide initiative.

The agreement on a national QR code standard for each country would be the next fundamental building block. Cambodia (KHQR), Indonesia (QRIS), Lao PDR (Lao QR), Malaysia (DuitNow), the Philippines (QR Ph), Singapore (PayNow), Thailand (PromptPay), and Vietnam (VietQR) have established national standards for QR codes. That said, the landscape has not always been so uniform, with the Philippines most recently (in July 2023) transitioning to a common QR code standard from a previously fragmented landscape. The agreed standard will facilitate interoperability of the QR code payment system within a country and across borders, with the choice of the national standard ideally meeting international best practices (such as ISO 20022 for financial messaging standards and QR codes being compliant with EMVCo standards of interoperability) to more easily facilitate regional integration. Currently, there have been several bilateral cross-border QR code payment exchanges but the leap to a multilateral system is still a work in progress.

### Consolidating Bilateral Systems into an Integrated Multilateral Framework

*Project Nexus*, initiated by the Bank for International Settlements (BIS), may be the first step in making the ASEAN-wide QR vision a reality. The multilateral model tested under this project would eliminate the potentially inefficient intertwining of various regional bilateral mechanisms into a more ideal interoperable hub-and-spoke framework, featuring a central processing platform to manage cross-border payments and fund transfers within ASEAN. After the successful completion of its 'proof-of-concept' phase in 2022, the new 'Nexus Solution' will endeavour to be live in five ASEAN countries (Malaysia, Indonesia, the Philippines, Singapore, and Thailand) by 2025.

With more countries showing interest in the ASEAN QR initiative, it will be important for participating countries to coordinate more closely on the key "dots" or factors such as optimal governance and supervisory oversight structure of the regional QR payment network, the required safeguards needed to ensure secure transactions, as well as crucial response mechanisms in the event of security breaches within the ecosystem. As the dots in this network continue to connect and the ties between them strengthen, the ASEAN QR initiative is shaping up to be an exciting prospect for the region – a novel innovation, proudly 'Made in ASEAN'.

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A customer using their mobile phone to scan a QR code

# ASEAN in the Global Semiconductor Race

**Lili Yan Ing and Ivana Markus** take stock of the current state of the global semiconductor race between China and the United States, and how the ASEAN region should navigate the growing rivalry.

One of the current escalating issues between the two major powers, China and the US, is the global semiconductor race. It has caused divisions within the global supply chains, such as the increased reshoring of manufacturing processes. As a result, countries globally are making readjustments and competing for a more significant role in this growing technology sector. This is just the beginning of a global race that would affect several ASEAN countries like Malaysia, the Philippines, Singapore, Thailand, and Vietnam, that are currently navigating this complex semiconductor competition.

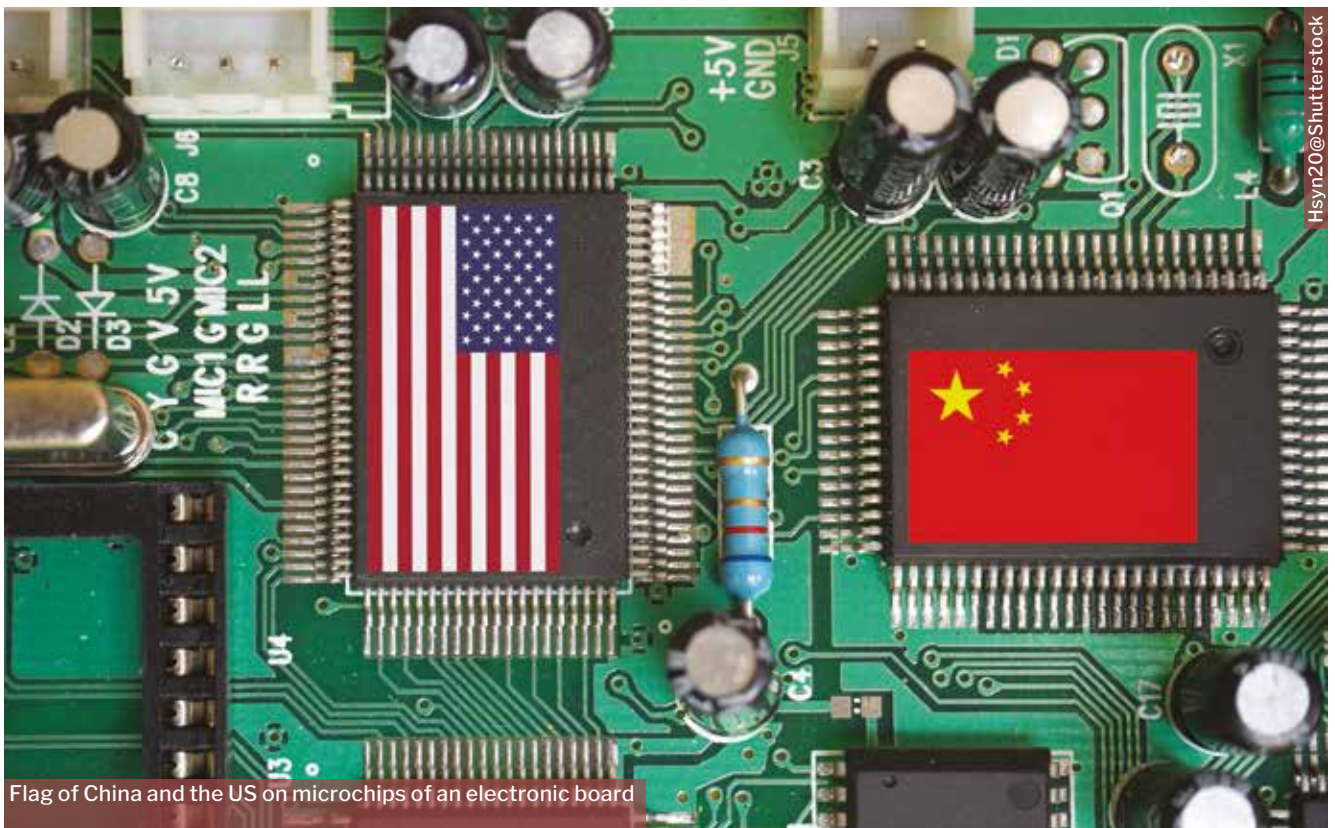
Semiconductors serve as critical parts for several industries, including artificial intelligence (AI) applications, electric vehicles, and other advanced technologies. In terms of market dominance, the US accounted for 47% of the global semiconductor market in 2020, followed by South Korea (20%), Japan (10%), EU (10%), and Taiwan (7%) (Statista, 2021). Globally, the major players in terms of market revenue include Samsung, Intel, SK Hynix, Qualcomm, and Micron Technology in 2022.

The global semiconductor race between the US and China has escalated since October 2022 when the US announced an export control policy on artificial intelligence (AI) and semiconductor technologies to China. Through these restrictions, the US aims to limit China's access and ability to produce certain advanced chips. The US does not only ban China's access to high-end AI chips, but also choke point technologies, such as AI chip design, electronic design automation

software, semiconductor manufacturing equipment, and equipment components. The new rules will not only hinder China from enhancing its capabilities in the semiconductor industry but also make China more reliant on its domestic suppliers to maintain its growth. Responding to the US export controls, Japan and the Netherlands have also implemented new rules to control semiconductor technology exports to China, citing national security reasons.

In retaliation, the Ministry of Commerce of China placed restrictions on the exports of key semiconductor raw materials, namely gallium and germanium, on 3 July this year. The two materials are mainly used in the manufacture of several high-tech productions such as chips, solar panels, and electric vehicle (EV) batteries. While the magnitude is seen as narrower in scope than the US' restrictions, China's export ban on these three elements will have a bigger impact on the market and supply chains.

Amid the ongoing global semiconductor race, ASEAN, a grouping of nations that together constitute the world's fifth largest economy, has the potential to play a significant role as ASEAN offers strengths that can enhance its position in the semiconductor industry. ASEAN represents a region with several advantages such as growing manufacturing capabilities, skilled workers, and supportive government policies, which can further attract investments to become a vital production hub for semiconductors.



Flag of China and the US on microchips of an electronic board





Workers holding a wafer at a semiconductor manufacturing plant

While American and Chinese exports for semiconductors globally accounted for US\$28.4 billion and US\$220 billion in 2022, respectively, the ASEAN region's semiconductor exports accounted for more than US\$165.3 billion in 2022, compared to US\$52.3 billion in 2017. In addition, the revenue of the ASEAN region's semiconductors market is projected to reach US\$101.8 billion this year, illustrating its vast potential in this specialised supply chain. In particular, countries such as Singapore and Malaysia are already playing a significant role in the global supply chain, accounting for 11% and 7% of the global semiconductor market share respectively. Singapore has built up notable capabilities in wafer fabrication constituting 5% of global wafer capacity, whilst Malaysia is a key global player in assembly, testing, and packaging activities.

In 2021, ASEAN's Foreign Direct Investment (FDI) inflows increased by 42% to US\$174 billion, after a sharp decline in 2020. FDI in electronics, including semiconductors, recorded strong investment growths in the same year. The global disruption in the semiconductors supply chain led to a further expansion of ASEAN's electronic and semiconductor operations, particularly in Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

Trade between the bloc's member states and the US surged from US\$135.1 billion to US\$452.2 billion. ASEAN exports to the US nearly quadrupled from US\$87.9 billion to US\$356.7 billion over the same period with its semiconductor exports increasing by around 80% reaching US\$9 billion. At the same time, trade between ASEAN and China reached US\$975.3 billion in 2022, an astounding 24-fold increase from 2000. ASEAN countries' exports to China increased 18-fold during this period, from US\$22.2 billion to US\$408.1 billion with semiconductor exports in particular rising to US\$26.6 billion in 2022, 176% increase from 2017. Thus, the strengthening trade and investment relationships with both the US and China and the growing

geopolitical tensions between these major powers put ASEAN countries in an advantageous situation.

Navigating the complex US-China rivalry is a daunting challenge for ASEAN. Therefore, for ASEAN, choosing a side is not a viable option. Given that ASEAN economies are heavily interconnected with the US, Europe, China, and other East Asian markets, the bloc must maintain a neutral stance, avoid taking sides, and instead, enhance collaboration. Diverse trade and economic partnerships could enhance ASEAN's opportunities as well as improve ASEAN's trade and investment.

