

ASEAN Focus

A BIMONTHLY PUBLICATION PROVIDING CONCISE ANALYSES AND PERSPECTIVES ON ASEAN MATTERS

ASEAN's Hard
Look at Indo-Pacific

E-commerce in
ASEAN: Views from
the Businesses

ASEAN Aviation
Takes to the Sky

Is ASEAN Ready for
Renminbi?

Durian: Southeast
Asia's King of Fruits



(Mis)understanding Indo-Pacific
E-commerce in ASEAN
ASEAN Aviation Industry

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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 Institute's research programmes are grouped under Regional Economic Studies (RES), Regional Social and Cultural Studies (RSCS) and Regional Strategic and Political Studies (RSPPS). The Institute is also home to the ASEAN Studies Centre (ASC), the Nalanda-Sriwijaya Centre (NSC) and the Singapore APEC Study Centre.

Editorial Notes

During the past two months, Southeast Asia has again become the scene of epochal events that shake the region and the world. A political tsunami descended upon Malaysia on 9 May when the 14th Malaysian General Election saw the rise to power of the Pakatan Harapan coalition, led by former premier Dr. Mahathir Mohamad, and the end of Barisan Nasional's streak of 13 electoral victories. Dr. Mahathir's return to Malaysian political scene paradoxically ushered in the fall from power by the party he used to lead – the once invincible United Malays National Organisation (UMNO) that had been ruling Malaysia for more than six decades. Upon elected, Dr. Mahathir has enacted decisions that would have significant economic and strategic bearing across the region, including the South China Sea disputes, the postponement of the Singapore-Kuala Lumpur High Speed Rail (HSR), and review of Chinese-funded mega-projects as well as Malaysia's membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Politics is again the art of the possible as the eyes of the world were upon Singapore which hosted the historic summit between US President Donald Trump and the Democratic People's Republic of Korea (DPRK) leader Kim Jong-un on 12 June. This is the first time that a sitting US president has met with a North Korean leader, during which the US' pledge to provide security guarantees to the DPRK was reciprocated with the latter's commitment to denuclearisation on the Korean Peninsula. It is premature and even counterproductive to pick the 'winner' and 'loser' from the summit at this stage. This very beginning could well become a win-win future if all parties concerned keep up the momentum of dialogue, and build trust through concrete and constructive actions.

This June, defence ministers and delegates and security analysts also flocked to Singapore for the 17th Shangri-La Dialogue, the region's premier defence forum. Much expectation was upon Indian Prime Minister Narendra Modi and the Defence Ministers of Australia, Japan and the US to further flesh out the Indo-Pacific concept. In this issue, Ms. Hoang Thi Ha attempts to locate the Indo-Pacific in the long-running conceptual and institutional tensions of evolving Asia-Pacific regionalisms. Dr. Malcolm Cook gives his post-modernist take on the Indo-Pacific which he posits is essentially different from ASEAN-styled structured formal regionalism. Dr. Tang Siew Mun shares his perspective on the Indo-Pacific concept from the ASEAN angle.

This issue casts the spotlight on e-commerce as more online shopping amenities in the region are accessible at one's fingertips thanks to increasingly ubiquitous smartphones and mushrooming e-commerce platforms and e-payments. Mr. Chua Soon Ghee provides an overview of the state of play of e-commerce in ASEAN. For a closer look on the ground, ASEANFocus invites six e-commerce pioneers – Lazada Group, Shopee/Sea, Bukalapak, Ninja Van, Get GO Global and Paypal – to share their perspectives on the prospects and challenges of e-commerce in ASEAN in three key aspects of the e-commerce ecosystem, namely platforms, logistics and e-payments.

Other important economic issues featured in this issue include the internationalisation of the renminbi and its potential impact on ASEAN and the state of ASEAN's aviation industry through in-depth analyses by Mr. Goh Khoon and Mr. Shukor Yusof, respectively. This is supplemented by *ASEAN in Figures* which features statistics about the robust growth of ASEAN aviation industry over the past decade and into the future.

For *Insider Views*, Mr. Douglas Foo, Founder and Chairman of Sakae Holdings Ltd., shares with us how Sakae Sushi – the popular conveyor belt sushi chain in the region – has expanded its footprint in ASEAN, and how Sakae is looking into green-field investments in Fintech, blockchain and cybersecurity.

For a flavour of ASEAN unity amidst its diversity, we are delighted to feature the ten winning colourful snapshots from the EU-ASEAN Youth Photography Competition organised by the European Union Mission to ASEAN to commemorate the 40th Anniversary of ASEAN-EU Dialogue Relations in 2017. To complete the issue, in *Sights and Sounds*, Ms. Cheryl Teh introduces us to the traditional sports that have enthralled the people of ASEAN through millennia, while Ms. Nur Aziemah Aziz brings us to the exhilarating experiences that come with the durian – Southeast Asia's King of Fruits. 🍈

Evolving Regionalisms in Asia-Pacific

Hoang Thi Ha takes stock of institution-building in Asia-Pacific and beyond.

Asia-Pacific has a solid track record of institution-building, with various institutional initiatives to shape and reconfigure the regional order. The cumulative result of this process is today's multi-layered and complex architecture – the so-called “alphabet soup” of various frameworks and groupings that complement, overlap and compete for influence at the same time. Yet, institution-building in the region is never a settled business. The regional architecture has been evolving in keeping with power and ideational shifts, characterised by two sets of conceptual and institutional tension.

The first tension is between East Asian regionalism covering only ASEAN member states and Northeast Asian countries and a broader, more inclusive one that encompasses Asia-Pacific. East Asian regionalism was robustly discussed in the 1990s, riding on the success of the East Asian developmental model with Japan leading the flying geese. Economically, East Asian regionalism still makes sense as regional economies become increasingly interdependent and integrated through the regional supply chain, this time with China leading the charge.

