

FEBRUARY 2023

# THE PULSE

Monthly Insights 



## ERA OF UNBOUNDED OPTIMISM

The world is staging a smart recovery from a disruptive pandemic, and the ASEAN region is one of the key drivers of this global resurgence. Contrary to a sombre near-term economic outlook for some of the western economies, the ASEAN nations are upbeat about continuous, sustainable growth. Having reaffirmed their commitment to regional economic integration, the ASEAN nations are individually – and collectively – drawing policies and taking initiatives to further their common vision. This reflects in the sharp post-pandemic recovery in trade, consumption and investment across the region, and the trend is likely to accelerate in the years to come.

Cognizant with the geo-political challenges and domestic compulsions, the 10 member nations are finding common cause to lift the idea of ASEAN and make the region a formidable force in the global scheme of things. The region's emergence as a solid alternative to China in the global supply chain is a fine example of its prowess – and potential.

This despatch from ASEAN Business Partners captures our team's insights and the exciting business developments in the ASEAN region:

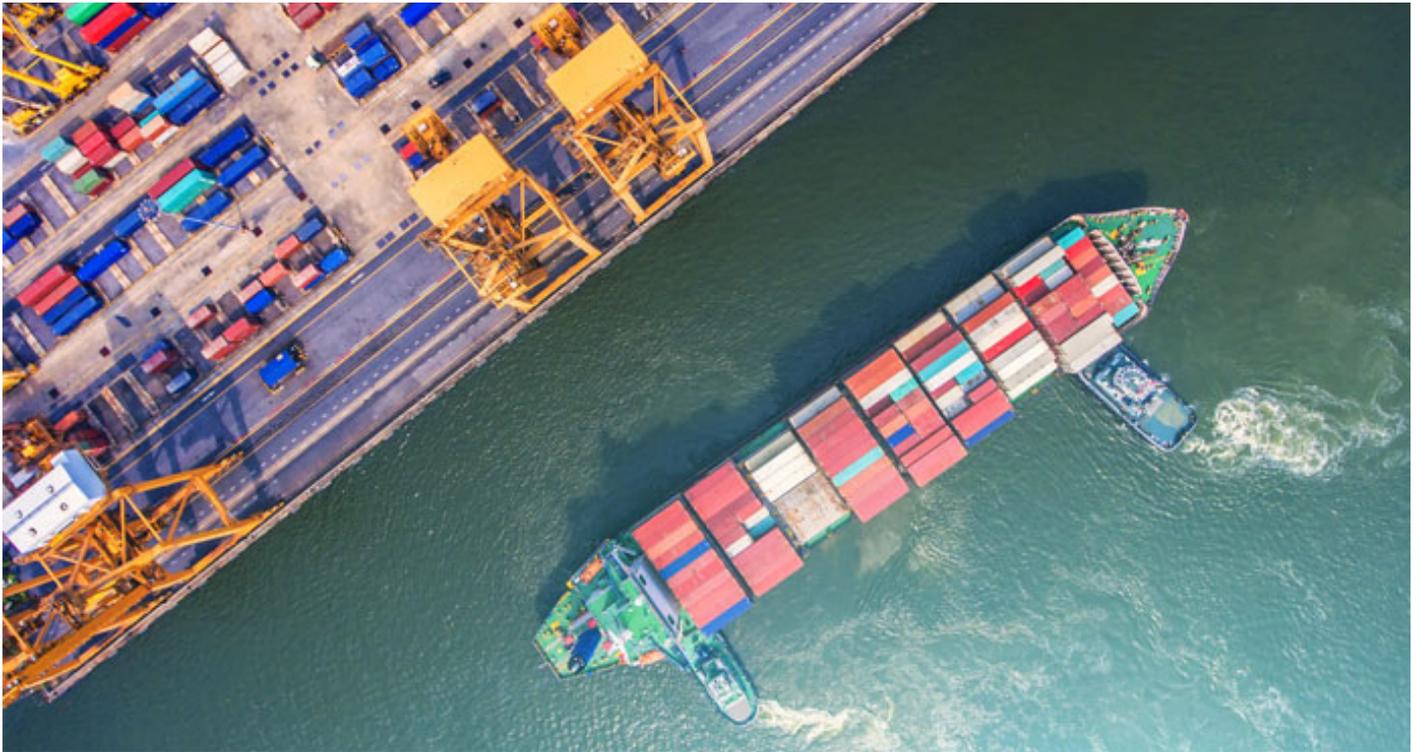
- The country snapshot of Cambodia reveals the new wave of investment opportunities
- Vietnam is emerging as a key player in EV battery manufacturing while
- The Malaysian banking sector enters a transformative phase
- ASEAN nations are establishing cross-border QR payment services

The idea behind this newsletter is to not only share incisive information, but also encourage a conversation. Towards this, I welcome your feedback and ideas to make this newsletter a definitive and dedicated platform for business in the ASEAN region.