Indeed, ASEAN needs to keep its position as a neutral ground, not only in the semiconductor industry but in all sectors. ASEAN needs to prioritise further its investment in research and development, manufacturing capabilities, production capacities, and skills to enhance its potential for semiconductor innovation and manufacturing. However, for ASEAN to capture a part of the high-tech equipment and supply chain, strategic moves focused on its foundation are also important. Firstly, investment in research and development, particularly AI research, could support ASEAN's semiconductor production capability and capacity. Secondly, ASEAN needs to improve and streamline its regulations and standards as a region to establish clear regulatory frameworks and facilitate trade. Lastly, with ASEAN's population dividend, investment in education and training programmes is the key strategy for ASEAN to develop a skilled workforce to unleash ASEAN's potential in the long-term development of the semiconductor industry in the region.

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# Rise of Unicorns in Southeast Asia

**Tham Siew Yean** examines the state of startup developments across Southeast Asia, delving deeper into the success of unicorns in Singapore and the newest unicorn hub of Indonesia.



Employees stand in front of a Carsome building in Malaysia

Carsome Malaysia @ Facebook

**P**rivately-held startup companies with a value of over US\$1 billion are hotly pursued by Southeast Asian economies. These unicorns contribute towards employment generation, innovation, productivity gains, and cross-border trade for the country that is hosting them. They also draw in investments due to their high growth potential and expected future gains in the event of a buy-out. It is not surprising then, that countries, including developing economies, aspire to mint unicorns. Several ASEAN economies harbour similar ambitions. Indonesia, for example, seeks to bring forth three new unicorns in the Medium-Term National Development Plan (MTNDP) for 2020–2024. Following the achievement of this target, Indonesia has raised its ambition to foster 20 more new unicorns, similar to Gojek and Tokopedia, by 2025. Likewise, Malaysia aims to have five unicorns in 2025 while Vietnam targets to have five tech unicorns by the same year and another five by 2030.

## The Importance of a Conducive Startup Ecosystem

The startup ecosystem of a country is an important factor in minting unicorns. Singapore is currently ranked eighth in Startup Genome's latest global startup ecosystem ranking. Indonesia is ranked 41<sup>st</sup>, followed by Malaysia (43<sup>rd</sup>), Thailand (52<sup>nd</sup>), Vietnam (58<sup>th</sup>), and the Philippines (59<sup>th</sup>). It is therefore not a surprise that Singapore leads the pack of unicorns emerging in ASEAN. It is already the financial centre in the Asia-Pacific, ranking third in the Global Financial Centre Index 2022, after New York and London. These supporting conditions enable it to be a leading destination for venture capital funds to domicile and operate, thereby attracting foreign and home-grown

entrepreneurs. In 2022, it was reported that Singapore had approximately 4,000 tech startups, over 400 venture capital managers, and an estimated 700 family offices.

Singapore's unicorn growth is plateauing. The city-state only minted three new unicorns in 2022 compared to seven new unicorns in 2021. At the end of 2022, there were 26 unicorns in Singapore, with the largest number minted in 2021. More than 40% of these unicorns are in finance as well as finance-related (including insurance) sectors and e-commerce, in line with the region's needs. However, the unicorns in Singapore are much more diversified compared to the rest of ASEAN, as these unicorns do not just cater for the local or regional market alone.

## Indonesia is the Next Hotbed for Unicorns

As of 2022, Indonesia has the second largest number of unicorns in ASEAN after Singapore, totalling 15, with two decacorns (companies with a value of more than US\$10 billion), namely GoTo and J&T Express. The former is a merger of two of Indonesia's oldest unicorns, ride-hailing and payments giant Gojek and e-commerce leader Tokopedia.

Indonesia's large domestic market, rising middle class and a digital-savvy young population contribute to the growth of startups and unicorns, thereby attracting investors to these ventures. At the micro level, Indonesian startups focus on building brands that are local, accessible, and familiar to domestic consumers,

thus contributing towards the scaling that is necessary for the birth of unicorns. For example, Gojek was able to make inroads in e-hailing by capitalising on the popular use of motorbike taxis – a common service for urban citizens in the county.

Sector-wise, financial technology (fintech) has a larger share in unicorns in Indonesia. According to an estimate, 51% of Indonesian citizens are unbanked or those without access to banking or financial institutions while the underbanked or those with access, but choose to use alternative financial services, stands at 26% due to its archipelagic status. Traditional banks face considerable challenges reaching those residing far from the cities and on remote islands.

Indonesia also has the largest digital economy, with approximately 40% of the total regional market share. The COVID-19 pandemic, which has accelerated the use of technology, also provided the opportunity for startups and unicorns to make inroads into e-commerce. Tokopedia, which was founded in 2009 as an e-commerce platform, became an essential service provider during the pandemic before its subsequent merger with Gojek in 2021. It is expected that Vietnam will follow next. Currently, Vietnam has four unicorns. Other ASEAN economies, such as the Philippines, Malaysia and Thailand are latecomers. They minted their first unicorn only in 2021 and 2022 respectively.

### 2021 was a Bumper Year for Unicorns

Overall, 2021 was a bumper year for unicorns in ASEAN, driven by the increased use of smartphones, accelerated digitalisation due to the COVID-19 pandemic, expanding middle class, as well as greater efforts by regional governments to boost the digital economy.

Private equity played an important role in boosting the number of unicorns. Bain & Company reported that the deal value in the Southeast Asia private equity market reached an all-time high of US\$25 billion in 2021, rebounding sharply from 2020 which was negatively affected by the pandemic shutdowns in the region. However, in 2022, this dwindled to US\$13 billion due to global uncertainties, rising interest rates, and challenging exit conditions.



GoTo stocks, taken in March 2023, in Indonesia

### What Happens After Acquiring Unicorn Status?

Unicorns may remain private when founders wish to retain control over their companies or choose to exit by becoming a public listed company or through mergers and acquisitions. Carsome of Malaysia reportedly delayed its proposed dual listing plans in Singapore and the US in 2022 as it was concerned that its valuations may be affected by waning macroeconomic conditions.

For Singapore, four of the unicorns have been publicly listed. The first is Razer which went public on the Hong Kong Stock Exchange in November 2017. Garena, rebranded as SEA in 2017, was listed in the New York Stock Exchange in 2017. Nanofilm, founded by a Singaporean entrepreneur, was listed in the Singapore bourse in 2020 and Grab was the latest to be listed on the Nasdaq in December 2021. Two other unicorns, Lazada and Bigo Live, have been acquired – one by giant Alibaba (Lazada) and one by Chinese streaming powerhouse YY (Bigo Live). In Indonesia, two of its unicorns have been listed. The first is Bukalapak, which debuted on the Indonesian Stock Exchange in 2021, while GoTo was listed in 2022.

### Sustainability of Unicorns

Startup overvaluation is a global concern. The somewhat arbitrary one billion dollar threshold for unicorn status reflects investors' aspirational valuations as opposed to pure empirical assessments. Research at Stanford has indicated that unicorns in Silicon Valley can be overvalued by as much as 51% above their real worth. Crunchbase has further reported that many of the unicorns that emerged in 2021 have found "internal valuations revised downward, often drastically, for highly valued unicorns."

There is no similar study conducted for ASEAN's startups and unicorns. Data is limited because most unicorns are privately held. In the end, valuations will have to meet the test of the markets after the unicorns are listed. Profitability is often overtaken by the need to scale and grow rapidly. While investors may justify investing in loss-making enterprises based on the potential for growth and future profitability, this belief can be stretched a tad too far in the wake of a weakening global environment, heightened uncertainties, and rising interest rates. Thus, while a public listing is a landmark achievement in an entrepreneur's journey from a startup to unicorn status, it can bring with it new challenges as shareholders' demand for profits and returns to their investments create additional pressures.

Ultimately, the time-tested model for business success remains to be one based on sustainability, product quality rather than price competition, and positive cash flow. It is, therefore, not surprising that there is an increasingly popular call for startups to follow the "camel" model rather than the unicorns. Compared to their more glamorous cousins, camel companies are more handy, resilient, sustainable, and enduring.

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# IPEF's Relevance for ASEAN

**Siwage Dharma Negara** and **Maria Monica Wihardja** outline recommendations for Indonesia as the ASEAN Chair to align ASEAN's interests with the Indo-Pacific Economic Framework for Prosperity (IPEF).



Closing press conference of the IPEF Ministerial Meeting in Detroit, Michigan, on 27 May 2023

In May 2022, the US launched the Indo-Pacific Economic Framework for Prosperity (IPEF) with 14 countries, including seven ASEAN members — Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. It is seen as the US' geostrategic move to re-engage economically in the region after withdrawing from the Trans-Pacific Partnership (TPP) in 2017.

Arguably the US' main motivation to re-engage in the Indo-Pacific region is to counter-balance China's growing influence in the region. In fact, many Southeast Asian economies have economically become deeply interdependent on China through global supply chains. The rising US-China contestation to gain influence in the region has put Southeast Asia in particular, in an uneasy position.

Overall, IPEF is viewed quite positively in the region. According to the *State of Southeast Asia 2023 Survey*, 46.5% of Southeast Asians view IPEF favourably for their countries, while only 11.7% of respondents perceive it negatively. Interestingly but not surprisingly, there is a significant proportion (41.8%) who are unsure about the impact of IPEF.

The main reasons among Southeast Asian respondents who take a positive attitude towards IPEF include US' pursuit of greater economic engagement in the region (31.3%) and complementarity with existing ASEAN initiatives (30.4%).

Countries that think that IPEF signals the US' pursuit of greater economic engagement in the region are Indonesia (45.2%), Vietnam (43.4%), and Malaysia (42.0%). However, only a minority (14.1%) believe that IPEF could strengthen global trade governance.

Apart from that, those who have a negative attitude towards IPEF believe that it will increase US-China

competition (33.9%) and that it does not enhance market access (28.4%) for their countries. Respondents who think that IPEF will worsen US-China competition mostly come from Malaysia (63.2%), the Philippines (50.0%), and Indonesia (43.8%).

## Indonesia's Perceptions of IPEF

Indonesia's view is particularly important, as it is ASEAN's largest member, economically and geographically, and a G20 country. As this year's ASEAN Chair, Indonesia needs to show its leadership in the regional grouping amid rising geopolitical tensions and global economic fragmentation.

Indonesia's intention to join IPEF is premised on it being a means to maintain a strategic balance between the US and China. Through IPEF engagement, Indonesia hopes that there will be more opportunities for economic cooperation that would promote economic competitiveness, efficiency, and productivity in the region.