Malaysia's proposal of an East Asia Economic Group (EAEG) in 1990 and its successor, the East Asia Economic Caucus (EAEC), were early attempts at institutionalising this exclusive East Asian regionalism. Although they lost traction due to this very exclusiveness, the institutional expression of East Asian regionalism lives on through the ASEAN Plus Three (APT) established in 1997. The APT enjoys China's sustained support, fitting well with Beijing's “Asia for Asians” vision where China is envisaged to hold sway as the dominant power and the US' hub-and-spokes system ceases to be relevant. The APT was recognised by its members as the main vehicle towards an East Asian community (EAc) but the proposed community's shape and content remain vague and debatable. For instance, the East Asia Community initiative by Japanese Prime Minister Yukio Hatoyama in 2009 included also Australia, New Zealand and India.

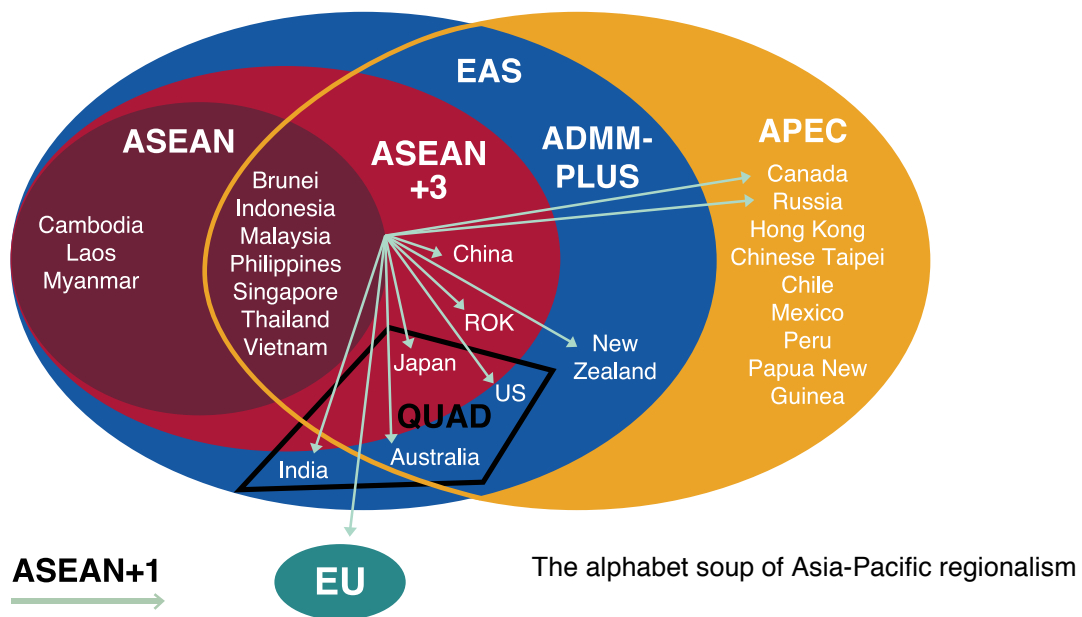
The drag on East Asian regionalism is historical distrust and geopolitical tensions among regional countries, especially between China and Japan. This internal incoherence has enabled the agency of external parties, including the US, India and Russia, and to a lesser extent, Australia, New Zealand and the United Kingdom. The US is structurally present in East Asia through a

web of treaty alliances that enable American forward deployment, extensive trade and investment linkages, and membership in almost all major economic and security regional frameworks. The level of interest and engagement may wax and wane through different administrations but US presence in the region is embedded and constant, as emphasised by US Defense Secretary James Mattis at the recent 17th Shangri-La Dialogue: “America is in the Indo-Pacific to stay. This is our priority theater; our interests and the region's are inextricably intertwined.”

An exclusive East Asian identity is thus structurally impaired by the US' staying power and the engagement of other non-East Asian players. This has been enabled by the support and facilitation, tacitly or otherwise, by many regional countries who deeply fear the emergence of any regional hegemon. A good example is the successful efforts by some ASEAN countries and Japan to bring India, Australia and New Zealand into the EAS in 2005. Further admission of the US and Russia in 2011 was again in step with ASEAN's inclusive approach towards institutional balancing amidst their growing anxiety over China's supremacy on the horizon.

The antithesis to East Asian regionalism is the trans-regional Asia-Pacific construct that covers all interested Pacific Rim countries, advocated by the US, Australia and Japan. Asia-Pacific is a geographically fluid concept but it makes sense economically due to the trans-regional nature of production networks and deep economic interdependence between East Asia, Oceania and the US. The Asia-Pacific Economic Cooperation (APEC) – Australia's initiative that came into fruition in 1989 – has therefore overwhelmingly focused on trade liberalisation among its 21 members. However, the vast diversity and complexities in Asia-Pacific rendered it impractical to conceive a single overarching architecture representing the entire region. The demise of the Asia Pacific Community (APC) proposal by Australian Prime Minister Kevin Rudd in 2008 was a case in point.

The second tension is seen between the convening power of ASEAN and non-ASEAN countries' efforts to desist from the so-called ASEANisation of the regional security architecture. Non-ASEAN countries have mixed feelings towards ASEAN as the architect and driver of the region's institution-building. On the one hand, ASEAN-led frameworks, especially the EAS, the ASEAN Regional



The alphabet soup of Asia-Pacific regionalism

Forum (ARF) and ASEAN Defense Ministers Meeting Plus (ADMM-Plus), provided useful platforms for them to exert their influence and shape the regional environment. On the other, they feel constrained by the ASEAN Way that requires consensus and a comfort level to all. Even APEC has adopted this modus operandi to accommodate the heterogeneity within its membership.

