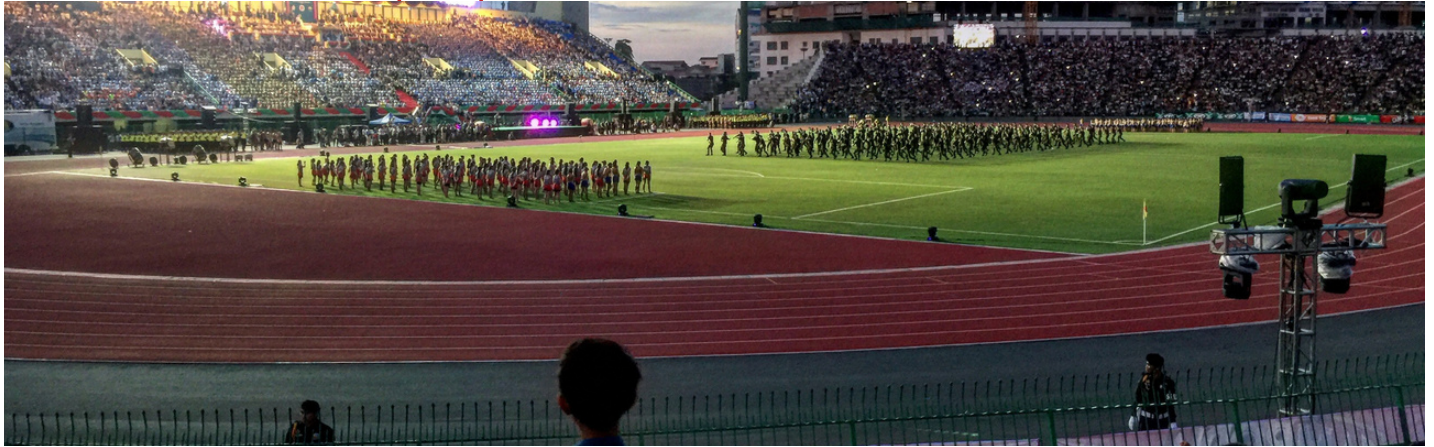


THE PULSE

Monthly Insights 



This is the December-2022 edition of The Pulse, brought to you by ASEAN Business Partners. Our endeavour is to capture the trends and developments in this vibrant region to help you identify business opportunities in Southeast Asia.

As we move into the final stretch of the year, this month's newsletter highlights the growing professionalization of football in Southeast Asia. It also sheds light on how Vietnam is transitioning from a developing economy into one of the fastest growing economies of the world, despite the deceleration in economic activity and the downside risks posed by the pandemic. Lastly, our newsletter also offers insight on how embracing technology and digitization in ASEAN can aid ESG engagement and transparency.

We write on the data localization trends and shifting paradigms in the ASEAN region and explore ASEAN's commitment to establishing a digital economy and society throughout the region by 2025.

