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THE PULSE

Monthly Insights

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Helping you succeed in Asia

The vibrant, harvest festival of Pahiyas in the Philippines will be held in May 2023 with full fervor after a three-year interlude due to the COVID-19 pandemic. That pandemic-related restriction now culminates into the country welcoming its international tourists to experience the local cultural and a week-long celebration.

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Hello!

This is the May-2023 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.

In this edition, we focus on Indonesia's financial omnibus law, expansion of cloud storage in ASEAN, Malaysia's initiatives to boost Islamic finance and SEA's progress in meeting its renewable energy goals.

Here is a glimpse:

- **Financial Omnibus : A new era of reforms in Indonesia** (4 minute read): Indonesia's PPSK Law will help modernise its financial regulations. However, some concerns exist about regulatory independence.
- **Switch to cloud : ASEAN takes the lead** (4 minute read): SEA is making swift moves towards data storage on the cloud. There is an increase in investments and setting up of new data centres.
- **Malaysia's moves to strengthen Islamic finance** (4 minute read): Shariah-compliant financial services are acquiring traction in Malaysia. Progressive regulations and innovative solutions will propel Islamic finance into the next phase of growth.
- **Road to Renewables: SEA needs a fast track approach** (4 minute read): While SEA has ambitious climate goals, renewable energy is the way to go. The region needs higher investments to meet its clean energy vision.

We hope you enjoy reading our articles. If you need help in exploring potential opportunities or implementing growth plans in ASEAN, please write to us at contact@bizasean.com.

Warm regards,

Sumit Dutta
Founder & CEO
ASEAN Business Partners

FINANCIAL OMNIBUS: A NEW ERA OF REFORMS IN INDONESIA

The PPSK Law will increase economic capabilities and enable digitisation

The COVID-19 pandemic pushed sustainable economic spending at the forefront of financial reforms. Developing nations in particular had to identify resilient financial models and reform archaic regulations. Indonesia was one such country that made swift moves to plug the gaps. Through its Financial Sector Development and Strengthening Reform Bill (PPSK), Indonesia has kickstarted the era of financial transformation.

Termed the Financial Omnibus, the PPSK law has amended 17 laws in the financial sector, including banking, capital markets, insurance, and pension. At the core of these reforms is the upholding of the Financial Services Authority (OJK) as the apex supervisory and regulatory body.

The PPSK law has the potential to accelerate financial innovation in Indonesia since it lays emphasis on digitisation of financial services.

BREAKING BARRIERS

When Covid struck in 2020, the Jokowi government was tasked with financing public spending in healthcare. This included offering food and medical aid during lockdowns, hospitalisation, and vaccination expenses. Indonesia raised $4.3 billion using a pandemic bond to fund these costs. However, a long-term solution was the need of the hour.

On one hand, there was a need to remove entry barriers to finance for Indonesian citizens. On the other, there was a need to monitor the addition of riskier instruments such as crypto. A joint consensus paved the way for a financial omnibus in the form of the PPSK law.

While the PPSK law aims to build an accessible financial system, there are concerns that the government may mandate bond purchases by the central bank during tough economic situations. However, the government has assured all regulators about complete autonomy in their daily operations.

A GLIMPSE OF THE PPSK LAW:

SECTOR	OLD LAW	PPSK LAW
Banking	Commercial banks and rural banks can be cooperatives.	Commercial and rural banks have to become limited liability companies.
Insurance	No guarantees of fund safety against licences being revoked, so policy payments were at risk.	Deposit Insurance Corporation will guarantee fund safety if an insurer's licence is revoked.
Fintech	Fintech companies are regulated by the central bank and OJK.	Fintech entities will have to register with a dedicated association and also get opportunities to test pilot products under sandbox programmes.

Source: Conventus Law

PLANNING FOR THE FUTURE

Having witnessed a financial crisis in 1998, Indonesia sought to take steps to build reform-led financial stability. In addition, President Joko Widodo wanted to cut bureaucratic hurdles to finance. The PPSK law was an answer to all these concerns. It took a three-pronged approach to overcome the stumbling blocks:

- Unbiased regulations: The PPSK law prohibits politicians from being nominated to the boards of OJK, Central Bank of Indonesia, and the Deposit Assurance Agency (LPS). At the same time, regulatory officials are barred from getting involved in politics. This brings a higher degree of accountability.

- Financial stability: The central bank has the responsibility to issue Digital Rupiah in addition to physical currency notes, a step that will enable the creation of a Central Bank Digital Currency. It also has the authority to buy bonds from private companies to solve liquidity issues in the economy. LPS has the goal of forming regulations to guarantee insurance policies in case the insurer's licence is revoked. To ensure investor protection, crypto and allied digital assets have also been brought under OJK's purview.