Sumit Dutta  
Founder & CEO

## A COUNTRY IN CONSOLIDATION

Riding on robust economic growth, surging exports and big investments, Cambodia is scaling up to emerge as a nodal hub in the ASEAN region



Cambodia means business. With an economy growing at a brisk ~5 per cent, a government committed to development, investments pouring into infrastructure projects and trade touching new heights, Cambodia is on course to emerge as the ASEAN region's nodal nation. Buoyed by its booming exports – non-garment manufacturing exports have increased nearly 30% YoY – Cambodia is strengthening its agro industries and widening its manufacturing sector to emerge as a regional hub.

While the recent policy measures for tax redemption and diversification of exports, coupled with the newly introduced Law on Investment, are driving the surge in exports, the government has also expedited the implementation of strategic policies for the development of major industries such as garments, automobiles, electronics, agriculture, tourism and energy efficiency. Capitalizing on its cost-efficient labour vis-à-vis rising labour costs in China, Cambodia is rapidly ramping up its infrastructure and industrial output for solid, sustainable growth in the years to come.

## AXIS OF GROWTH

Strategically located between Bangkok and Saigon, Phnom Penh is at the centre of the East-West corridor between the two major regional trading hubs of Thailand and Vietnam. Cambodia has significantly benefited with the rising manufacturing cost in China, and it has emerged as a competitive alternate manufacturing base for relocation of light manufacturing within Southeast Asia vis-a-vis other countries in the region like Vietnam and Thailand. The abundance of low-cost labour and rapid urbanisation is boosting the economy – and attracting overseas companies to set up operations in Cambodia.

The integration with ASEAN Economic Community (AEC) and the resultant free flow of trade and skilled labour is attracting a larger volume of FDI, which is driving the country's post-pandemic smart recovery. Despite the on-going political friction between the ruling Cambodian People's Party and the Cambodian National Rescue Party – the National Assembly elections are slated in July this year – an agreement between the two parties to cooperate has resulted in a more stable political environment which, in turn, has led to renewed investor confidence in the market. Foreign-owned companies from China, Hong Kong, Japan, Malaysia, Korea and Singapore are leading the charge in Cambodia.

## DIGITAL PUSH

Building on the pandemic-prompted surge in e-commerce, contactless payments and online learning, Cambodia is investing significant resources to enable a total digital transformation. This opens a world of opportunities for fintech, edtech and the start-up ecosystem. The Cambodian payment system Bakong and KHQR that facilitates cross-bank and financial institutional payments, is also easing cross-border payments. Cambodia has around 18-mn internet users and 19.5-mn mobile subscribers, exceeding the country's total population of 16 million. The country's digital initiatives are aligned with ASEAN's Digital Economic Framework Agreement that aims to enable the region's leapfrog into the digital economy.

## CAMBODIA CALLING

- Conducive investor climate
- Competitive and cost-efficient workforce
- Connecting Trade Infrastructure
- Consistent, Sustainable Growth

## SECTORS OF OPPORTUNITY

- Logistics
- Green Energy
- Agri-Food
- Automotive
- Electronics
- Textile & Apparel
- Bike & Parts
- Furniture & Plywood

# VIETNAM: LEADING THE CHARGE IN EVOLUTION

China's loss is Vietnam's gain even as the ASEAN member is emerging as a key player in EV battery manufacturing, and as a solid alternative in the global supply chain



Emerging from the disruptive impact of COVID-19 that led to a drop in per capita disposable income and had a direct impact on vehicle sales, Vietnam's automotive industry is witnessing a sharp upward surge, buoyed by the Electric Vehicle (EV) revolution in the country. Even as the country's GDP continues a steady upward climb since Q4 2021, the Vietnamese battery market is expected to record a solid 7%+ CAGR over the next five years.

With lead-acid and lithium-ion batteries at the apex of the demand pyramid, the growing popularity and sales of electric vehicles is subsequently set to propel into motion a significant growth cycle for the frontrunners of the battery industry. With majority of its batteries being imported until recently, the rise of new EV manufacturing plants and vehicles in the country, such as VinFast's first EV car announced in 2021, is indicative of the government's shift in policies and supporting endeavours vis-à-vis developmental technology.