ASEAN's consensual and non-confrontational approach proved helpful in getting diverse and divergent countries to join its multilateral frameworks. But ASEAN-styled weak institutionalism, characterised by the absence of sanctions for non-compliance and effective dispute resolution mechanisms, does not jive well with Western-styled utilitarian approach of some ASEAN Dialogue Partners, especially the US and Australia. These countries' impatience with and ambivalence towards ASEAN regionalism have been played out in many ways such as (a) urging institutional reforms to increase their ownership and influence in ASEAN-led processes; (b) proposing new institutions that by-pass or dilute ASEAN's role, e.g. Australia's APC proposal; and (c) pressing on with bilateral, trilateral and minilateral arrangements, including those with some individual ASEAN countries. Some of these arrangements are based on situational interests and relevant capabilities of the members concerned, and do not necessarily have formal institutional set-up.

For example, intensified security-defense cooperation under US-Japan-Australia, US-Japan-India or US-Japan-South Korea trilaterals has not only doubled down the hub-and-spokes system but also fostered "spokes-to-spokes" coordination, thereby strengthening the US-centred security structure in the region. Since 2015, India, Japan and Australia have also regularised their dialogue on regional security issues. Apart from the balance-of-power undertones, the resources and capabilities of these trilaterals have proven effective in providing public goods, for example in delivering disaster relief during the 2011 earthquake and tsunami in Japan and Typhoon Haiyan in the Philippines in 2013.

Meanwhile, China has been adept at leveraging its growing clout and using the consensus to prevent ASEAN and ASEAN-led mechanisms from a robust and unified response to Beijing's encroachments in the South China Sea. China has also invested in other mechanisms such as the Lancang-Mekong Cooperation (LMC), the Shanghai Cooperation Organisation (SCO) and the Conference on Interaction and Confidence-Building Measures in Asia (CICA) to further its influence and interests in the sub-Mekong and Eurasia.

The coordinated introduction of the Indo-Pacific concept by Australia, India, Japan and the US is essentially a continuation and extension of the above-mentioned tensions, this time with a clear motivation and rallying cause – to counter-balance a risen China that is seen as disrupting the rules-based order and American military pre-eminence in the region. The Indo-Pacific concept dilutes further the China-centric East Asian order by extending further west to the Indian Ocean. It also entrenches its proponents' balance-of-power strategy by embedding a rising India in the power equation and reviving the Quadrilateral Security Dialogue (Quad).

Compared to Asia-Pacific, Indo-Pacific is even more amorphous, an amalgamation of different sub-regions where heterogeneity is the norm. It is impractical to envision a pan-Indo-Pacific institution to represent the vast diversity of the region. Yet, its wider geographical reach puts Southeast Asia and ASEAN at its heart – the thoroughfares connecting the two oceans and the hub of regional diplomacy. The Quad members have reaffirmed ASEAN centrality in their Indo-Pacific outlooks but that reaffirmation should not be taken at face value. Major powers will continue to robustly pursue balance of power while expediently engaging in regional organisations where it suits their interests. 🗑️

Ms. Hoang Thi Ha is Lead Researcher II (Political-Security Affairs) at the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute.

Indo-Pacific Ushers in a New Era of Post-Modern Regionalism

Malcolm Cook posits that post-modern Indo-Pacific regionalism will sit well with existing ASEAN-led multilateral mechanisms.

On the sidelines of the 31st ASEAN Summit in Manila in November 2017, senior foreign affairs officials from Australia, India, Japan, and the US met for 90 minutes. There was no joint statement or work plan released after and no date announced for the next get-together. When a leaf falls in a forest, why should anybody hear it?

Yet, this leaf – the Quadrilateral Security Dialogue meeting, the first one in a decade – triggered a loud cacophony of analysis and comment. Was this seemingly innocuous meeting a nascent steering committee for the new Indo-Pacific regional concept? Was it a threat to ASEAN centrality and the ASEAN-led regional processes? Are the Chinese right in seeing it as an incipient mechanism of containment? Could the Quad become a Quint or more? Would states be approached or even pressured to join? Would states be asked to choose between the US and China?

This drastic over-determination of this one Quad meeting, the general confusion over the Indo-Pacific concept, and consequent demand for more clarity and structure prevalent in Southeast Asia and beyond, are symptomatic of a conceptual failure. And this very failure is caused by or at least aggravated by the very success of ASEAN and its aspirations for Asia-Pacific centrality.

ASEAN and the wider ASEAN-led bodies such as the East Asia Summit (EAS) are a good example of modern regionalism, being very formal, inclusive and consensus-based. They are organised around published action plans agreed to by leaders at a summit meeting. Hundreds of officials' meetings are organised to the glee of airlines and hotels to enact the current phase of the leaders-endorsed action plan, and plan for the next phase and next action plan. Summits are expected to produce statements that are painstakingly negotiated beforehand and then perused for changes in wording, tone and focus. When the ASEAN foreign ministers failed to issue a joint communique in Cambodia in 2012, doubts about the survival and relevance of ASEAN went into overdrive. Secretariats are created to provide support for these meetings. Group photos of leaders with arms linked are taken and uploaded. Progress towards more predictable and more cooperative regional interaction is achieved through process. APEC is another example of this modern approach to regionalism.