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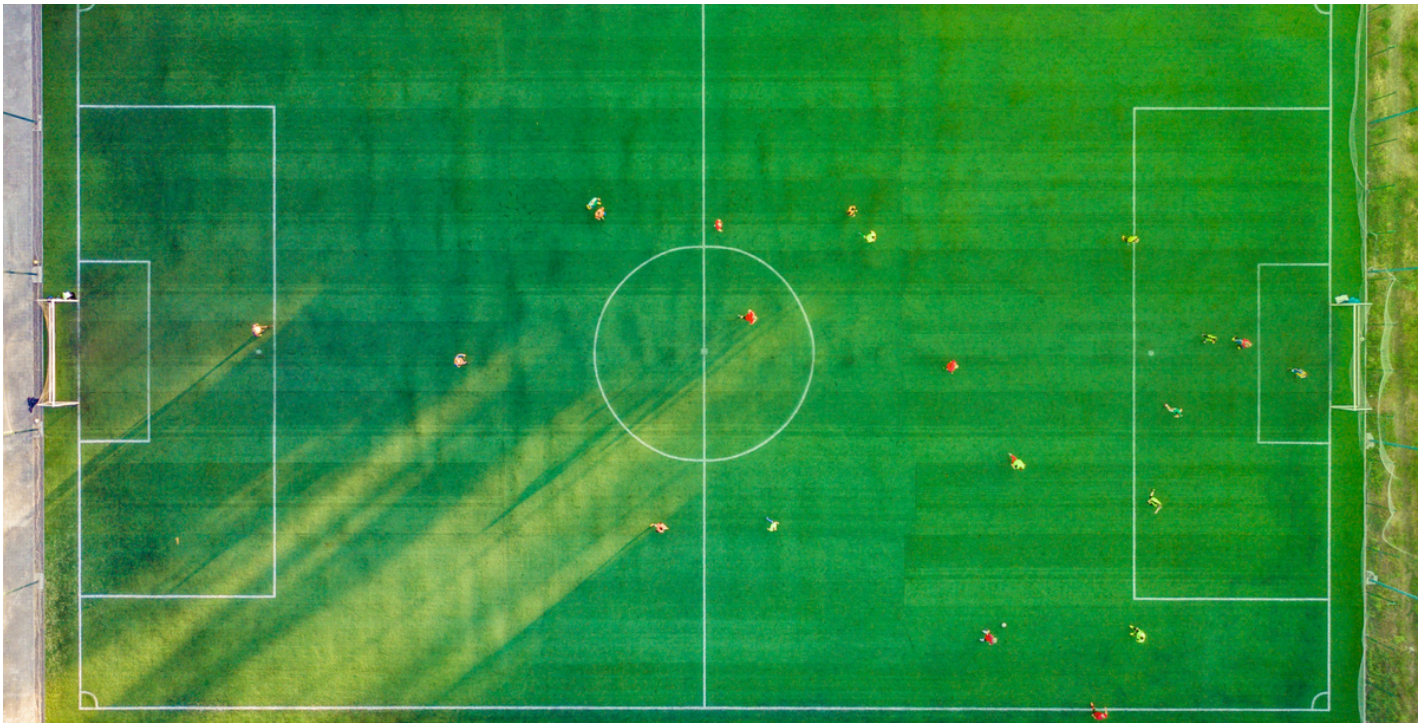


Is ASEAN'S Trend of Data Localization the Best Answer to Data Protection Requirements?

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ASEAN: FOOTBALL WORLD'S FINAL PRIMETIME SPOT

Southeast Asia has the next biggest economic and football market capacity



The football world is constantly looking for new markets to push the world's most popular sport to further heights amongst the sporting masses and over the past few decades, its eyes have turned to the East and Southeast part of the world. With the exception of Philippines, Football has long been the most popular sport amongst the rest of the nations in the ASEAN region. Over the last decade, ASEAN nations have begun to make strides towards expanding the football market through significant investments in sporting infrastructure and football leagues, be it private or public investments.

At this time, In Southeast Asia Vietnam is crowned at 97th position, followed by Thailand in 111th place, Philippines (134th), Malaysia (147th), and Indonesia (155th). While some may think, given the region's population and enthusiasm for the sport, these countries are underachieving, many investors see a huge potential market with great upside over the next decade. The past few years have already seen a rise in foreign investments in ASEAN football. Back in November 2019, ASEAN Heads of States witnessed the signing of a Memorandum of Understanding (MoU) between ASEAN and FIFA by the Secretary-General of ASEAN Dato Lim Jock Hoi and FIFA President Gianni Infantino. The MoU marks the establishment of a formal cooperation between the two entities to leverage the roles of football in social development in ASEAN. In 2021, FIFA inaugurated the renovated Jalan Besar Stadium in Singapore towards which it had contributed US\$2.5 million. Indonesia is set to host the Under-20 World Cup in 2023 - only the second time the tournament will be staged in South-east Asia after Malaysia in 1997, which will give a good glimpse into what the region can do.