- Digital economy: OJK estimates that the implementation of the PPSK law will cartalyse the digital economy. This in turn has the potential to increase Indonesia's Gross Domestic Product (GDP) to ~$1.6 trillion (IDP 24,000 trillion) by 2030, almost five times the figure reported in the third quarter. Fintech innovation will help achieve the digital economy's hidden potential by encouraging e-payments and technology-led stock market operations.

Fintech institutions will also get the liberty to test out need-based products and services through pilot projects under the sandbox initiative. Trial Projects, if successful, will get an opportunity to convert into licensed products.

The Golden Indonesia 2045 mission envisions Indonesia as a developed country taking a spot among the top five economies in the world by 2045. For this to happen, fiscal revitalisation of the country's financial system is indispensable. The PPSK law will act as a stimulant in this endeavour.

SWITCH TO CLOUD: ASEAN TAKES THE LEAD

Thailand, Malaysia, and Indonesia are expected to increase their cloud-related spending.

Southeast Asia is on the cloud. Corporations are turning serverless and cloud-native as more international cloud services providers invest in ASEAN. There is an emerging need to meet the burgeoning demand for cloud technology in the region.

A study by Alibaba Cloud found that on one hand companies are moving online, while on the other hand companies using cloud will increase their investments. Among ASEAN nations, the increase will come from Thailand (95%), followed by Indonesia, Philippines, and Singapore. Sectors such as gaming, media and telecom, internet and technology, and financial services are expected to invest heavily into cloud services.

The pandemic played a role in this transformation. Due to lockdowns and remote working, there was an increase in digital touchpoints. This continued even after Covid subsided. Since cloud computing enabled scalability and flexibility during peak demand periods, ASEAN nations doubled down on their cloud efforts.

SPRINTING TOWARDS CLOUD

Cloud has enabled companies to experiment with new technologies and digitise traditional business models. Another factor to consider is the rising internet population. More than 420 million Southeast Asians are internet users, of which 50.1% users belong to Indonesia.

Data from IDC showed that the cloud infrastructure revenue in this region stood at $2.18 billion in 2022, a 25% increase over the previous year. Singapore took a lion's share of this amount at ~$1 billion. But what was more interesting is countries such as the Philippines, Indonesia, Vietnam, Thailand, and Indonesia reported growth upwards of 30%.

These double-digit rates of growth necessitate the addition of new data centres in the region. Global corporations such as Alibaba, Amazon, Cisco, Google, NTT, Oracle, and Microsoft are making fresh investments into SEA.

The NTT Group of Japan is planning to invest $90 million to build its data centre in Bangkok. Amazon will spend $6 billion in Malaysia over the next 14 years to expand its cloud computing services. Oracle will open its second cloud region in Singapore. To bridge the talent gap, Microsoft has set up a cloud talent academy in Singapore.

ESTIMATED SPENDING ON CLOUD IN 2024

COUNTRY	TOTAL SPENDING (IN USD BILLION)
Singapore	19
Malaysia	8
Indonesia	6
Thailand	4
Philippines*	2.6

Source: Gartner
*GlobalData estimates

With local demand picking up, cloud providers have also moved closer to their target markets. Google Cloud, for instance, is setting up two new cloud regions in Malaysia and Thailand apart from New Zealand to cater to the specific needs of SEA.

Even as more companies get a taste of cloud, technology-first groups such as Indonesia's GoTo relocated their data to cloud to improve efficiency and enable faster transactions.

WHERE'S THE FUTURE HEADED?

Cloud can either be public (shared usage), private (dedicated to a single organisation), or hybrid (a mix of public and private). While public cloud remains popular because of its affordability, there is a rising trend of switching to hybrid cloud services. And the pace of adoption is quicker.

Take the case of Al Rajhi Bank Malaysia, a subsidiary of the world's largest Islamic bank Al Rajhi. The entity has decided to move its entire IT infrastructure to Amazon Web Services (AWS) by 2026. AWS will also power its digital bank Rize. Its move to cloud is likely to be in a hybrid mode since it will offer the ability to secure sensitive data.

Surveys conducted by cloud providers also point to a similar trend. An Alibaba survey found that SEA companies have changed their cloud strategy to make a transition to hybrid cloud. It is anticipated that the preference for hybrid cloud for customised services will propel the digital economy in this region.

A BCG report said that the Asia Pacific region's total cloud spending is likely to reach $200 billion by 2024. With estimated annual growth over 20%, organisations that move to cloud will enjoy a serious competitive edge.

MALAYSIA'S DEFT MOVES TO STRENGTHEN ISLAMIC FINANCE

The country has planned to build fintech hubs for Shariah-compliant finance entities.