So far, the Indo-Pacific regional concept is much more post-modern than modern in approach. It is informal, undefined in form and direction, and contingent. There is no common pre-agreed definition of what the Indo-Pacific concept is even among Australia, India, Japan and the US. Each capital, at different times and in different ways, adopted the term and replaced the Asia-Pacific regional concept which is at the core of APEC and ASEAN-led bodies. If Indonesia or ASEAN wants to come up with their own definition of the Indo-Pacific, or not, that is fine too. There are no plans to establish a new set of Indo-Pacific diplomatic structures that states are invited to join or excluded from and that may rival the ASEAN-led architecture directly. No office building will receive rent for an Indo-Pacific Secretariat.

“Attempts to force the Indo-Pacific regional concept to adhere to the tenets and canons of formal regionalism or attempts to challenge it as a direct threat to ASEAN would be counterproductive.”

At the recently concluded Shangri-La Dialogue, the much discussed and dissected Quad was not even mentioned by Indian Prime Minister Narendra Modi in his keynote address. Those hoping or fearing for the Quad to develop into a more typical regional institutional platform are likely to be disappointed or relieved. Likewise for those hoping for the Indo-Pacific concept to take a much clearer form than the current sets of principles for inter-state conduct mentioned by Australian, Indian, Japanese and US leaders and ministers in their disparate speeches referring to the Indo-Pacific.

As with the post-modern movement in the arts, Indo-Pacific post-modern regionalism is, in part, a reaction to the frustrations of the limits and constraints of modern regionalism. The current approach to the Indo-Pacific shares much in common with the US promotion of coalitions of the willing and informal, operationally-focused minilateral groupings during the George W. Bush Administration. This support for coalitions and minilaterals over multilateral formal institutions was strongly influenced by the Bush Administration's frustrations with the paralysing constraints of the UN system. US Secretary of State Condoleezza



Navy ships from India, Japan and the US sail in formation during Malabar Exercise 2018.

COMSEVENTHFLT

Rice was not the most regular participant in the ASEAN Regional Forum. Today, the US-Japan-Australia trilateral security cooperation mechanisms that started during the second Bush term are the most advanced platform for Indo-Pacific policy and operational coordination today.

Australian Prime Minister Kevin Rudd's stillborn 2008 Asia Pacific Community proposal was a modern institutional response on his part to the growing challenges facing the ASEAN-led regional architecture. Prime Minister Rudd questioned the architecture's ability to address the wrenching structural effects of the shift in the Asia-Pacific from a US hegemonic order to an unbalanced multipolar one. As this proposal was deemed to be a direct challenge to ASEAN centrality, it was met head on by Southeast Asian states. The Indo-Pacific concept is a post-modern response to these same shared concerns held by Australia, Japan, India and the US.

It is unlikely to be purely coincidental that the four states promoting the Indo-Pacific concept responded in a markedly different way to the 2016 Arbitral Tribunal ruling on the dispute between the Philippines and China in the Spratlys than ASEAN and ASEAN-led bodies. Australia, Japan, India and the US each individually stated that China and the Philippines are bound by the ruling, a position Beijing virulently rejects. One of the shared principles of behaviour included in the Australian, Indian, Japanese and American Indo-Pacific concepts is abiding by international maritime law. In contrast, ASEAN, bound by consensus, has remained silent on the ruling. Likewise, ASEAN-led bodies like the EAS which include China have side-tracked the issue. In 2015, the ASEAN Defence Ministers Meeting Plus failed to issue the

promised joint statement after disagreements, particularly between the US and China, about whether to include reference to the disputes in the South China Sea or not.

For ASEAN and the modern formal regionalism it embodies, Indo-Pacific post-modern regionalism should be seen more as a positive innovation to be appreciated if not necessarily endorsed. Southeast Asian states themselves are often frustrated by the limits of ASEAN-led formal regionalism but are much less free than the ASEAN Dialogue Partners to experiment with new regional approaches. Attempts to force the Indo-Pacific regional concept to adhere to the tenets and canons of formal regionalism or attempts to challenge it as a direct threat to ASEAN would be counterproductive. The very location of the Quad meeting on the margins of the ASEAN Summit that had brought all of the Quad senior officials to Manila reflects the synergies between the two approaches to regionalism. Post-modern art could not exist and flourish without modern art that is still more prevalent and popular. Post-modern Indo-Pacific regionalism would not exist without the modern ASEAN-led regional architecture. It will likely supplement it and certainly will not replace it. ❏

Dr. Malcolm Cook is Senior Fellow at the Regional Strategic and Political Studies Programme, ISEAS-Yusof Ishak Institute.

ASEAN's Hard Look at Indo-Pacific

Tang Siew Mun argues that the lack of clarity on Indo-Pacific raises more questions than answers on its viability and operationalisation.

The flurry of “Indo-Pacific” articles and speeches in the past year has done little to shed light on this illusive term. The common nouns associated with term – “concept,” “strategy” and “region” – only add to the confusion. At its core, Indo-Pacific seeks to recast the way we approach and conduct international affairs by connecting the Indian and Pacific Oceans into a single geopolitical construct. Seafarers and traders have long regarded the high seas as seamless, and until recently few have grasped the strategic implications of turning these geographical markers into geo-political bridges.

Gurpreet Singh Khurana, a senior Indian naval officer and academic, gave life to this amorphous term in his 2007 seminal article “Security of Sea Lines: Prospects for India-Japan Cooperation.” His term’s reference to “the maritime space stretching from the littorals of East Africa and West Asia, across the Indian Ocean and western Pacific Ocean, to the littorals of East Asia” is anything but ambiguous. However, since 2007 geopolitics has taken this seemingly innocuous term to an entirely different place.

Japanese Prime Minister Shinzo Abe was among the first to see the strategic importance of Indo-Pacific and brought it to mainstream diplomacy in his speech, “The Confluence of the Two Seas” in August 2007. Indo-Pacific was subsequently given a new lease of life when Abe fleshed out the Free and Open Indo-Pacific (FOIP) in August 2016 with three underpinning pillars, namely (a) affirmation of the rule of law and freedom of navigation; (b) continued economic development of the region through improved physical, human, and institutional connectivity; and (c)

expansion of initiatives to guarantee stability, including assistance on maritime law enforcement.