For Indonesia, IPEF is seen as complementary to other trade initiatives and economic cooperation it is pursuing globally and regionally, such as the Regional Comprehensive Economic Partnership (RCEP) and the Belt and Road Initiative (BRI), among others. IPEF is considered as a new and innovative way of pursuing economic cooperation on emerging issues, such as clean and fair economy as well as resilient supply chains, to help achieve national development goals.

Indonesia also sees IPEF as a platform for international economic diplomacy, especially with the US, which has traditionally been its important trade and investment partner. By joining the IPEF negotiations, Indonesia can contribute to rulemaking and resolve trade issues with the US. Particularly, since IPEF opens up opportunities for

cooperation concerning critical minerals-related supply chains, such as nickel, cobalt and copper.

Finally, Indonesia expects IPEF to open up access to technology and financing for its green and digital economy development, as well as to improve governance in these areas.

However, despite its potential benefits, IPEF has some major issues. First, its sustainability is unclear. The fact that the US pulled out from the TPP, which was originally driven by Washington, creates a negative precedent to this new US-led initiative. Similar to the TPP, IPEF could be easily repealed by future US presidents.

Second, its effectiveness and legitimacy are questioned as the US has other binding policy initiatives that may supersede IPEF. For example, it is not clear how IPEF will work under the Inflation Reduction Act (IRA), which seeks to attract onshore investment in green technologies. Will IPEF bring benefits to its members that do not have an FTA with the US? Japan, a US ally, has signed a limited FTA on critical minerals with the US to qualify for US green subsidies under the IRA. But, can other countries, especially non-US-ally countries such as Indonesia, have the same privileges?

Third, IPEF is widely perceived as 'all sticks but no carrots'. It aims to set rules and high standards in labour, environment, and regulatory or governance practices. However, there is no 'market access' compensation (in the form of reduced tariffs) for implementing those rules while imposing high standards may require costly adjustments, especially for countries like Indonesia and India.

Fourth, if the US is allowed to dominate IPEF negotiation outcomes, it could undermine and divide existing trade and investment mechanisms. The exclusion of China and three other ASEAN countries with close links to China, namely Laos, Cambodia, and Myanmar, may give the perception that IPEF is an 'anti-China' club. The biggest risk to the region is IPEF heightening the US-China contestation in the Indo-Pacific region.

### **ASEAN's Responses to IPEF**

Being part of IPEF is certainly not an ASEAN objective. Some ASEAN countries join IPEF primarily based on their respective countries' interests. That said, the high standards and rules within IPEF can eventually help other ASEAN countries that are non-members of IPEF to benchmark their economic governance against global norms. Excluding the three ASEAN members in the framework will complicate the convergence of standards and rules that ASEAN has been trying to achieve with its ASEAN and ASEAN plus initiatives. It may also risk breaking ASEAN into rival economic blocs.

During IPEF negotiations, Indonesia tried to uphold the ASEAN Outlook on the Indo-Pacific (AOIP), which embraces the ASEAN centrality principle. The Indonesian lead negotiator has clarified that IPEF should be aligned with AOIP, such as promoting open and inclusive

principles. This means IPEF should allow the three remaining ASEAN member countries to join. In addition, IPEF should not compete with RCEP, which comprises all ten ASEAN members and another five countries. With negotiations still underway, uncertainty about the US' acceptance to accommodate Indonesia's proposals remains.

### **Other Voices**

Other dialogue partners may also influence the progress of IPEF negotiations. For instance, India has opted out of the trade pillar, citing that lack of market access obscures the benefits of joining it. India feels that IPEF's digital economy regulations, environmental and labour standards are too stringent. Some other countries, including Indonesia, share the same concern. These countries demand more flexible conditions considering their respective development stage and needs.

Japan, which has been leading the global dialogue on Data Free Flows with Trust (DFFT) and the Hiroshima AI Process, feels that IPEF should establish consistent rules for digital trade that retain the same high degree of standard as in the CPTPP.

There is a significant gap in agreeing on common digital trade principles. Given the wide disparity in regulations and standards in each member country and its respective domestic situation, it is understandable that the US has chosen a non-binding approach to IPEF. But this non-binding approach will make IPEF less effective than the CPTPP or RCEP.

In digital governance, regulatory gaps and diversity across sovereign states, with data localisation as the most contentious issue, will pose a serious negotiation challenge. The proliferation of preferential trade agreements, each with its own e-commerce provisions, for example, already creates fragmentation in digital trade. Since IPEF does not include commitments on market access, participating countries may not engage seriously. In essence, IPEF may not significantly impact digital trade rulemaking among member economies.

Given both the potential benefits and risks of IPEF, the key to Indonesia's success in IPEF lies in its capability to promote ASEAN interests during the negotiation process. It needs to balance its own national interests and ASEAN goals. Indonesia should continue to promote the inclusion of the three ASEAN countries currently not in IPEF.

Finally, Indonesia should ensure that IPEF would not jeopardise stability in the region. It should ensure IPEF will not become a new platform that creates bifurcation of standards, making members choose sides, and exacerbating unnecessary contestation and conflicts.

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# Can the European Green Deal be a Good Deal for ASEAN?

**Chris Humphrey** examines the challenges and benefits of the European Green Deal for ASEAN's sustainable future.

European Union (EU)-ASEAN relations are in good standing following a successful 45<sup>th</sup> Anniversary Commemorative Summit and the 10<sup>th</sup> ASEAN-EU Business Summit in Brussels last December. Trade-wise, the EU continues to be among ASEAN's top trading partners and a significant source of foreign direct investment. The elevation to a "strategic partnership" and the promise of a €10 billion funding under the EU's Global Gateway programme, to help ASEAN with sustainability and connectivity initiatives, also signal a closer relationship in promoting green growth.

However, as in any partnership, there are areas of tension and disagreement. In this case, it comes in the form of the European Green Deal, seen by many in ASEAN as a threat. Terms that have been used by regional governments to describe the Deal, whether publicly or in private, include "regulatory imperialism," "climate colonialism," and "protectionism disguised as climate action". The truth, as always, is more nuanced. Some impacts are clearly being overstated, often for domestic political purposes. Others are perhaps misunderstood, pointing to what some see as a communication deficit by the EU.

What is the European Green Deal? In 2020, the EU Commission approved a set of policy initiatives to transform the EU into a resource-efficient sustainable economy and to achieve its ambition of climate-neutrality by 2050. The European Green Deal is the EU's domestic response to the global climate emergency and covers all sectors, from agriculture and the energy and digital industries, to transport. These reforms aim to foster a new era of sustainability.

Some of these reforms have external reach and will significantly impact businesses and jurisdictions outside of the EU, including in ASEAN. The EU, realising that its imports also contribute towards its ecological footprint, aims to address this by decarbonising its own economy and imports. This means that the goal of reaching net-zero greenhouse gas emissions in less than two decades can be accomplished only by making the external dimension an integral part of the Green Deal.

This "external dimension" has naturally generated significant concerns among EU's partners, including in ASEAN. The Carbon Border Adjustment Mechanism (CBAM), the EU Regulation on Deforestation-Free Products (EUDR), and the Corporate Sustainability Due Diligence Directive and Reporting Directive are all set to make sustainability standards stricter for partner countries and companies that export to Europe. There are significant uncertainties surrounding compliance and whether the EU will support such compliance. Developing countries see the Green Deal as a set of protectionist trade barriers that will restrict their economic progress and as an attempt to set global standards around sustainability which are regarded as too ambitious, especially for those jurisdictions that lack resources and expertise.

Indonesia and Malaysia have joined hands to seek concessions on the EUDR, which they deem inherently punitive and discriminatory. The Directive bans the trading of products and commodities in the EU linked to deforestation and forest degradation. Palm oil is one of several commodities subject to the rule, which, along with



rubber, is a key export commodity for several Southeast Asian states. Following the earlier dispute over palm oil that flowed from the EU's Renewable Energy Directive II (REDII) legislation, Malaysia and Indonesia's reactions should not have surprised anyone in Brussels.

The EU has long provided hefty financial assistance and support to developing countries through various channels and programmes. The Green Deal, though, does not outline a spending plan for external partners to adjust to the EU's new regulations and standards. Rather, other programmes, such as the #TeamEurope Green Deal Initiative for ASEAN, are being put in place that might provide mechanisms for support in some related areas such as sustainable agriculture and energy transition but not directly to help alleviate compliance concerns on the EUDR.

The successful implementation of the external dimension of the Green Deal will hinge on the EU's ability to effectively alleviate these costs and provide targeted assistance, especially to developing countries on compliance mechanisms. Without explicit support, there is a risk that the Green Deal will continue to be perceived as a threat by countries that need to restructure their economies to meet these new stricter requirements whilst they are striving to grow their economies and deal with a raft of socio-economic issues of their own.

Many argue that there has been a deficit of sufficient communication about the Green Deal's requirements, implications, implementation strategies, and available support mechanisms to third partners. There certainly exists a significant gap in understanding and an alarming level of anger and even misinformation across the region. At the time of writing, the EU is ramping up engagement with its external partners by establishing a Task Force with Malaysia and Indonesia on the EUDR, which is a good development.

Apart from the governments, the Green Deal will have implications for the private sector, both for European and ASEAN businesses. There are significant concerns around reporting, for instance, which includes determining reporting requirements and standards for environmental data and progress towards sustainability goals, including what reporting frameworks with which to align. There are also challenges around restrictions on data availability, privacy, collection and sharing, and access to comprehensive databases for environmental data and maps, in the jurisdictions where these businesses operate. This is not to mention the high costs and resources that need to be poured into tracking and verifying the sustainability and environmental impact of raw materials, products, and services across complex supply chains. Again, information is scant, scattered, and unclear, much to the frustration of businesses. ASEAN can play an important role by developing a unified set of reporting standards that would help aid compliance with the European Green Deal.

The European Green Deal stands as a testament to the EU's leadership in the global climate fight and it is ambitious precisely because the EU is taking its



Wind turbines in Phan Rang, Ninh Thuan, Vietnam

role seriously and pushing others to take more urgent action to meet their Paris obligations. ASEAN countries are not sufficiently acting on the pledges they made under the Paris climate deal. The Climate Action Tracker considers Indonesia's and Vietnam's Nationally Determined Contributions (NDCs) highly insufficient and Singapore's critically inadequate. The ASEAN Secretariat acknowledged the "large gaps in implementation and ambition".