On the back of a gamut of progressive Shariah-compliant regulations, quick product approvals, and digitisation of financial services, Malaysia has become among the world's biggest markets for Islamic Finance and the most developed country in this segment. A mix of policy changes and innovative business models have enabled the country to rise to the top in Shariah-led financial solutions.

The Global Islamic Fintech Index lists Malaysia in the lead spot because of governmental support and a conducive ecosystem. Malaysia has also classified Islamic finance as a part of its key economic growth activities.

As a step forward, the central bank of Malaysia has proposed a new sandbox framework wherein fintech entities, including those willing to test out Islamic Finance, may even get a green lane for accelerated market launch. With 30% of the global Islamic fintech companies based in Malaysia, the country is poised to continue its growth in the Shariah-compliant assets space.

TOP COUNTRIES BY ISLAMIC FINANCE ASSETS IN 2021

COUNTRY	ASSETS (USD BILLION)
Iran	1,235
Saudi Arabia	896
Malaysia	650
UAE	252
Qatar	182

Source: ICD-Refinitiv Islamic Finance Development Report 2022

BUILDING ON THE EARLY MOVER ADVANTAGE

Islamic finance is a term used to describe financial products and services that comply with the core principles of the Shariah law. These include:

- A bar on prohibitive activities such as gambling (such as derivatives).
- Prohibition on investments in sectors such as adult entertainment, alcohol, and pork.
- Prohibition on all kinds of interest payments.

Malaysia was one of the first movers during the first wave of Islamic banking in the 1990s, where it took a slew of initiatives to build sustainable businesses in the country. These included encouraging Sukuk (Islamic bonds), Islamic Funds, and Takaful where a combination of governance and awareness creation improved accessibility

In its 2.0 avatar too, the country wants to cement its status as the Islamic Finance hub. Malaysia's Shared Prosperity Vision 2030 envisages strengthening the country's position as the Fintech Hub for Islamic Finance. This includes building resilient key new sectors such as Islamic Finance Hub 2.0, which will provide ~600 million ASEAN consumers access to Shariah-adhering finance.

Individual sectoral regulators have taken steps to introduce conducive spaces to build. For instance, the Securities Commission's Shariah Advisory Council also permitted the use of digital assets including crypto. It also launched a Shariah Screening Assessment Toolkit to enable access to Shariah-compliant financing for unlisted micro, small, and medium enterprises (MSMEs). In addition, an Islamic fintech accelerator by the SC has also helped Shariah-based financial entities grow and scale.

These policy reforms have reinvigorated the Islamic fintech market in Malaysia. New entities in the area of Shariah-compliant finance are set to enter the market. For example, AEON Financial Service and neobank MoneyLion are set to launch their Islamic digital bank in 2024.

FROM LOCAL TO GLOBAL

Malaysia's Islamic fintech sector contributed $3 billion in global transaction volumes in 2021. The country has about 47 Islamic fintech entities. Shariah-compliant securities account for 80% of the listings in Bursa Malaysia.

After making their presence felt in the local market, these fintechs want to go global. Take the case of TheNoor, an Islamic lifestyle plus e-wallet application that started out in Malaysia but has gone global. The fintech platform is also raising $1 million to support its expansion plan.

Wahed Technologies is another example of a Shariah-compliant fintech that serves customers across the globe. Recently, it also launched its physical branch in London. Peer-to-peer financing platform microLEAP is another fintech platform that aims to serve the funding needs of MSMEs.

This is just the beginning of the transformation. The Malaysian government is looking to tap global financial hubs such as Hong Kong for talent sourcing and Islamic startup funding to give a further boost to these fintech entities.

From $49 billion in 2020, Islamic fintech is expected to grow to $128 billion by 2025. Malaysia, which has already laid out an enabling environment, has the potential to become the global hub for Shariah-compliant finance.

ROAD TO RENEWABLES: SEA NEEDS A FAST TRACK APPROACH

Investments towards coal alternatives and resilient energy sources will be vital.