The concept was raised again when Indonesian Foreign Minister Marty Natalegawa in 2013 advocated the promulgation of an Indo-Pacific Treaty of Friendship and Cooperation to “build confidence, solve disputes by peaceful means, and promote a concept of security that is all encompassing.” He noted that the institutionalisation of these normative goals would provide stability to the Indo-Pacific region that is constantly adjusting to the winds of economic, political and strategic change. Currently, the Foreign Ministry of Indonesia is studying this concept in earnest, and has convened a Track 1.5 regional discussion earlier this year.

The most recent formulation of the concept came from Indian Prime Minister Narendra Modi at the 17th Shangri-La Dialogue on 1 June 2018. He laid down six key elements: (a) a free, open and inclusive region, (b) Southeast Asia and ASEAN at the centre of the Indo-Pacific, (c) a rules-based order where the sovereignty, territorial integrity and equality are protected and respected irrespective of size and strength, (d) equal access as a right under international law to common spaces on sea and in the air, (e) rules-based, open, balanced and stable trade environment, and (f) connectivity based on respect for sovereignty and territorial integrity, consultation, good governance, transparency, viability and sustainability.

Speaking at the same dialogue, US Secretary of Defence James Mattis outlined four elements of Washington’s Indo-

Tankers and container ships in Singapore, a key node connecting the Indian and Pacific Oceans



Pacific strategy, namely: (a) preserving maritime commons as a “global good”; (b) improving inter-operability to ensure the US military “is able to more easily integrate with others”; (c) strengthening the rule of law, civil society, and transparent governance; and (d) focusing on private sector-led economic development. In a symbolic move to underscore US commitment to the region, the US Pacific Command was renamed to the US Indo-Pacific Command on 30 May 2018.

Thus far, ASEAN member states have largely kept their counsel on the various Indo-Pacific proposals. Recently, Singapore Foreign Minister, Dr. Vivian Balakrishnan remarked that “the so-called free and open Indo-Pacific has not yet fleshed out sufficient level of resolution ... [Singapore will] never sign on to anything unless we know exactly what it means.” Indeed, it would be far easier to evaluate the viability of the concept if there is clarity on the following issues: (a) What is the goal of Indo-Pacific?; (b) If the concept is offered as the foundation of a “new” regional order, what is the form and structure of this new entity (e.g. leadership, membership, decision-making structure)?; and (c) How would it be implemented?

Beyond these practical considerations, ASEAN member states seek clarity and assurances on some substantive concerns. Proponents of the concept – Australia, India, Japan and the US – have to convince the region that Indo-Pacific is not directed at China or any other party, and that this ambitious idea does not undermine ASEAN centrality or marginalise ASEAN-led processes. Furthermore, mindful that “Indo” refers to the Indian Ocean and not just India, how would its proponents bring all, if not some, of the 13 countries on the eastern coast of Africa, 11 Middle Eastern states and four South Asia sub-continent maritime states into the Indo-Pacific fold? Would this enlarged grouping which is bigger than the existing 18 East Asia Summit (EAS) members be more effective in fostering regional cooperation?

The fuzziness of the Indo-Pacific concept partly explains its low uptake. But this is not its only drawback. For starters, the concept appears to be going against the ASEAN grain of inclusiveness. How would China fit into this configuration when Beijing may be seen as not living up to the key tenets of the concept, especially in reference to its activities in the South China Sea? At the same time, the concept’s focus on broad principles masks the over-riding objective of pushing back against China’s ever-expanding influence in the region.

ASEAN member states are no doubt nervous about China’s regular flexing of its muscles, but it would be economic suicide for them to marginalise their largest trade partner and major investor. To ASEAN, a new regional order without Chinese participation would be short-lived. In the worst-case scenario, Indo-Pacific could risk drawing a line across the region between China’s allies and the concept’s supporters. Compelling ASEAN member states to make a binary choice – for or against Indo-Pacific – would put them in a diplomatic-strategic quandary. While each country can informally make known their strategic preference, ASEAN member states would find it more politically expedient not to express their position formally and openly.

It does not help that the Indo-Pacific’s proponents are also members of the Quadrilateral Security Dialogue (Quad), inadvertently giving the perception that Indo-Pacific and the Quad are one and the same in all but name. It would be more palatable for the region to support this initiative if the Indo-Pacific concept includes economic-social dimensions to balance the political-strategic sharp edges.

The Indo-Pacific concept remains a work in progress. The 25th ASEAN Regional Forum in August and the EAS in November would be opportunities for its proponents to provide further clarity. In the meantime, India’s accession to the Shanghai Cooperation Organisation (SCO) calls into question its reliability as a balancer against future Chinese hegemony. The US’ appetite to expend resources to uphold regional peace and security is in doubt too, especially in light of President Donald Trump’s ambivalent support for multilateralism. Secretary Mattis’ refusal to commit the US to the defence of the Philippines’ Scarborough Shoal does not inspire confidence in Washington’s security guarantee to its treaty allies in the region. Manila could reflect on the historic Trump-Kim summit with disenchantment as the US is more amenable to giving security guarantees to the Democratic People’s Republic of Korea’s (DPRK) while remaining non-committal in assisting a longstanding treaty ally.

To add to the uncertainty, Prime Minister Abe’s low approval rating (31% according to a May 2018 Mainichi Shimbun poll) also raises questions of FOIP’s sustainability in the event of a change in Japanese political leadership. In short, will today’s proponents of the concept remain committed to the initiative beyond the immediate period? More importantly, would they be willing to go beyond words and platitudes to realise and sustain the rules-based Indo-Pacific order?