For the Green Deal to become truly transformative and globally impactful, and for it to not sour the EU's relations with ASEAN, the EU must take further steps to get all stakeholders on board. This includes engaging in more active and inclusive dialogues with ASEAN, enhancing communication and information-sharing, and providing clear and comprehensive guidelines to external partners and businesses about the Green Deal requirements.

Equally, ASEAN needs to look at the Green Deal as an opportunity to get further assistance from the EU on sustainability issues and to help accelerate its own transition to greener net-zero economies. In the short term, there may be teething issues and added costs. However, in the long term, it will bring benefits. Complying with the Green Deal sooner rather than later will enable ASEAN's export-oriented companies to gain advantages and lower market access costs by avoiding additional tariffs and taxes such as those from the CBAM.

The EU remains a crucial partner in geopolitics and trade for ASEAN. At a time when US-China tensions are at an all-time high, the EU has an important role to play as a potential balancing force and intermediary. As reflected in *The State of Southeast Asia 2023 Survey* report, the EU is increasingly seen by many in Southeast Asia as the region's most preferred and trusted partner to hedge against the uncertainties of the US-China rivalry.

Whilst there is much left to be desired in terms of engagement and communication, collaboration and support are critical for a successful global response to climate change, which is what the EU is aiming for with its Green Deal. ASEAN should embrace this to work with the EU for the common good.

**Mr. Chris Humphrey** is Executive Director of the EU-ASEAN Business Council.

# The Korea-ASEAN Solidarity Initiative: Recalibrating Socio-Economic Connectivity

**Melinda Martinus** scrutinises softer prospects of the new ASEAN-Korea relationship.



South Korean President Yoon Suk Yeol (L) with Indonesian President Joko Widodo (R) at the 43<sup>rd</sup> ASEAN Summit

The Republic of Korea (ROK) announced the Korea-ASEAN Solidarity Initiative (KASI) at the ASEAN-ROK Summit in Phnom Penh last year. The initiative represents Korea's growing efforts to strengthen its Indo-Pacific Strategy and broaden its international engagement beyond its traditional four major partners: China, the United States, Japan and Russia.

A key motivation behind KASI is to deepen strategic and security alignment in ASEAN. Many analysts criticised the New Southern Policy (NSP) led by the previous administration under President Moon Jae-In for its lack of security elements and only limited to functional economic and development cooperation. Under KASI, the new administration led by President Yoon Suk Yeol aims to pivot to security-driven initiatives, including defence exchanges and joint responses to regional challenges such as cyber and maritime security.

While security cooperation leaves much to be desired in ASEAN-ROK relations, especially now that the Yoon Administration has displayed a strong preference for strengthening its alliance with the US in the Indo-Pacific, KASI should not ignore functional socio-economic cooperation. In fact, gaps and opportunities remain in

functional cooperation, such as deepening trade and improving trust through soft diplomacy, despite the relationships between the two sides having achieved significant milestones in the past few years. There are four areas to look at.

First, mutual trust between both sides could have been better. According to *The State of Southeast Asia 2023 Survey* conducted by the ISEAS-Yusof Ishak Institute, ASEAN opinion leaders rank South Korea relatively low in economic, strategic, and soft power influence compared to other major powers. Only 1% of ASEAN elites think that the ROK is an influential economic power, putting the ROK in 8th position out of a ranking of nine countries. Similarly, a survey conducted by the ASEAN-Korea Centre on *Mutual Perceptions of ASEAN and Korean Youths* indicated that interest in ASEAN among Korean youth is relatively low, with only 52.8% of Korean youth stating interest in ASEAN. On the other hand, the excitement of ASEAN youths towards Korea is exceptionally high, with 97.7% of them showing interest. These external and internal perceptions challenge Korean policymakers in articulating their foreign policy strategy towards ASEAN.



Second, despite praises for the Moon administration's efforts in deepening economic connectivity with ASEAN – from increasing the number of Korean investments and consumer goods entering the ASEAN market – connectivity is somewhat still asymmetrical. South Korea relies predominantly on a single ASEAN member, Vietnam, for its exports. Currently, 48% of the total Korean export volumes to ASEAN goes to Vietnam. Similarly, 27% of Korean Foreign Direct Investment (FDI) to ASEAN goes to Vietnam, making Vietnam the second main destination for Korean FDI after Singapore.

Where soft power is concerned, South Korea has not optimally tapped into the rising tourism appetites of Southeast Asia's middle-class. Despite ASEAN accounting for a larger population, the number of ASEAN citizens visiting Korea is only one-fifth of the number of Korean tourists to ASEAN in 2019 (prior to COVID-19). In fact, despite the popularity of Korean pop culture in the region, South Korea is still a less attractive destination for ASEAN visitors. Japan topped ISEAS' latest survey as the most favoured tourism destination for ASEAN citizens, registering 27.3% of total respondents versus South Korea's 7.2%.

The ROK's depth and maturity of economic connectivity with ASEAN member states vary considerably. At the regional level, South Korea has requested for an ASEAN-ROK Comprehensive Strategic Partnership Status (CSP) and has successfully acceded to an ASEAN-led trade initiative, the Regional Comprehensive Economic Partnership (RCEP) in 2022. At the bilateral level, the ROK has free trade agreements with Cambodia, Indonesia, Singapore, and Vietnam. The Korea-Singapore Digital Partnership Agreement (KSDPA), which set a precedent in regional digital economy cooperation, was adopted in January 2023. These ambitions signal that there are still untapped opportunities beyond traditional trade cooperation.

Third, the geopolitical environment has changed since President Moon launched the NSP in 2017. Then, the main motive for the ROK to pivot towards ASEAN was the need for greater market diversification. China's boycott of Korean goods due to the ROK's decision to permit the US deployment of a THAAD missile defence system exposed Seoul's overreliance on the Chinese market for its exports. Thus, it was necessary for Seoul to diversify its trade activities and find a more stable export destination, making ASEAN a suitable alternative due to its economic growth prospects.

With the trade war between China and the US intensifying and fragmenting the global trade regime, South Korea needs to recalibrate its global supply chain strategy. Tariffs and trade tensions forced Korean multinational companies to rethink their supply chain strategies, leading to diversification away from China. Beyond being an attractive market for Korea's exports, ASEAN is also a critical partner in their global supply chain. Enabling policies can help ASEAN and the ROK play a complementary role in the global value chain (GVC), with South Korea supplying advanced components and technology while ASEAN countries provide



manufacturing, assembly, logistics, and delivery across the region and globally. This would strengthen economic resilience amid an uncertain geopolitical situation.

Lastly, the ROK aspires to be a global pivotal state. While it is true that the ROK needs to showcase a 'hard security' component in its international diplomacy, including strengthening defence cooperation with ASEAN, the truth is that gaining a global reputation is beyond just increasing military capacity. The Lowy Institute's Asia Power Index 2023, which measures regional power influence using various criteria such as economic capability, and diplomatic and cultural influence, placed South Korea in the 7<sup>th</sup> position, below Australia and just above Singapore and Indonesia.

Among 29 Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) countries, South Korea ranks 16<sup>th</sup> in terms of total official development assistance (ODA), disbursing US\$2.2 billion in ODA to developing countries in 2020. As a benchmark, Japan distributed US\$16.6 billion ODA globally. It is thus not surprising that Japan continues to gain trust and is perceived as a credible partner to hedge against the uncertainties of US-China rivalry, according to the ISEAS Survey. South Korea's commitment to double its ODA by 2030 is a welcome development for ASEAN, especially for less-developed member countries that need assistance to achieve their sustainable development goals.

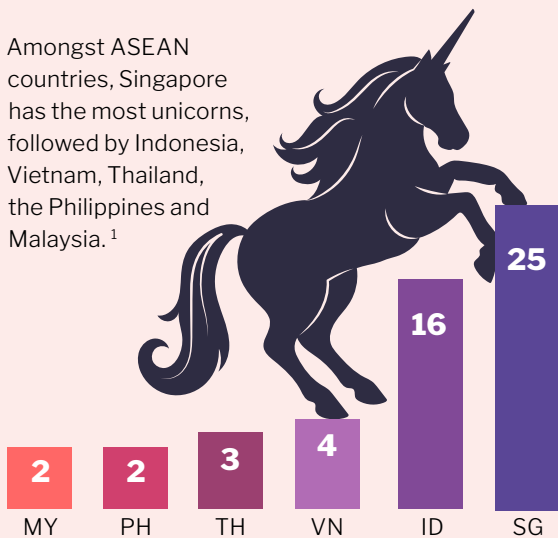
South Korea has successfully built an image as a reliable regional partner in the economic and people-to-people aspects. The efforts built by the Moon administration and the forward-looking agenda under President Yoon should pave the way for more tangible cooperation moving forward. This would strengthen partnerships in GVC reconfiguration and emerging sectors such as the digital economy and sustainability.

The anniversary of the ASEAN-ROK commemorative summit next year can provide some momentum to showcase KASI's tangible objectives, including renewed socio-economic commitments. The ASEAN CSP will be granted but the ROK must demonstrate commitment in deepening partnership with ASEAN in all aspects.

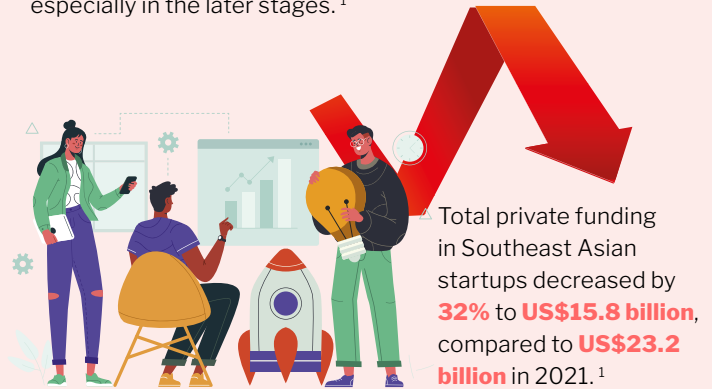
**Ms. Melinda Martinus** is Lead Researcher at the ASEAN Studies Centre, ISEAS—Yusof Ishak Institute.