As things stand, the two countries at the forefront of football success are Vietnam and Thailand. They have performed well at a domestic as well as international level compared to other nations in the region. Vietnam has considerable potential in terms of its population and the growing enthusiasm for the game. The V League became professional in 2000 with some clubs now attracting upto 20,000 fans a game. The Vietnam's national football team since 2018 has been called the Golden Generation with impressive performances such as winning the 2018 ASEAN Football Federation championship, a great run to the quarterfinals of the 2019 Asia Cup by defeating better teams like Jordan.

Thailand on the other hand has had a lot of commercial success. Since 2007, the domestic league in the country has gone from strength to strength and has seen the rise of several clubs that have constructed brand new stadia and excellent training facilities. In the region, Thailand has the most successful football team with six AFF Championship trophies and nine senior-level gold medals from the Southeast Asian Games. Before the greater professionalisation of the Thai game over the last decade, the country's top players had to go to Singapore, Vietnam or Malaysia to develop their careers. Now, it is players outside Thailand who cast envious glances towards a country whose league has the best teams and the highest salaries. The Football Association of Thailand unveiled plans for youth leagues that they hope will give the country a fighting chance of qualification for the 2026 World Cup. This potential as well as massive investment showcase that the overall picture is healthy and interest in the domestic game has boomed since the days when everyone's favourite team was Manchester United or Liverpool.

On the interim, Southeast Asia remains a comparatively unknown capacity in world football but with the planned developments over the past few years and investment of resources, the future looks bright for the rapidly developing region. The slow and steady professionalisation of the game can reap rewards if development is well managed. FIFA's decision to expand the World Cup brings the dream of qualification closer of the likes of Thailand and Vietnam. Their aims will be to first establish themselves among Asia's elite to catapult themselves as powerhouse nations in the football world.

VIETNAM'S EXPORTS CONTINUE TO PUSH ECONOMIC GROWTH

The country's exports continue to help it excel the region's average growth



The IMF and ASEAN Macroeconomic Research Office both forecasted Vietnam's economic growth between 7% to 8% exceeding the start of the year expectation of 6%. Vietnam continues to buck supply chain problems as well general slow economic growth due to being significantly established and integrated into the world's supply chain system. This growth in exports continues to push economic growth despite Vietnam only growing at 3% during the pandemic. 75% of Vietnam's exports consist of garments, electronics and smartphones which have now seen increased demand as consumers get ready to spend after a slow couple years in the pandemic.

While other parts of the economy suffered during the pandemic, exports surprisingly didn't suffer too much as there was a total of 19% growth from 2019 to 2021. This is expected to continue moving forward with export growth projected to reach 14.5% and foreign direct investment hitting 4% of the gdp in just the year 2022. Vietnam has signed more than a dozen free trade agreements in recent years, including one with the European Union and an 11-country CPTPP deal that will slash tariffs across much of the Asia-Pacific. Vietnam's exports in the January-July period rose 16.6 per cent from a year earlier to \$216.66 billion, the second half of the year will see a slightly lower growth as the world fears upcoming recession but the ministry of exports remains confident that its exports will remain stronger than most other countries.



Clothing still remains a stable component of Vietnam's export growth and a key reason in making Vietnam the 3rd largest exporter in the world after China and Bangladesh. The latest data from the Customs Department of Vietnam show clothing and textile exports for the period January to mid-September reached US\$27.50bn from \$22.15bn a year earlier. Vietnam's trade-in-goods from January to the first half of September totalled \$526.04bn in value terms. It posted an increase of 15.7% (equivalent to \$71.46bn) from the same period of previous year, forecasting a positive outlook for the rest of the year and the future. China's supply chain problems only serve to help Vietnam as consumer shift their demand towards it.

Vietnam's export industry does face some headwinds as global growth is set to slow amid effects from Russia's invasion of Ukraine, and the slowdown in China and major advanced economies. High inflation in many of Vietnam's key markets, including the United States and European Union, would crimp consumer spending there and reduce demand for Vietnamese products. The Vietnamese government intends to follow a flexible monetary policy to ensure macroeconomic stability which should help Vietnam avoid a growth slowdown unlike other countries which might be affected strongly.