On balance, the prospect for Indo-Pacific is not entirely gloomy. The six key elements of Prime Minister Modi’s proposal have broad support within ASEAN, and are mainly consistent with the ASEAN Charter and regional outlook. Indo-Pacific is also appealing to ASEAN to the extent that it gives the regional organisation and its member states wider strategic berth to navigate amidst power shifts in the region.

In retrospect, the proposition of connecting the Indian and Pacific oceans is not new to ASEAN. In fact, ASEAN has been ahead of the curve in laying the groundwork for an Indo-Pacific region – albeit without using the term – through the ASEAN Regional Forum (ARF) and the EAS. The 16-member Regional Comprehensive Economic Partnership (RCEP) that is being negotiated is the latest effort to enhance economic integration among Indo-Pacific economies. It might be worthwhile to consider using these ASEAN-led processes as incubators to seed and build support for a more geographically expansive but geopolitically inclusive Indo-Pacific. ❧

Dr. Tang Siew Mun is Head of the ASEAN Studies Centre, ISEAS-Yusof Ishak Institute.

Is ASEAN Ready for Renminbi?

Goh Khoon examines the RMB internationalisation and what it means for ASEAN.

China is the largest trading nation, the second largest economy, and has the third largest bond market in the world. The inclusion of the Renminbi (RMB) into the International Monetary Fund's Special Drawing Right (SDR) basket on 1 October 2016, officially placing it alongside the other major reserve currencies – US dollar, Euro, Japanese yen, Pound Sterling – was a major step forward in its internationalisation path.

However, there is still a long way to go as RMB remains under-represented in the international monetary system. As of end-2017, central banks (excluding the People's Bank of China or PBoC) held only 1.5% of their global foreign exchange reserves in RMB. This level is much lower than the RMB's weight of 10.92% in the SDR basket. RMB makes up just 1.62% of international payments in March 2018 according to data from SWIFT, down from a peak of 2.79% in August 2015. Foreign ownership of onshore China bonds and equities, albeit rising, remains low at 2% for both.

But the momentum is building. Progress in financial market reforms and further RMB internationalisation is set to accelerate. China-listed shares is set to join the MSCI Emerging Market Index in June 2018, while onshore China bonds will be included in the Bloomberg Barclays Global Aggregate Bond Index from April 2019. As a result, private sector asset managers will increasingly gain more exposure to onshore RMB assets.

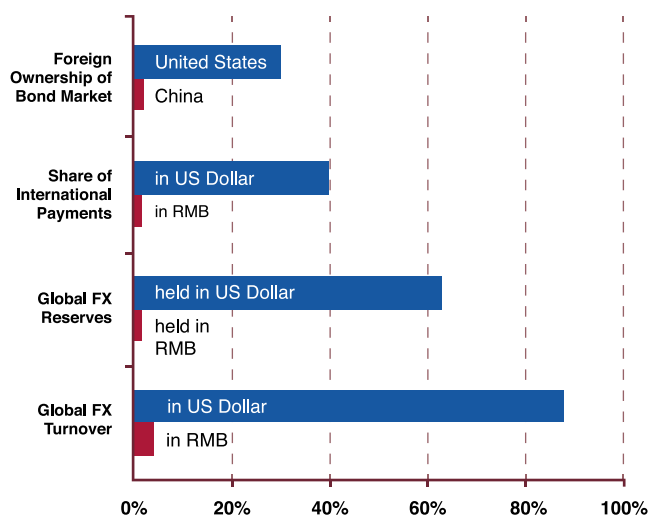
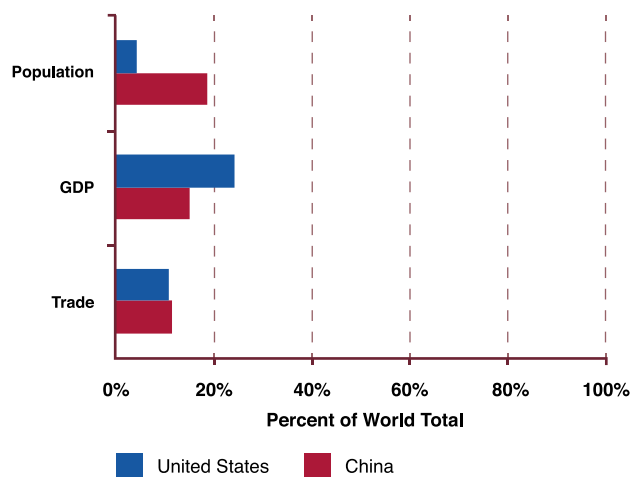
In addition, RMB-denominated oil contracts started trading at the end of March 2018. Over time, this could give rise to the Petroyuan as more oil trading is conducted in RMB. Dalian Commodity Exchange also started allowing foreign investors to trade iron ore futures in May 2018. As China is the world's largest buyer of many commodities, these developments will boost the role of RMB in pricing and settling commodity trades.

The Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative (BRI) are also key to promoting greater use of RMB in major infrastructure projects. RMB bilateral swap agreements between the PBoC and the central banks from the four largest ASEAN economies – Indonesia, Thailand, Singapore and Malaysia – help ensure sufficient RMB liquidity to facilitate trade settlement.

The ability to transact cross-border flows in local currency not only helps to reduce transaction costs, but also lower currency mismatch risks for corporate and financial institutions. A well-developed financial market can help boost economic growth through more efficient

allocation of capital. As China continues to rebalance its economy towards consumption-driven growth, there may come a time when it starts to persistently run current account deficits. The ability to finance this deficit in RMB will make China's financial system more resilient and less susceptible to foreign exchange volatility.