# EMERGING ECONOMIC DRIVERS IN ASEAN

Amongst ASEAN countries, Singapore has the most unicorns, followed by Indonesia, Vietnam, Thailand, the Philippines and Malaysia.<sup>1</sup>



Only **eight startups** in Southeast Asia achieved unicorn status in 2022 compared to **23** in 2021 due to a slowdown in private market funding, especially in the later stages.<sup>1</sup>



Fund raising by Southeast Asian startups in 2022.<sup>1</sup>

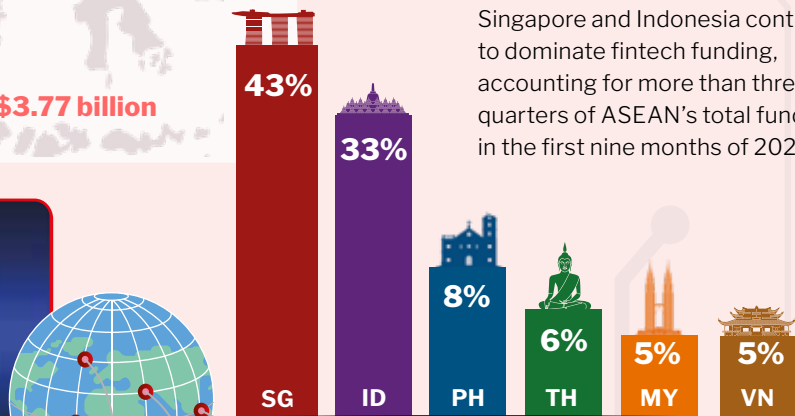


## FINTECH

FinTech investments remained strong in Southeast Asia during the first nine months of 2022, totalling **US\$4.3 billion** through **163 deals**.<sup>10</sup>

Singapore and Indonesia continued to dominate fintech funding, accounting for more than three-quarters of ASEAN's total funding in the first nine months of 2022.<sup>10</sup>

Payments remains the most funded FinTech category in ASEAN, receiving **US\$1.9 billion**, followed by alternative lending at **US\$506 million** in the first nine months of 2022.<sup>10</sup>



Southeast Asia's digital payments market is expected to reach **US\$2 trillion** in transaction value by 2030, a threefold increase from the previous decade. Fintechs and digital banks are the main drivers of this rapid growth.<sup>8</sup>

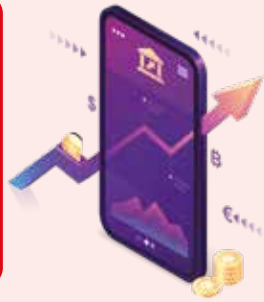


The ASEAN cross-border payment system through the ASEAN QR Code that enables borderless payments in local currencies is poised to reshape the financial landscape in the region. As of now, QR codes have connected various ASEAN countries:<sup>11</sup>

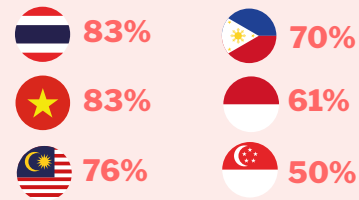
- Indonesia ↔ Malaysia
- Indonesia ↔ Thailand
- Singapore ↔ Malaysia
- Singapore ↔ Thailand
- Thailand ↔ Malaysia
- Thailand ↔ Cambodia



Indonesia continues to lead as the largest digital economy. Online spending in Indonesia is projected to reach **US\$130 billion** by 2025, followed by Thailand, Vietnam, the Philippines, Malaysia and Singapore.<sup>9</sup>

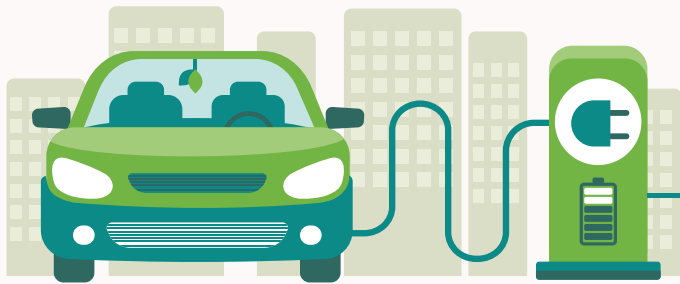


Usage of embedded finance apps across ASEAN-6 in the first nine months of 2022:<sup>10</sup>



ASEAN sees **570%** rise in EV investment in 2022 with **US\$18.1 billion** going to the region's e-mobility sector.<sup>4</sup>

The ASEAN Electric Vehicle Market size is expected to grow from **US\$0.86 billion** in 2023 to **US\$3.54 billion** by 2028, at a CAGR of **32.73%** during the forecast period (2023-2028).<sup>5</sup>



Southeast Asia Top 5 EV Models in 2022<sup>3</sup>

Wuling Air AV

VinFast: VF8

VinFast: VF e34

Hyundai: Ioniq 5

ORA: Good Cat

ASEAN EV Market Leaders:<sup>5</sup>

Hyundai Motor Company

Tesla Inc.

Mitsubishi Motor Corporation

MG Motor

BMW AG

Amongst ASEAN countries, Thailand is the most advanced in the number of electric vehicles sold as of 2023, accounting for more than half of the region's sales, followed by Indonesia and Vietnam.<sup>2/3</sup>



The Chinese automotive conglomerate BYD surpassed Tesla to be the best-selling EV brand in Singapore during the first five months of 2023. BYD had announced plans to start construction of its first plant for electric vehicles in Thailand.<sup>2</sup>



Hyundai Motor Group launched its new automotive plant in Indonesia in March 2022, which will produce the first locally assembled electric vehicle.<sup>5</sup>

In 2021, the Asian Development Bank and Energy Absolute signed a **US\$48 million** green loan agreement to finance countrywide electric vehicle charging infrastructure in Thailand.<sup>5</sup>



ASEAN has been a significant beneficiary of China's outbound investments under the Belt and Road Initiative (BRI). Investment and construction contracts from China rebounded **72%** to **US\$18.6 billion** in 2022 from **US\$10.8 billion** in 2021.<sup>6</sup>

Recent BRI trends indicate a shift in focus to new sectors:<sup>6</sup>



Renewable energy



Technology



Electric Vehicles (EVs)

Six out of China's top 15 investments to BRI countries in 2022 were in ASEAN, including:<sup>7</sup>

- Silk Road Fund's **US\$3 billion** commitment in Indonesia's sovereign wealth fund.
- PowerChina's joint venture with Thailand's Bangchak Corporation to build a **US\$1.5 billion** wind farm in Laos.

Sources:

(1) DealStreet Asia, 6 February 2023 (2) Tech Wire Asia, 6 July 2023 (3) Counterpoint Research, 31 March 2023 (4) Jakarta Globe, 2 September 2023 (5) Mordor Intelligence (6) MayBank, July 2023 (7) ASEAN X Macro, Maybank, 17 March 2023 (8) Google, Temasek and Bain & Co Report, 2022 (9) Seasia, 14 July 2023 (10) "FinTech in ASEAN 2022: Finance, Reimagined", UOB, November 2022 (11) ASEAN-Business Advisory Council, June 2023; Bank Negara Malaysia.

# A New Chapter in ASEAN-Japan Relations

ASEANFocus is privileged to feature the Secretary-General of the ASEAN-Japan Centre, **Dr. Kunihiko Hirabayashi**'s perspectives on ASEAN-Japan relations after 50 years and how Japan intends to substantiate the new Comprehensive Strategic Partnership with ASEAN.



**Dr. Kunihiko Hirabayashi** is the former Regional Advisor and Regional Chief of Health and HIV/AIDS at the UNICEF East Asian and Pacific Regional Office in Bangkok, Thailand. He was also the former Director of the UNICEF Office for Japan and the Republic of Korea. Prior to that, he was trained as a heart surgeon in Japan and later shifted his career to international cooperation, where he focused on technical assistance in hospitals and other health systems in developing countries for about 10 years. As the current Secretary-General of the ASEAN-Japan Centre, he aspires to continue the Centre's 40-year history of excellence in serving as a bridge between ASEAN Member States and Japan to promote trade, investment, tourism, and people-to-people exchanges.

**AF: 2023 marks the 50<sup>th</sup> anniversary of ASEAN-Japan relations. A commemorative summit is expected to take place in December this year in Tokyo to celebrate the historical milestone. What are the significant achievements in ASEAN-Japan relations in the past half a century?**

**DR. HIRABAYASHI:** The 50-year history of ASEAN and Japan can be summarised in three words: **coexistence, cooperation, and mutual understanding.**

**Coexistence** refers to the fact that ASEAN and Japan have helped each other in times of crisis, as indispensable neighbours. For example, in 1997-1999, Japan provided ASEAN countries with more than US\$40 billion in economic assistance in response to the Asian Financial Crisis. In 2011, after the Great East Japan Earthquake, ASEAN countries provided Japan with a variety of assistance, including donations, relief supplies, and the dispatch of rescue teams. During the COVID-19 pandemic, the two sides collaborated closely on issues such as the supply of vaccines, and cooperation to support economic and social recovery. The various forms of cooperation have helped the two sides to overcome many crises, not only at the state and regional levels, but also through the mutual support of people from all walks of life and through generations.

**Cooperation** refers to the fact that ASEAN and Japan have worked together for the economy, society, and culture. The two sides began dialogue in the 1970s, when Japan was in the midst of its high-growth period. At that time, the focus was on importing resources from ASEAN countries. However, since the Japan-ASEAN Economic Cooperation Special Agreement entered into force in 2008, both sides have further strengthened their cooperation in various areas, including trade, investment,

economic cooperation, infrastructure, and human resource development.

**Mutual understanding** has also deepened through the growth of people-to-people and cultural exchanges, facilitated by various non-governmental organisations, business ties, academic networks, and individual travel and exchange activities.

For the past 50 years, ASEAN-Japan relations and cooperation have been guided by the "Fukuda Doctrine" announced by former Prime Minister Takeo Fukuda in 1977, at the first Japan-ASEAN Forum. These principles were namely: 1) Japan will not become a military power, 2) Japan will build a relationship of "heart-to-heart contact" with ASEAN, and 3) Japan and ASEAN are equal partners. These principles have served the relations well in promoting greater trust and confidence.

**AF: Japan is expected to establish a Comprehensive Strategic Partnership with ASEAN this year. What are the new areas of cooperation we can expect to see under this new enhanced partnership?**

**DR. HIRABAYASHI:** Based on the policy recommendations by the Japan Business Federation in June 2021, the remarks by Prime Minister Kishida at the 25<sup>th</sup> ASEAN-Japan Summit in November 2022, the report by the ASEAN-Japan Friendship and Cooperation 50<sup>th</sup> Anniversary Expert Panel in February 2023, and the ASEAN-Japan Economic Co-Creation Vision published by the Ministry of Economy, Trade and Industry, the Japan External Trade Organization (JETRO), and the Japan Chamber of Commerce and Industry on August 22, 2023, I believe that the key narrative for the next 50 years is "**co-creation**" based on mutual trust.