## FROM PURPOSE TO POLICY

According to Vietnam Business Forum's Made-in-Vietnam Energy Plan 2.0, popular sustainable energy solutions such as wind, solar, hydro and lithium-ion battery registered a notable reduction in cost, with the drop accelerating in the past couple of years. This has further sparked a rise in usage of these alternative energy technologies compared to unsubsidized fossil-fuel-based solutions, providing a launch pad for new growth opportunities within the industry – and beyond.

A signatory to 18 active and planned, bilateral and multilateral FTAs, Vietnam's democratic approach to business is advantageous not only in terms of providing lucrative options to global players but also enabling manufacturing-driven economic growth through sectors as varied as machinery, electronics, medical devices and automotive – a departure from the conventional reliance on imports.

**OPTIMISING OPPORTUNITY**

Apart from domestic companies amplifying their manufacturing capacities, China Plus One (C+1) strategy is providing a significant momentum to global investors to diversify their investments by opting for an emerging market like Vietnam. Preferential industry-based taxation, low labour costs (touted as South-East Asia's most competitive labour market) and favourable geographical location are considered as valuable markers.

Impact of China's fast-evolving social, demographic and political landscape, further intensified by the ongoing effects of COVID-19 in the country has increased tensions with strong counterparts supporting globalisation and disrupted global supply chains. While top notch manufacturing expertise, advanced skill and logistics as well as soaring productivity remain China's powerful weapons, there is an undeniable shift from China to other ASEAN counterparts, with Vietnam being the prime contender in the EV space.

Vietnam is at the cusp of a bigger, stronger, more substantial shift when it comes to battery manufacturing for the automotive industry. In its quest to play a game of competitive catch up with strong global players and keep up with the demand, things are only looking up for this newly ordained frontrunner in the EV manufacturing industry.

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## CROSS-BORDER QR PAYMENTS: GROWING LINKAGES

ASEAN nations are establishing cross-border QR payment services as they offer a faster, cheaper, and more transparent mode of cross-border payments, which can boost tourism and trade and promote financial integration in the region



In November 2022, the State Bank of Vietnam (SBV) and Bank of Thailand (BOT) officially launched QR-based payment services between the two nations. First piloted for customers of Thailand's Bangkok Bank and Vietnam's TP Bank, BIDV and Sacombank in 2021, the QR payment service enables Thai and Vietnamese citizens to make cross-border payments for goods and services, real-time, in their own currencies and using their mobile banking apps.

Prior to that, in September 2022, Indonesia and Thailand launched their own bilateral QR-based cross-border payment service. The two services are only the latest in a spate of cross-border QR payment linkages initiated in the last 18 months.

It's not just bilateral services that are growing, though. November 2022 also saw the emergence of a multilateral effort to create a common contactless QR payments zone in the ASEAN region. Central banks of five ASEAN nations -- Bank Indonesia, Bank Negara Malaysia (BNM), Bangko Sentral ng Pilipinas (BSP), Monetary Authority of Singapore (MAS) and BOT -- signed an agreement to strengthen cooperation on payment connectivity to support faster, cheaper, more transparent, and more inclusive cross-border payments, including QR code payments.

## **FAST, CHEAP, SECURE AND TRANSPARENT**

QR payment connectivity allows tourists, migrant workers and importantly, micro, small and medium enterprises (MSME) to make cross-border payments in a convenient, fast, secure and transparent manner.

It provides a low-cost and easily accessible alternative to traditional cross-border payment services like SWIFT. By promoting the use of local currencies, QR payment linkages bypass the need for an intermediary currency like the US dollar or Chinese renminbi, thereby lowering costs, besides supporting greater financial integration between nations.

Little wonder, then, that bilateral QR payment services in the ASEAN region have gathered pace since Thailand first launched the service with Vietnam in April 2021 and then, with Malaysia in June 2021. Last year, Singapore established QR payment links with Thailand. And it intends to launch the service with Indonesia, Malaysia and the Philippines this year.

## **MAKING THE TRANSACTION**

How do cross-border QR-based payments work? They're essentially based on interconnecting the national QR codes of payments between two countries.

Take the case of Indonesia and Thailand, for instance. Essentially, Indonesian users can scan Thai QR codes on their mobile phone apps to pay merchants in Thailand, while Thai users can use the Quick Response Code Indonesian Standard (QRIS) to pay merchants in that country for goods and services.

## **HUGE BENEFITS**

Central banks and ASEAN governments are seeing huge benefits arising from QR payment linkages. For one, it could help expand trade and tourism by simplifying cross-border payments. Migrant workers can transfer money home real-time at lower transaction costs. MSMEs can potentially unlock new markets. Access to digital payment services will also improve financial inclusion and integration.