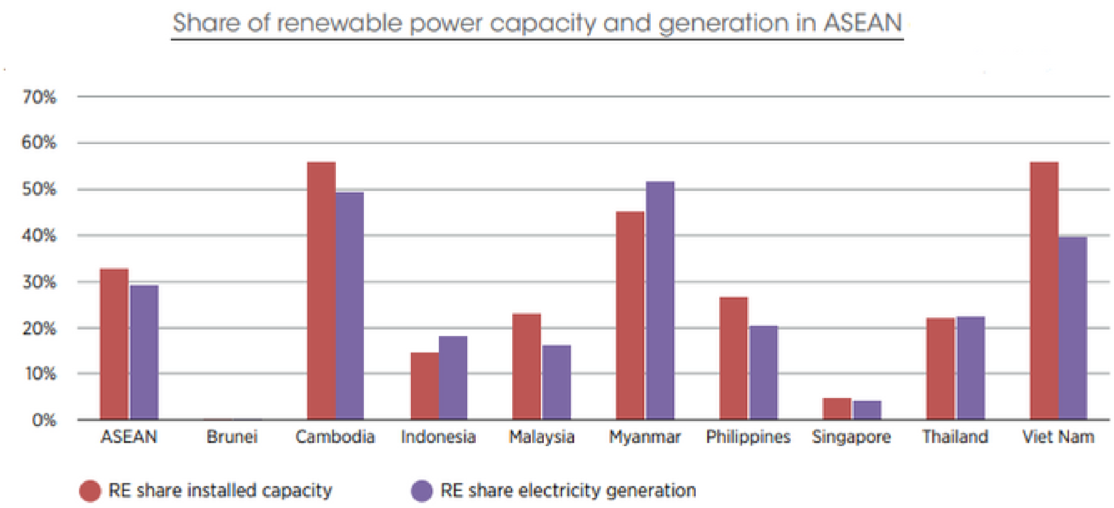
A whopping $29.4 trillion. This is the amount of funds needed to transform ASEAN into a region powered by 100% renewable energy. The transition to clean energy entails massive investments in new plants as well as grid expansion. And Southeast Asian nations have taken their early steps towards this goal.

The only alternative to mitigating the risks of global warming is to invest in renewable energy. The International Renewable Energy Agency (IRENA) has said that countries need to double their renewable power generation by 2030 to limit the rise in global temperature to 1.5 degrees Celsius.

When it comes to ASEAN, the member nations have set ambitious targets to build sustainable energy systems. But at the core of these strategies will be fresh infusion of funds into clean energy. IRENA has advised ASEAN regulators to develop an effective transmission and distribution network so that there is a steady flow of capital into renewables.

WHERE DOES ASEAN STAND?

ASEAN has taken a collective pledge to decarbonise the region's power sector. Under the ASEAN Plan of Action of Energy Cooperation, the countries have set a renewable energy share of 23% in the total primary energy supply. These nations also aspire to have a 35% share of renewable energy in ASEAN installed power capacity by 2025.



Source: IRENA Renewable Energy Outlook for ASEAN

Each country has taken a series of steps to achieve the clean energy targets. Here is a glimpse of where they stand:

- **Indonesia:** It aims to generate 23% of the primary energy supply from renewable energy by 2025. The country has taken steps to boost clean energy through solar power generation and subsidies for electric vehicles.

- **Malaysia:** It aims to have 20% of renewable energy sources in its power capacity by 2025. The country has initiated the transition by planning large-scale solar power projects and expanding battery energy storage systems.

- **Philippines:** It has planned 20 gigawatts of renewable energy installed capacity by 2040. To fulfil this goal, it plans to focus on solar and wind power generation.

- **Thailand:** It targets a clean energy share of 30% in its total final energy consumption by 2036. The country will utilise a mix of hydropower and solar power to meet its targets.

- **Vietnam:** It plans to have a renewable energy share of 32.3% in 2030 and 44% in 2050 in its total primary energy consumption. Apart from solar, wind, and hydropower, the country has signed a Just Energy Transition Partnership with the International Partners Group. This agreement will mobilise an initial $15.5 billion of public and private finance over the next five years to support Vietnam's green transition.

Singapore, which is considered a mature market, has a solar target of at least 2 gigawatt-peak (GWp) by 2030. It is also working with the US to identify clean energy partnership opportunities for ASEAN.

BEING FUTURE READY

Though ASEAN is committed towards green energy, experts believe that the region needs multiple projects and additional investments to meet the climate goals.

Vietnam, for instance, needs between $8 billion and $14 billion annually till 2030 to develop new power plants. Malaysia needs to invest at least $375 billion to achieve a net-zero target by 2050.

To achieve net zero by 2060, Indonesia will need to almost triple energy investment by 2030 from today's level. The Philippines needs at least $121 billion of investments in renewable energy between 2020 to 2040 to attain its clean energy goals.

Interventions by the respective governments will not be enough to accomplish the net-zero and renewable energy goals. A mix of public and private funding avenues will help SEA accelerate its advance towards greener energy generation.

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.

Sumit Dutta
Founder and Chief Executive Officer

Raj Ghosh
Head of Client Relations for USA and Canada

Tony Turner
Head of Client Relations for UK and EU

Kavita Panda
Group Chief Operating Officer

contact@bizasean.com www.bizasean.com @Aseanbusinesspartners (+65) 9176-4136