Kusuma Pandu Wijaya@ASEAN Secretariat

Exhibition to commemorate the 50<sup>th</sup> anniversary of ASEAN-Japan Friendship and Cooperation

**Co-creation** refers to the intention to work together to create new economic and social values based on the trust cultivated in the last 50 years. I believe that co-creation will help us identify opportunities for new cooperation as we jointly find solutions to new or re-emerging geopolitical, economic, demographic, and social challenges, such as climate change and pandemics.

Specifically, the new vision for ASEAN-Japan cooperation is expected to focus on supporting the four areas of the ASEAN Outlook on the Indo-Pacific (AOIP): advancing supply chains through digital technology innovations; promoting entrepreneurship through training and the creation of robust networks for knowledge-sharing; and addressing common challenges, such as poverty, inequality, and climate change.

To achieve this new vision, I think ASEAN and Japan need to further develop and deepen the four pillars of the 40<sup>th</sup> anniversary vision: "partners in peace and security," "partners for prosperity," "partners for quality life," and "heart-to-heart" partnership.

**AF: Japan's Free and Open Indo-Pacific concept and the ASEAN Outlook on the Indo-Pacific (AOIP) share many fundamental principles in promoting a rules-based order and stability in the region. Can you share with us some key ASEAN-Japan initiatives under the AOIP?**

**DR. HIRABAYASHI:** In my opinion, all of Japan's cooperation on the AOIP has been to promote a rules-based, free, open, and stable Indo-Pacific region. At the 25<sup>th</sup> ASEAN-Japan Summit, PM Kishida underscored Japan's continued support for ASEAN unity and centrality. It is evident that the AOIP has provided a foundation for Japan to collaborate with ASEAN in realising the shared vision for both parties.

With regard to the key ASEAN-Japan initiatives, PM Kishida highlighted 89 concrete cooperation projects aligned with the AOIP at the summit. Notable ongoing projects encompass a range of priorities, in the areas of connectivity, economic resilience, climate action and

sustainability, health and emerging diseases, among others.

In addition, PM Kishida also announced that Japan will enhance cooperation in the areas of economics, maritime, connectivity through quality infrastructure investment, healthcare, disaster prevention, and addressing climate change including through the realisation of the Asia Zero Emissions Community (AZEC).

These initiatives closely align with ASEAN's established priorities.

**AF: What more can ASEAN do to enhance the AOIP's relevance in a region that is increasingly affected by major power rivalry and how can Japan help ASEAN to be more resilient in a fragmented world?**

**DR. HIRABAYASHI:** I believe that ASEAN can make the AOIP more relevant in a volatile region by taking five actions.

**First, placing young people at the centre of AOIP:** So far, Indo-Pacific cooperation has focused on Track I cooperation at the government level, but it is necessary to expand activities at the Track II level and beyond. I strongly believe that if ASEAN can effectively mobilise and enhance young people's leadership in the ASEAN economic, social, security, and cultural partnership, it can enhance the relevance of the AOIP. By giving young people a voice and an effective platform in core dialogue mechanisms, ASEAN can turn to their creativity, energy, and enthusiasm to address the region's challenges and opportunities.

**Second, committing to delivering results for people in ASEAN:** As we all know, one of the core objectives of the AOIP is strengthening collaboration in common priority issues, including maritime cooperation, connectivity, the Sustainable Development Goals (SDGs), and economic and other possible areas of cooperation. ASEAN must show its commitment to jointly addressing common challenges in the Indo-Pacific region in order to gain

support from their people. This commitment not only boosts the relevance of AOIP but also ensures that it remains a pivotal document in the region's wider cooperative framework. 2023 stands as a landmark year, with Indonesia, the primary advocate of the AOIP, as the ASEAN Chair. The aim should not merely be an outlook, but to ensure that the collaborations lead to tangible results that positively impact the people of ASEAN.

**Third, strengthening internal unity:** If the unity of ASEAN is affected, the value of AOIP will also be lost. In that sense, I believe ASEAN needs to strengthen its internal unity to be more effective in dealing with both internal and external challenges. This includes resolving internal disputes and disagreements and building consensus on common goals and interests.

**Fourth, enhancing inclusivity:** The AOIP has always emphasised inclusivity, and ASEAN should continue its efforts to ensure that all regional stakeholders, regardless of their size and influence, have an equal voice in shaping the region's future. The establishment of an Indo-Pacific Business Advisory Council which is a forum for business communities from ASEAN and the ASEAN dialogue partners to participate equally in developing joint policy recommendations for Indo-Pacific cooperation, could be worth considering as a way to enhance inclusivity in the AOIP, but it is unclear if it would be feasible.

**Fifth, ensuring a rules-based order:** All member countries should respect the principles of international law. It is necessary to respect all international laws that each country has ratified, and not to pick and choose according to circumstances.

I also believe that Japan can help ASEAN become more resilient in many ways. Japan can also contribute to promoting connectivity in the region by investing in both quality infrastructure projects, including roads, railways, and digital networks, and human capital in ASEAN countries by providing scholarships, training, and other robust exchange programmes among the young people in ASEAN and Japan, such as the Japan-East Asia Network of Exchange for Students and Youths (JENESYS) programme.

Japan has extensive experiences in dealing with global challenges such as maritime security, natural disasters, climate change, and sustainable development. As such, Japan can share its experience and expertise with ASEAN countries to help them address these challenges.

**AF: Japan is a strong ally of the United States. It is a member of the Quadrilateral Security Dialogue (QUAD) and the IPEF. Do you think Japan's participation in US-led unilateral initiatives in the region will undermine ASEAN's centrality?**

**DR. HIRABAYASHI:** I am not in a position to comment on Japan's participation in US-led unilateral initiatives, as it is a complex issue with no simple answer. But I should say, as a person who knows how important ASEAN is for the Japanese people and their future, any initiatives that influence and involve the ASEAN region should not be seen as a new set of norms and rules that could lead to ASEAN being sidelined and bypassed.

I believe that Japan's participation in the US-led unilateral initiatives could prevent undermining or could even strengthen ASEAN's centrality in the regional architecture. Due to its longstanding cooperation with ASEAN, Japan is deeply aware of the bloc's concerns. Japan also recognises its crucial role in regional stability in light of Japan's Free and Open Indo-Pacific strategy. By engaging in US-led unilateral initiatives, Japan could act as a bridge, aligning these initiatives to be complementary to ASEAN's core objectives, rather than adversarial.

Japan has clearly expressed its full support for the AOIP, which envisages ASEAN centrality, and was the first among ASEAN's dialogue partners to do so, highlighting its commitment to wider regional cooperation.

**AF: Japan has been consistently regarded as the most trusted power in the region in our annual State of Southeast Asia Survey. Japan's security role in the region may be changing as evidenced in the release of 3 key national security documents in December 2022. Do you think Japan's changing security role will be well-received in the region?**

**DR. HIRABAYASHI:** Shortly after the adoption of the three national security documents, an opinion survey conducted by Nikkei among the general Japanese population in December 2022 revealed that 55% of Japanese supported the plan to reinforce Japan's defence posture. This surprising change in public opinion (in which a majority of Japanese have accepted a major shift in national security policy) can be attributed to the Russian invasion of Ukraine and the increased risk of "a Taiwan contingency."

On the other hand, while 47% of respondents supported an increase in the defence budget (compared to 45% who opposed it), 86% of respondents felt that the government's explanation of why the tax increase was necessary was insufficient.



SSYEAP/Malaysia@Wordpress

Participants boarding the Nippon Maru - the ship for the Southeast Asian and Japanese Youth Programme (SSEAYP)

Similar sentiments may exist in ASEAN. There could be Southeast Asians who argue that Japan needs to do more to contribute to regional security, particularly in light of China's growing military power. However, others may be concerned that Japan's increased security role could undermine ASEAN centrality.

I believe that Japan had sincerely provided satisfactory rationales for its actions and had assured ASEAN of its intentions. It is essential that Japan continues demonstrate its concrete contributions to peace and regional security, and to express its full support for ASEAN centrality and solidarity through all opportunities, channels, and levels.

**AF: Japan is already part of two key FTAs – RCEP and CPTPP – and has various bilateral agreements with ASEAN economies. Given this strong foundation, what future strategic opportunities does Japan hope to pursue in the region through these alliances? Are new areas of digitalisation or climate change initiatives on the cards?**

**DR. HIRABAYASHI:** The G7 Leaders' Statement on Economic Resilience and Economic Security, issued at the Hiroshima G7 Summit in May 2023, emphasised that transparency, diversity, security, sustainability, and reliability are essential principles for building and strengthening resilient supply chain networks with reliable partners, both within and outside the G7. This suggests that Japan will aim to achieve both a free and fair trade order and the strengthening of economic security in its trade policy with ASEAN.

Regarding digitalisation, the Future Design and Action Plan for Innovative and Sustainable ASEAN-Japan Economic Co-Creation 2023-2033, published by the Ministry of Economy, Trade, and Industry (METI) and other partner organisations in 2023, identifies the promotion of the digital economy as a key pillar for strengthening connectivity. This plan includes cooperation over a 10-year period on upgrading supply chains through digital technology, digitalising trade in ASEAN, and building capacity for cybersecurity. For instance, under JETRO's Asia Digital Transformation Promotion Program (ADX), Japan supports joint pilot projects between ASEAN and Japan by providing subsidy to projects that contribute to solving the socio-economic challenges in the ASEAN region with innovative technologies such as digital tech. For the past three years, from 2020 to 2022, 68 projects were adopted in the fields of mobility, tourism and logistics, environment and energy, agriculture, fisheries, medical and nursing, and manufacturing and human resources.

Regarding climate change and climate mitigation, Japan recognises that there are a variety of realistic pathways to achieving decarbonisation, depending on the circumstances of each country, such as its geographical conditions and stages of development. Japan will continue to support various initiatives and policy coordination efforts in the AZEC to promote the introduction of renewable energy, energy efficiency,



Delivery of supplies with support from the Japanese government

and energy management technologies, as well as decarbonisation technologies such as hydrogen, ammonia, and carbon dioxide capture, utilisation, and storage (CCUS). Japan will also support the development of infrastructure to share electricity throughout ASEAN through the construction of international power grids, and the establishment of a mechanism for the regional trading of greenhouse gas emissions through the construction of a carbon credit market.