While these may seem like big obstacles for the export industry, the government remains confident of following a strategy to address any challenges to export growth and by extension economic growth. As the country's development strategy includes reforms on labour, sustainability and inclusive green growth, Vietnam is set to manage any risks it might face and will continue to advance on a stable, sustainable development path built on its strong export industry foundation and may very well make a full recovery from the pandemic slowdown.

HOW THE TECHNOLOGY SECTOR CAN HELP POWER ESG IN ASEAN

Can tech be the answer for the region's woes with ESG data reporting?



As ESG becomes one of the top agendas this decade, ASEAN countries are increasingly using technology as the core of their efforts to reach net-zero. There have been major developments in ASEAN's tech ecosystem as the region takes steps to reduce greenhouse gases and avert disaster and will drive the conversations around sustainability over the next decade. As one of the fastest-growing regional economies, South-east Asia has seen more than US\$15 billion in green capital deployed since 2020. The tech industry in particular is collectively placing a renewed emphasis on various aspects of ESG, with most of the large players recommitting to, or updating, their frameworks.

A large and vital area where tech can have the biggest impact is in the reporting and accessing reliable data pertaining to ESG in the ASEAN region. An economic powerhouse with immense potential for growth, the region's awareness of ESG and ESG reporting is still at the stage of infancy. The push to mitigate the impact of climate change requires large scale financing, with Southeast Asia alone estimated to need US\$2 trillion of investments over the next 10 years, this opportunity is significant for investors and companies. However, many investors have been hampered by the lack of high quality data to make the right investment decisions. In ASEAN, businesses are engaged in ESG initiatives and sustainability reporting in accordance with local sustainability disclosure guidelines. These guidelines include Bursa Malaysia's Sustainability Reporting Guide, Philippines' Sustainability Reporting Guidelines for Publicly-Listed Companies, Singapore's Sustainability Reporting Guide and etc. Technology can help with this lack of centralized ESG reporting standards. Digitalisation for centralised monitoring has supported transparency and engagement along with the availability of consistent and uniform data for stakeholders.

The problems most companies in Southeast Asia face with ESG reporting is a lack of centralized guidelines which leads to them not knowing how to report ESG data. Recently, over the last few years, there have been increasingly new tech driven solutions for this lack of centralized framework. These solutions include software to track and reduce company's carbon emissions, platforms to decarbonize and optimize company's operations, supply chain and investing, open-access platforms for impact data and so on. In Thailand, the local SEC is expected to revise its disclosure requirements for listed companies to include information on human rights practices and carbon emissions. In Singapore the central bank has launched Project Greenprint to address gaps in reporting and accessing reliable ESG data. In Malaysia, ranked as the world's top Islamic fintech market, fintech companies focused on Islamic finance are seen holding the key to channel funding to small and mid-sized businesses and widen the financial inclusion net while prioritising sustainable development. As the share of data centres is expected to rise in ASEAN, Indonesia is making strides towards building green and sustainable data centres by leveraging seawater for cooling needs.

Companies in Southeast Asia, where ESG and impact have always been relegated to a lower priority, now face a world where the stakes are real and there is a requirement to adapt. ESG is fast becoming standardized and Reporting on impact and ESG needs to be done in a way that is quantifiable, clear, and up to the same standards being set globally. At the end of the day, investments and efforts in ESG and sustainability must and will contribute to business gains and outcomes. The fact is, in the region, this awareness around the value of environment, social and governance is just starting to pick up pace and organizations should probably look towards tech to help them not fall behind the curve and restrain their growth.

IS ASEAN'S TREND OF DATA LOCALIZATION THE BEST ANSWER TO DATA PROTECTION REQUIREMENTS?