RMB internationalisation has implications not only for how ASEAN deals with China on trade and investment, but also potentially on the region's currencies.



Source: BIS, Haver, IMF, SWIFT and ANZ Research

ASEAN has a free trade agreement with China which came into force in 2010. Since then, bilateral trade has increased

almost two and a half times to nearly US\$520 billion in 2017. Most of this trade is still conducted in the US dollar, as businesses in ASEAN have had little need or desire to hold RMB.

At present, most corporates would place excess RMB in offshore deposits. But as more options for the use of RMB become available – from investing in China onshore financial assets to purchasing oil – interest in using the currency for trade should increase. Eventually, this should help further develop and enhance direct RMB trading with the major ASEAN currencies, which will help lower conversion and administrative costs.

One important consideration for transacting in RMB is the stability of the currency. Our calculation suggests that the cross exchange rate of ASEAN currencies against RMB for the past two years is a lot less volatile than that against the US dollar. Following the RMB exchange rate reform in August 2015, Chinese authorities have made improvements to the exchange rate regime. RMB is now no longer heavily managed as the PBoC has refrained from active foreign exchange intervention since early 2017, allowing the currency to be more market determined.

The opening up of China's financial markets is in part to attract foreign inflows to ensure RMB can remain stable, even as China continues to move towards opening up their capital account. Stability in RMB, alongside its greater usage in trade and capital flows between China and ASEAN, can also help to provide stability to the currencies in ASEAN as well. The US dollar has long had a dominant role in influencing ASEAN currencies, but in recent years RMB has started to play a greater role as the other anchor.

Further RMB internationalisation and wider adoption of RMB in the ASEAN region for trade and capital flow

settlement will see ASEAN currencies further delink from the US dollar, and become more anchored to RMB instead. While this will help to reduce the transmission of shocks emanating from the US, especially through the monetary policy channel, it will nevertheless expose ASEAN to greater shocks from China instead.

Seen from a positive angle, the increased economic linkages between China and ASEAN mean that their respective business cycles will become more synchronised, in which case having RMB as an anchor would help ASEAN in smoothing fluctuations in their business cycles. Since China is a larger trading partner for ASEAN and also a major foreign investor in this region, it makes sense to transact directly in RMB instead of routing through a third party currency, i.e., the US dollar.

The path of RMB internationalisation has not always been smooth, but there is no question about China's commitment to seeing it through. While the US dollar will remain the pre-eminent reserve currency for some time, RMB is set to play a larger role in the international financial and monetary system as well as in the global trade regime. The ASEAN economies, which have progressively integrated with China's economy through global supply chains via the trade channel, will increasingly become more inter-linked with China's financial system, further reducing the region's reliance on the US. ASEAN should gear up to tap into the new opportunities offered by the RMB's gradual internationalisation, and at the same time get prepared for the strategic implications from its deepening trade and financial interdependence with, or dependency on China. ❧

Mr. Goh Khoon is Head of Asia Research at Australia and New Zealand Banking Group Limited (ANZ).



CNBC

ASEAN Aviation Takes to the Sky

Shukor Yusof examines the state of the aviation industry in ASEAN.



KLIA 2 Airport, dedicated to low-cost carriers

Beetify

Strong economic growth, a growing middle class within a community of 640 million people, rising tourism and migration are key factors sustaining the increase in air connectivity within ASEAN.

Southeast Asia's aviation sector has undergone structural changes, with low-cost carriers (LCCs) carrying the growth momentum in the region. In 2017 ASEAN's LCC fleet expanded by 10% and will soon exceed 700 planes. Malaysia's AirAsia, by virtue of having the first mover advantage, is the de facto airline of the region, with an extensive network in almost all markets. With 200 aircraft, it is also among ASEAN's largest airlines in terms of fleet size.

Endau Analytics has identified three unique innovations that are leading the transformation in ASEAN.

First, faced with restrictions of bilateral agreements in the region, Southeast Asian carriers have formed independent cross-border joint venture LCCs, allowing for the creation of regional, multilateral brands. Malaysia's AirAsia, the largest discount carrier in the region, has co-branded subsidiaries in Indonesia, the Philippines and Thailand. The company has also inked agreements with partners in China and Vietnam to start joint venture airlines in those countries. Australia-based LCC Jetstar has set up affiliates in both Singapore and Vietnam.

Second, full-service carriers (FSCs) have established low-cost subsidiaries, and used a multiple-brand strategy successfully to increase their market presence in the region. Australia's Qantas Airways first adopted the model and managed to generate revenues without cannibalising

the existing premium brand. Since then, the model has been adopted, with varying degrees of success, by other airlines including Malaysia Airlines, Singapore Airlines and Thai Airways International.

Five legacy carriers, which are also FSCs, are now operating low-cost subsidiaries, namely Garuda Indonesia (Citilink), Malaysia Airlines (Firefly), Philippine Airlines (Philippine Express), Singapore Airlines (Scoot) and Thai Airways (Nok Air). Low-cost subsidiary brands allow FSCs to compete better with LCCs and meet the needs of ASEAN's increasingly price sensitive middle-class passenger market profile.

Third, while other LCCs in other parts of the world focus more on short-haul, intra-regional routes, Southeast Asian carriers have established long-haul, low-cost operations. AirAsia X and Scoot are the major carriers that have formed long-haul airlines. Both AirAsia X and Scoot fly to Honolulu, Hawaii, via Osaka while Scoot also flies direct to Athens, Greece, using Boeing 787 Dreamliner aircraft. Southeast Asia now has seven long-haul LCCs. The twin-aisle segment grew at the fastest rate in 2016, at almost 40%. There are currently some 60 widebody aircraft operated by seven Southeast Asian LCCs; five years ago there were just 35, run by five ASEAN discount airlines.