The challenges ahead, however, could be striking a balance between the promotion of free trade and economic security, the promotion of digitalisation and economic security, and the response to climate change and sustainable economic growth.

**AF: Japan is facing competition from other regional powers such as China and Republic of Korea in building infrastructure and people-to-people connectivity in ASEAN. What is Japan's unique characteristic and competitive advantage compared to other regional powers?**

**DR. HIRABAYASHI:** I think Japan's unique strength exists in its long history of striving to understand and respect others' positions and ideas, and working together to solve issues. I think that it is in the values in the Japanese way of life and thinking. In addition, the emphasis on agreements, the pursuit of quality rather than quantity, and the attitude of adhering to commitments and common values that ASEAN upholds.

Japan consistently values and upholds its agreements or promises and prioritise joint or "side-by-side" implementation of programmes. For instance, the Japan-Mekong Connectivity Initiative to enhance Japan's ties with the Mekong region in ASEAN, has demonstrated unwavering commitment from Japan in terms of both infrastructure and human capital development and investment.

While many other nations prioritise "people-to-people" connections, Japan delves deeper, nurturing a "heart-to-heart" bond. In other words, Japan has realised that trust-based partnerships with ASEAN can only be established when Japan fully shares ASEAN's complex challenges.

By leveraging these strengths, I do believe that Japan can further contribute to ASEAN's sustainable economic and social development.

# The Courteous Charmer: A Hard Look at Japan's Soft Power in Southeast Asia

**Indira Zahra Aridati** examines the rise of Japanese soft power across Southeast Asia and its many facets.

**W**hat do Pokémon, Thai girl group BNK48, and Jakarta's mass-rapid transit (MRT) system have in common? They are assets that have strengthened postwar Japan's image in Southeast Asia and positively contributed to the country's appeal and attraction – or soft power – in the region.

Anton Cherednichenko@Pexels



A crowd of people in front of the busy Shibuya Crossing area of Tokyo





Cosplayers and anime fans visited the Anime Festival Asia (AFA) in Singapore in November 2022

Constrained by its pacifist constitution, Japan has had to rely on non-coercive measures to recalibrate its position as a rising middle power. This rings especially true in Southeast Asia, where the legacies of war have often bred distrust between countries. The establishment of ASEAN and the 1977 Fukuda Doctrine was a turning point that redefined Japan's engagement within the region. The doctrine emphasised a "heart-to-heart" partnership as a guiding principle. Since then, Japan has made steadfast progress in gaining ground in the region, thanks in part to its multifaceted soft power strategy, which equally leverages its culture, foreign policies, and political values.

### Cool Japan

Over the past few decades, Japan's cultural exports have made a splash globally, with *anime*, *manga*, and Japanese pop (J-pop) emerging as the epitome of soft power. Southeast Asia is a major market for Japan's content and creative industries. The region is home to three of the top five countries by anime popularity. It has also become a hub for fans, with the annual three-day Anime Festival Asia in Singapore attracting over 145,000 visitors last year.

J-pop has also captured audiences across the region, with Japanese all-girl group AKB48 spawning sister acts in Indonesia (JKT48), the Philippines (MNL48), and Thailand (BNK48). In August this year, McDonald's Indonesia created a J-pop jingle to welcome the return of its "Taste of Japan" burgers. Fully written in Japanese and released without subtitles in Indonesia, the music video garnered three million views on YouTube in the first week of its launch. Despite many Indonesians' lack of understanding about the lyrics' meaning, it showcases the country's strong embrace of Japanese culture.

Beyond capturing the eyes and ears of Southeast Asians, Japan is also a popular travel destination. According to ISEAS – Yusof Ishak Institute's *The State of Southeast Asia Survey*, Japan has been the top travel destination for four consecutive years, from 2020-2023. As travel resumes after the pandemic, Southeast Asian citizens have returned to Japan, with over 260,000 visits in June 2023 alone. This is a slight decline from pre-pandemic travel levels, which saw 272,000 Southeast Asian visitors during the same period in 2019.



Fans attend a BNK48 Roadshow in Central Rama 2 Mall, Bangkok



Emperor of Japan Naruhito (L) at the Jakarta MRT Depot in Lebak Bulus

While the ascendancy of Japanese cultural influence may seem serendipitous, the reality is far from it. It is rather the result of government forethought and investment. From the late Shinzo Abe to Fumio Kishida, successive Japanese administrations have promoted policies to amplify the country's "Gross National Cool". During the turn of the 21st century, as Japan was in the midst of its "lost decade" of stagnant growth and a decline in the productive population, the government sought new strategies to revive its national economy. Unified by an understanding that the content and creative industries could be the country's new growth engine, the formerly neglected industries were now seen as newfound natural resources.

Efforts were initially led by the Ministry of Economy, Trade, and Industry (METI) through the launch of the Cool Japan Strategy in 2012. The strategy aimed to capitalise on Japanese pop culture and had three elements: 1) to unearth domestic demand, 2) incorporate foreign demand, and 3) transform the structure of creative industries. If accomplished, the three elements would help secure new jobs and revitalise the region's economy. To support the strategy's initiatives, particularly in

promoting overseas demand for Japanese products and services the Cool Japan Fund was established in 2013. At its establishment, the public-private investment fund received ¥50 billion from the Japanese government and ¥10 billion from private institutions.

### Beyond Culture

Beyond the attractiveness of its popular culture, Japan's multifaceted soft power implementation hinges on one other crucial element: its leadership in addressing common challenges. The 1997 financial crisis that struck Asia emphasised the risk of contagion effects that ASEAN's economic instability could have on Japan. In response, Japan supported ASEAN countries through disbursements of official development assistance (ODA) - bilaterally and as a collective. Japan solidified its support for ASEAN and the bloc's community-building efforts through initiatives such as the Japan-ASEAN Integration Fund (JAIF) launched in 2006.

More recently, Japan supported ASEAN's COVID-19 Response Fund. This included donations to JAIF to address the health emergency, supplies of health equipment and vaccine doses, training of health officers from ASEAN countries, and contributions to the ASEAN Centre for Public Health Emergencies and Emerging Diseases (ACPHEED). To support the region's post-pandemic recovery, it has also established the ASEAN-Japan Economic Resilience Action Plan to maintain close ties between ASEAN and Japan, mitigate the economic repercussions, and strengthen resilience. Concrete measures under the action plan include capacity-building on global value chains and digitalisation, establishment of an innovation network for startups, and support for Micro-, Small and Medium-sized Enterprises (MSMEs).

Japan has also assumed leadership to combat climate change and address regional security issues. On the former, Japan has set its net-zero target by 2050, while



Solar panels and wind turbines in the Hyōgo Prefecture, Japan



The Tsubasa Bridge in Cambodia crosses over the Mekong River

pursuing 46% emissions reduction by 2030. It has also initiated the Asia Zero Emissions Community (AZEC), a platform providing financial and technical support to help Southeast Asian countries pursue decarbonisation initiatives. In August this year, ASEAN and Japan also launched the Strategic Program for ASEAN Climate and Environment (SPACE) initiative, to address the trifold crisis of climate change, pollution, and biodiversity loss. Recognising the region's vulnerability to climate-induced disasters and extreme weather events, Japan has also leveraged its technical expertise to strengthen ASEAN's disaster management response. Its support to the ASEAN Coordinating Centre for Humanitarian Assistance on Disaster Management (AHA Centre), has helped establish an integrated information and communication technology (ICT) system and the Disaster Emergency Logistic System for ASEAN (DELSA), both of which have provided strategic coordination and facilitated resource mobilisation to countries facing post-disaster emergencies.

On security, Japan was ASEAN's first dialogue partner to align its free and open Indo-Pacific vision with the ASEAN Outlook on the Indo-Pacific (AOIP), announced during the 23rd ASEAN-Japan Summit in 2020. Japan's Free and Open Indo-Pacific (FOIP) is centred on four pillars: 1) peace and rules for prosperity, 2) addressing challenges in an Indo-Pacific Way; 3) multi-layered connectivity; and 4) extending efforts for security and safe use of the "sea" and "air". During the 26th ASEAN-Japan Summit in September 2023, Japanese Prime Minister Fumio Kishida announced a new contribution of US\$100 million to the JAIF, which is expected to implement key areas under the AOIP. This supplements the previous contribution of US\$243.6 million from Japan to JAIF since 2006, to support ASEAN connectivity and regional integration.

Lastly, Japan has proved to be a robust alternative to China's Belt and Road Initiative for infrastructure development, promoting quality infrastructure and the principles of inclusivity, sustainability, and resilience in its investments. Through the Japan International Cooperation Agency (JICA), it has so far, built bridges, metro systems, and power transmission lines, with notable ones being the Second Thai-Lao Friendship Bridge connecting Thailand and Laos, the Tsubasa Bridge connecting Cambodia and Vietnam, and Indonesia's first-ever MRT system in Jakarta.

### **Have Efforts Paid Off?**

Japan's multifaceted soft power strategy, combining its popular culture, foreign policy, and political values have fared well in Southeast Asia. Currently, Japan is regarded as the region's most trusted power for five consecutive years since 2019 according to ISEAS' State of Southeast Asia survey. Across the five years, the top three reasons for respondents' trust of Japan are the view that it is a responsible stakeholder that respects and champions international law, respect for its culture and civilisation, and the view that it has the economic resources and political will to provide global leadership. The Global Soft Power Index 2023 also ranked Japan fourth, just after the United States, the United Kingdom, and Germany. Respondents viewed Japan positively in areas such as business and trade, education and science, and sustainable future.

Japan's soft power dividends have helped build a robust relationship with ASEAN over the last 50 years – one that has evolved from a donor-recipient dynamic to one of equal partnership based on mutual understanding.

**Ms. Indira Zahra Aridati** is Research Officer at the ASEAN Studies Centre, ISEAS—Yusuf Ishak Institute.

# The Rise of the Live Music Industry in Southeast Asia

**Neo Hui Yun Rebecca** analyses the rising demand for live music shows in Southeast Asia and how regional countries can tap into this opportunity.