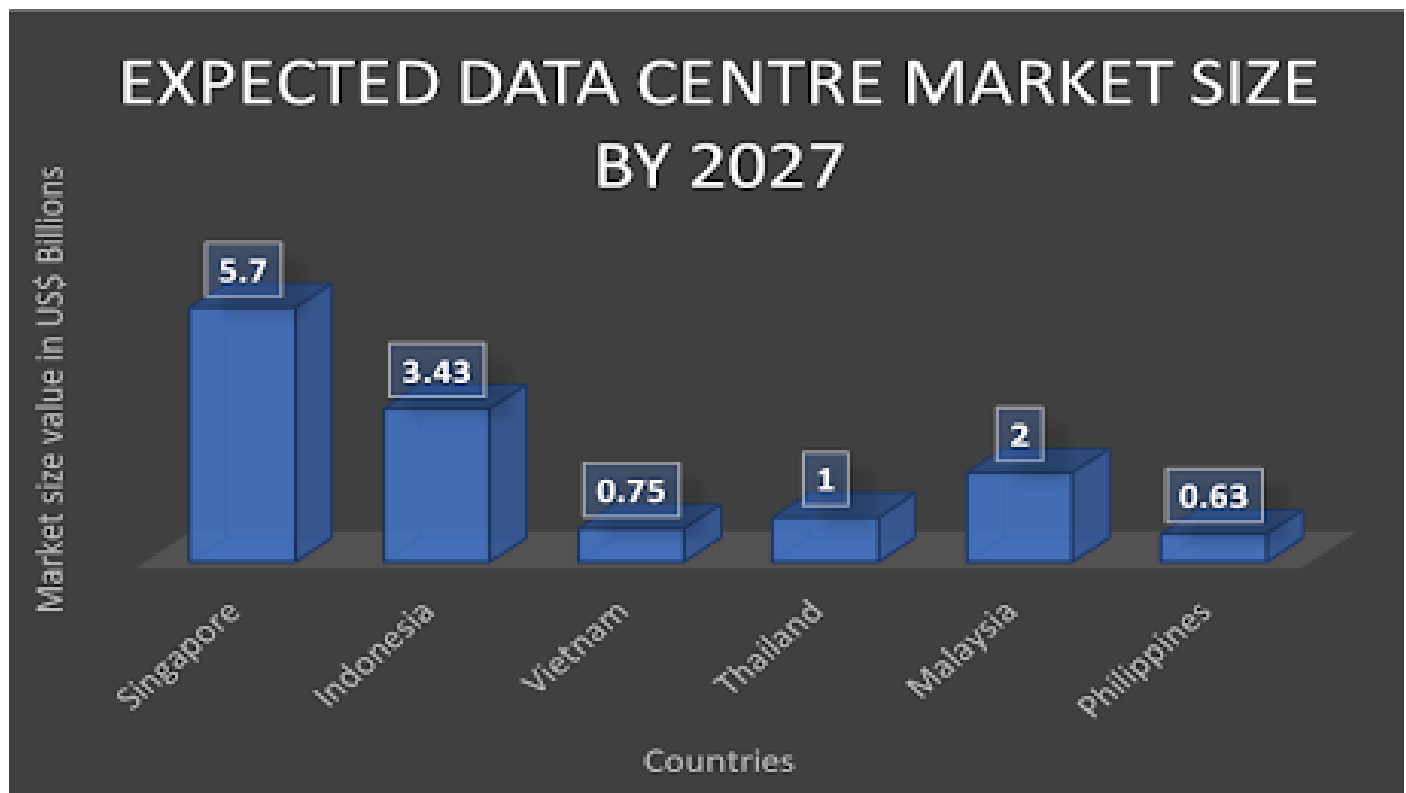
Data localization strategies should be undertaken on a risk dependent approach to safeguard the region's economic interests.