Since the transaction takes place real-time, there is payment security with lower settlement risk. Further, since the interoperable system allows the buyer's home currency to be converted into the lower currency instantly, it reduces dependence on intermediary currencies, strengthening macroeconomic stability.

Given their greater transparency, QR payments could also help enhance financial traceability and accountability, which could reduce cross-border fraud. Cross-border data sharing can also facilitate KYC processes.

Undoubtedly, cross-border QR payment systems must be designed to be highly secure and transparent, besides being easy to use and access. But given that ASEAN central banks have identified payment digitalisation and cross-border payments as a priority agenda, QR payment connectivity is only like to grow across the region and help strengthen its financial integration.

# MALAYSIAN BANKING SECTOR ENTERS TRANSFORMATIVE PHASE

The Malaysian banking sector is ripe for disruption and consolidation with the entry of digital banks and increase in competition



The entry of five new digital banks is expected to be a disruptor for the Malaysian banking sector, leading to both increased competition and possible consolidation. Last April, Bank Negara Malaysia (BNM), the country's central bank, issued digital banking licenses to five consortiums, three of which are majority-owned by Malaysians.

## THE NEW ENTRANTS

The consortiums include tie-ups between leading fintech players and banks such as between Boost Holdings Sdn Bhd and RHB Bank Berhad of Malaysia, as well as between Malaysian conglomerate Kuok Brothers and Singapore's GXS Bank Pte Ltd, which is a digital bank joint-venture between ride-hailing firm Grab Holdings Limited and telco SingTel. They also mark the entry of non-finance players such as the consortium between e-commerce major SEA, which owns the Shopee platform, and YTL Power International Bhd, which has interests in the power and telecoms sectors.

The other two entrants, which have got a digital bank licence under the Islamic Financial Services Act 2013, are the consortium of AEON Financial Service, AEON Credit Service (M) Bhd and fintech firm MoneyLion, and the KAF Investment Bank-led consortium that includes Malaysian start-ups Carsome, MoneyMatch and Jirnexu.

## MALAYSIA'S NEW DIGITAL BANK CONSORTIUMS

- Boost Holdings Sdn Bhd and RHB Bank Berhad
- GXS Bank Pte Ltd and Kuok Brothers Sdn Bhd
- Sea Limited and YTL Digital Capital Sdn Bhd
- AEON Financial Service Co, AEON Credit Service (M) Berhad and MoneyLion Inc
- KAF Investment Bank Sdn Bhd, MoneyMatch, Carsome and Jirnexu

## GROWING COMPETITION

The new digital banks, which will launch their operations from this year onwards, are expected to drive innovation and increase competitiveness in the banking sector.

They are looking to tap the opportunity arising from the pandemic-induced increase in online banking and e-wallet transactions in the country. More crucially, while they may find it difficult to compete with traditional commercial banks, which have large balance sheets, on corporate lending the new entrants will seek to expand the market and improve financial inclusion by catering to the unserved and underserved segments.

Consortium partners are expected to leverage their existing customer base, financial resources, and technological expertise and data-driven insights (in the case of fintech partners) to woo retail customers, gig economy workers and micro, small and medium enterprises with cheaper transaction costs, attractive financing rates and faster turnaround times.

## POTENTIAL CONSOLIDATION

The rise of fintechs in the last few years means that incumbent Malaysian banks are already facing competition from non-traditional players today. Add to this the need to scale up operations and cope with rising costs, and it could lead to consolidation in the crowded banking sector.

Some hints of this appeared last year when it was reported that Malaysia's banking magnate Quek Lang Chan was exploring options to sell his stake in Hong Leong Bank (HLB).

Incidentally, BNM has clarified that it will not extend the exemption granted under the "grandfather rule" to HLB's Quek, Public Bank's The Hong Piow, and AMMB Holdings Bhd's Azman Hashim to other individual shareholders. Quek, Teh and Azman, who are all over 80 years of age, have been allowed to exceed the 10% limit on individual shareholding in a financial institution applicable under Malaysia's Financial Services Act. BNM's clarification that any future acquisitions by individuals will have to comply with the 10% limit could potentially drive consolidation, too.

Undoubtedly, the new digital banks face regulatory constraints as their assets are capped at Malaysian Ringgit 3 billion in the foundational phase, which could limit the threat they can pose to incumbent banks. Nevertheless, the digital transformation and expansion of banking products and services triggered by them could disrupt the Malaysian banking sector.

# 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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