**L**ong snaking queues of hopeful fans waiting to purchase concert tickets; virtual queues that ticked up to millions, tickets that were sold out in record timing – these were stories that constantly appeared on various social media platforms and news outlets this year.

Live Nation Philippines@Facebook



Bruno Mars dazzles thousands during his performance at the Philippine Arena on 25 June 2023



# TAYLOR SWIFT THE ERAS TOUR

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Singapore was announced as the only stop in Southeast Asia in Taylor Swift's 'The Eras Tour'

With the world reopening its borders to resume activities hit by the COVID-19 pandemic, the live music industry has slowly grown in prominence, with millions of fans competing to get their hands on limited tickets for their favourite bands or singers. This phenomenal rise has made its way into Southeast Asia, where many international bands and singers are beginning to organise Asia Tours to reconnect with their fans.

Famous Korean boyband BTS singer Suga, for instance, added an additional third night for all his concerts in this region due to overwhelming demand. British band The 1975 added a second show in Singapore after the first show was sold out within 30 minutes. The music industry has successfully reintegrated itself into the economy and has proven to be a strong economic driving force post-pandemic, facilitating a series of benefits that come along with these concerts.

A quick look at the number of concerts happening in 2023 highlights an interesting trend: the preference for international artists to hold concerts in certain countries within Southeast Asia. Singapore, Indonesia, Thailand, Malaysia, and the Philippines are among the top choices for most international artists' Asia tours. Singapore, in particular, is a dominant destination of choice. This was amplified this year, with the announcement of Singapore as the only Southeast Asian country for Taylor Swift's concerts. Similarly, Coldplay announced six shows in Singapore versus just one show each in other Southeast Asia countries. Singapore's suitable infrastructure, strong interconnectivity with the region, together with its stable governance and strong security measures such as crowd control and anti-terrorism protocols are some of the identified factors that have enabled it to be a popular choice for international artistes.

Analysts have calculated the benefits these concerts will bring to Singapore before and during the show periods. Within hours after the sale of these concerts' tickets, overseas fans secured flights tickets and hotel accommodation to Singapore. Agoda reported an increase of 8.7-fold in search for accommodation in Singapore during Coldplay's concert period, with the surge being driven by users in neighbouring countries

such as Malaysia and Indonesia. Klook Singapore even launched 'Experience Packages', which included two tickets to Taylor Swift's concert and a night's stay at over 40 hotels. Majority of their soldout tickets were to concertgoers from the region, in particular the Philippines, followed by Indonesia and Malaysia.

Experts have since predicted that these two concerts could boost the overall hotel occupancy rate in Singapore by at least 5-8%, based on the assumption that at least 30% of concertgoers would be foreign visitors. Similarly, analysts predicted that the Coldplay concert could bring about an estimated revenue of SG\$96 million to Singapore, assuming that overseas fans would stay an average of three days and spend around SG\$1,600 on purchases related to the concert. Overall, these concerts are being seen as the newest economic drivers as they can boost tourism in the country, generating more revenues from tourist spending.

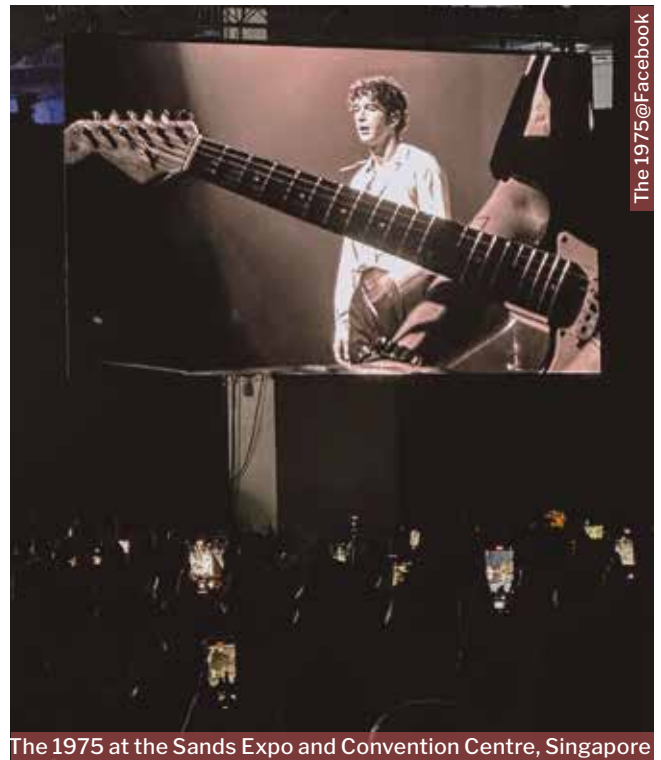


Coldplay @ Facebook

Coldplay performing in Manchester, United Kingdom

With such immense benefits accompanying the organisation of such concerts, it is not surprising that countries within Southeast Asia are competing to secure the opportunity to bring these big names into their country. However, there are barriers in bringing more of such acts into some of the less developed Southeast Asia countries. Infrastructure limitations, financial constraints, clashes in ideology or culture, and permit issues are some of the reasons for the stark disparity in the number of shows and sometimes whether a show will be organised in that country. Vietnam, for example, lacks large venues that can hold crowds of 30,000 – 50,000 people, making its market too small for some big-ticket international names to host their concerts there. Bigger markets such as Indonesia or Malaysia or others with bigger concert halls may then be seen as more attractive, driving away economic opportunity for Vietnam.

Other problems led to the disparity in the holding of shows by foreign acts across Southeast Asia. While Indonesia was able to secure Coldplay for a concert in Jakarta, it was unable to extend this to more shows due to issues with licensing and permit application. Moreover, clashes in cultural values and ideology had also influenced the band's decision to have fewer shows. Objections from religious groups such as Persaudaraan Alumni (PA) 212 in Indonesia against Coldplay's lead singer Chris Martin's support of the LGBTQ+ community also impacted the situation. Similarly, political conservatives like Parti Islam Se-Malaysia (PAS) in Malaysia had taken issue with inviting the band into the country, citing that Coldplay could promote a culture of deviance. While the respective governments



The 1975@Facebook

The 1975 at the Sands Expo and Convention Centre, Singapore

had defended Coldplay's upcoming concerts, calls to cancel the concerts were still being raised within these communities.

Besides limitations within the host country, external factors are making it harder to host such concerts. International artists are increasingly emphasising



Zepp Kuala Lumpur@Facebook

A look at Zepp Kuala Lumpur's new concert hall, with a capacity for 2,500 people

sustainability in the planning of their concerts. Coldplay, for instance, has indicated that a country's green strategies is part of their decision on where to hold their concerts. Some requirements include whether there is public transportation to the concert venue and the usage of renewable energy to power the concert lighting. All this requires a certain degree of technological capability which may not be available in less developed Southeast Asian countries.

Apart from this, the high cost of organising such concerts is another deterring factor. Bringing in popular stars such as Maroon 5, Taylor Swift, and Rihanna requires at least US\$2 million dollars from producers to cover the cost, which includes security, hotels, transportation, and many other expenses set by the artistes. The need for large sums of capital to support these concerts effectively removes some countries from hosting the bigger concerts, causing this uneven distribution.

That being said, Southeast Asian countries are looking for new solutions to increase their standing in bidding for these concerts. Indonesia, for instance, agreed to relook its performance permit process, aiming to simplify it through digitalisation. Individual concert organisers stepped up to reduce the environmental impact of hosting concerts. Live Nation Philippines planned shuttle services to ease concertgoers' difficulty in reaching concert venues.

Zepp Kuala Lumpur's investment in its own venue in a shopping mall at LaLaPort Bukit Bintang City Centre also garnered interest among popular J-pop artists, increasing its standing as an attractive venue for more internationally renowned live shows. Even though government measures have been put in place to support this new industry, the majority, however, still stem from individual initiatives, mainly at a business-to-business level between music event organisers and artistes. In that sense, competition is still being emphasised, with much less being done on the collaborative front, be it between music event organisers with host country and even among Southeast Asian countries.

Southeast Asian countries should aim to work collaboratively to support the rise of this industry. This could be a new direction for the region as Southeast Asia has already created some fame through its prolific music festivals such as the Good Vibes Festival in Malaysia, We The Fest in Indonesia, It's the Ship in Singapore where overseas visitors fly into this region to enjoy music. All this proves that, taken as a whole, there is a sizeable market in Southeast Asia, especially with the current music tourism trend where fans are willing to spend money to fly to countries to catch a live glimpse of their favourite stars. It might be more beneficial if all countries in the region could work together to overcome existing challenges.

By supporting the region through developing suitable infrastructure, such as making investments in bigger concert venues with improved audio-visual technology as well as streamlining ticket sales to even out the distribution, individual countries can boost the region's



The Strokes play at We The Fest 2023 in Jakarta, Indonesia

overall reputation in hosting international concerts and music festivals. This will attract artistes to select Southeast Asia as their chosen destination region, not just individual countries. In this way, every country in the region could enjoy the spillover benefits from these concerts, generating a win-win situation for all.

This, however, is still a grand plan in the making and much more needs to be done to ensure that existing challenges can be mitigated. It is undeniable that there is a demand for live music performances in Southeast Asia, given that the younger generations are more exposed to different genre of songs through streaming platforms such as Spotify and are willing to spend the money to get an experience of music events found in other parts of the world. In all sense, the rise of the live music industry will become more prominent in the future and we, as a region, would need to come together to ensure that we do not lose out in the race for these renowned performances.

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# BATU CAVES

## Malaysia

Located just outside the boundaries of Malaysia's capital, is a cave housing a Hindu Temple dedicated to the Hindu deity Murugan. Known as Batu Caves – from the Malay word 'rock' – it is one of the most popular Hindu Temples located outside India. It is most crowded during Thaipusam, a Hindu Tamil Thanksgiving festival to honour Lord Murugan. Besides being a religious site, it is also a popular tourist attraction in Malaysia, with its colourfully painted steps prominently featured in many travel guides. To enter the Temple Cave at the top, visitors need to climb all 272 steps while avoiding the local long-tailed macaques who may steal food from unsuspecting visitors along the way.

It is claimed that the limestone caves are 400 million years old, with natural light shining from outside and into the end of the relatively dark cave, making for spectacular photo views. Various species of birds, bats, and long-tailed macaques make their home in Batu Caves, predating its discovery by humans and subsequent use as a place of worship.

*(Sources: Malaysia Tourism Promotion Board, Tourism Selangor, Encyclopedia Britannica)*