As concerns around data privacy increase, countries in Southeast Asia and beyond are increasingly turning to data localisation as a measure to protect personal data. This policy could create opportunities for more local data infrastructure but also halt digital trade for the region. In Today's rapidly progressing world, data has been and is essential to every interface especially in the ASEAN region which is going through a steadfast digital transformation. In lieu of the significance of data, Southeast Asian countries have magnified their endeavours in developing their own data governance strategies. For instance, Thailand, Singapore, and Indonesia have enacted comprehensive data protection legislation.

On October 1st of this year, Vietnam passed legislation that requires international firms with services in Vietnam to store users' data within Vietnamese territory and set up local offices. Indonesia mandates that all public sector data be stored in the country and also requires data localization in certain sectors, such as the financial sector. Although Thailand and the Philippines have not explicitly addressed data localization, a broader interpretation of their data privacy laws may allow for data localization to be covered. All these laws are a part of a larger trend in Southeast Asia and the world at large. These laws usually contain the requirement to store and process data locally, keeping a copy of the data in local servers and limits on the amount of data transferred across borders. the spread of data localization norms among Southeast Asian countries is mainly driven by their common concerns over national security and digital sovereignty.

These laws often tend to ignore the costs of data localization. At the outset, data localisation leads to additional costs on companies, who incur on spending additional resources on setting up server rooms, data centres, and local offices. If the cost is too high, companies may choose to withdraw or suspend operations. Data localisation can also restrain free trade and affect the regional economic development of ASEAN. Lastly, data localisation may slow down the performance and efficiency of current technologies like cloud computing and artificial intelligence. Cloud computing works most efficiently when data is able to flow across borders, and artificial intelligence works best when it has a diverse range of data sources to draw upon. One could argue that these policies have led to the rapid proliferation of data centres across the region which in turn will accelerate the region's digitalization process. With the increasing support of data centers, people living in Southeast Asia will likely enjoy faster and more reliable internet connections, technology innovation will be further encouraged, and businesses in the region will find it easier to interconnect, migrate to the cloud, and digitalize their processes and services. But these also restrict cross border flows of data which tends to be the blood of digital economies. It also impedes the deployment of Internet of Things and thus slows the digitization of different aspects of a consumer's life and will cause the region to lag behind in the race for digitization.



While countries are right to worry about the data of their citizens, many of them still prefer the free flow of digital trade between economies. Perhaps the answer lies in using data localization as a tool used through a risk based lens, where each country sets its own risk level and decides how it would like to balance security and economic considerations. A risk-based approach first requires countries to have strong data classification models, which can help identify which data is more sensitive than others. Security best practices, such as the principle of least privileged access and zero trust systems, which requires portals to continuously verify one's identity through methods such as multi-factor authentication, can also help secure data. Countries will constantly have to refine their data security laws to ensure the right balance between privacy and not affecting economic or digital growth.

ASEAN has committed to establishing a digital economy and society throughout the region by 2025. If the region's countries align on data protection standards, this would help encourage further economic integration and reduce barriers for the provision of services, much like the EU has done. The quicker ASEAN countries refine their data protection laws, the lesser challenges they will face in the future and make the most of any opportunities arising from digitization.

ABOUT US



ASEAN Business Partners is an independent, market entry and market growth specialists that helps internationally oriented companies manage and grow their operations in ASEAN sustainably and profitably. We are well-networked, independent of governments, and dedicated purely to serving our clients. Our management and country experts are unrivaled in their ASEAN network, experience, and expertise, with proven credentials.

We are a team of top-class professionals with expertise in different industries. Our executives have worked as CEOs, CFOs and in other senior positions in top multi-national companies and represent the best talent available globally. Our founder, Sumit Dutta, is an ex-HSBC CEO who has worked in Indonesia, Vietnam, Hong Kong, India, and the US. A majority of our team and country experts are former senior-level executives from multinational corporations.

We are passionate about the ASEAN region, one of the highest growth markets in the world, and believe it will be the market of choice for all forward-looking international companies. We seek to create value for our clients and their customers in ASEAN, and so contribute to the prosperity of ASEAN nations and their people.

Please take a moment to review our website. If there is any way we can assist you, please reach out to us.

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