ASEAN Single Aviation Market

The ASEAN Single Aviation Market (ASAM), also known as the ASEAN Open Sky Policy, came into effect on 1 January 2015. It was not fully ratified by all member states until 2016, lacking support notably from Indonesia. Jakarta was worried such a move would allow carriers from Malaysia and Singapore to dominate the international market between Indonesia and the two countries.

Indonesia, Malaysia, the Philippines and Thailand have all deregulated their respective domestic markets, and this has attracted several new entrants. The adoption of fifth freedom rights, which allow an airline to fly between foreign countries as part of services connecting the airline's own country, has helped to alleviate ASEAN's aviation woes. Fifth freedom rights give airlines greater flexibility in planning networks in regions in which individual routes have thin traffic flows.

ASAM has brought about reduction in trade barriers that resulted in lower airfares. This has benefitted the tourism industry and stimulated business travel and

airfreight logistics, further fuelling economic growth. The main beneficiaries of ASAM are AirAsia, Cebu Pacific and Scoot, with access to new routes, thus leading to higher traffic.

Sentiments amongst each ASEAN member state towards a more liberalised market remain mixed, as member states have varying development levels in the aviation industry. While Malaysia and Singapore are quick to embrace further liberalisation, others such as Indonesia and the Philippines prefer to move slowly.

On balance, FSCs have lost market share as a result of ASAM. Air travel within ASEAN is dominated by LCCs, whose penetration rate in the region is above 55% (and higher for Indonesia, Malaysia, the Philippines and Vietnam) after steady growth in the past decade. For example, discount airline VietJet – whose IPO in February 2017 was Vietnam’s largest – has not only unseated Vietnam Airlines as the biggest (43% of the domestic market) but is giving AirAsia and Lion Air a run for their money, with load factors consistently averaging over 85%.

Air travel demands

ASEAN’s main air hubs are Singapore’s Changi and Bangkok’s Suvarnabhumi. Singapore has invested heavily in airport infrastructure, turning Changi into the world’s best airport, thereby giving the island state a big competitive advantage. The operator of the airport – Changi Airport Group – is close to completing a SG\$1.7 billion commercial development called “Jewel”, boosting Changi’s attractiveness as a hub for transit travellers. A fifth terminal, costing “tens of billions of dollars,” is also being constructed.

Malaysia, too, has poured massive amounts into developing the Kuala Lumpur International Airport (KLIA) and in 2014, opened a new low-cost terminal called KLIA2, with a capacity of 25 million passengers annually.

The region’s other airports, especially those in Indonesia and the Philippines, are in dire need of upgrade. Jakarta’s Soekarno-Hatta Airport, which has been long plagued by over-capacity, will see expansions in the next five years. As a major part of a massive SG\$9.5 billion investment up to 2023, the expansions include the building of a fourth terminal and a third runway, and the revitalisation of Terminals 1 and 2, to keep up with exceptionally strong passenger growth. Indonesia’s National Air Carriers Association noted passenger traffic grew 15% year-on-year in 2016.

In the Philippines over 95% of international traffic passes through Ninoy Aquino International Airport in Manila (NAIA). The airport is constrained by inadequate facilities for transit and transfer passengers. It has the dubious reputation of being one of the world’s worst airports. In early 2018, a proposal was made by seven Philippine conglomerates to modernise and expand NAIA with the estimate costing of US\$6.7 billion.

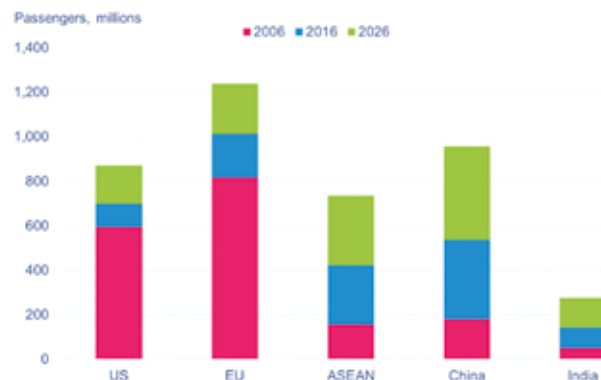
Rapid growth in passenger traffic has inevitably caused concern for airline and airport safety and security. The

main issues with aviation safety in ASEAN are lack of government oversight and a lax safety culture in certain countries. For example, the US Federal Aviation Administration has singled out Indonesia as not meeting the appropriate safety standards.

Following the disappearance of Malaysia Airlines MH370 and the crash of AirAsia’s QZ8501, and several non-fatal mishaps within the region, there have inevitably been questions over the safety of ASEAN airlines. However, ASEAN authorities have made gradual but significant progress in tackling this negative perception.

Air travel demand forecasts robust for Asia

ASEAN has and will continue to significantly contribute to shift towards Asia



Source: IATA Economics/IATA Tourism Economics

Reinvent business model, review competencies

LCCs are expected to gain up to 70% market share in ASEAN by 2030, if not sooner. As such, the role of flag carriers in ASEAN today has become less important. With the exception of Singapore Airlines (SIA), other legacy carriers such as Malaysia Airlines, Garuda Indonesia and Thai Airways International have seen an erosion not just of its market capitalisation, but more importantly, profits due to the changing market dynamics.

SIA, with a market capitalisation of just over SG\$14 billion, has restructured its business model faster than the rest. It is in the midst of merging its regional arm Silkair into the parent airline while its two discount subsidiaries – Scoot and Tigerair – are now housed under Budget Aviation Holdings.

While merger and acquisition (M&A) activity has been active in North America and Europe, the same cannot be said of ASEAN. This is due to regulations that discourage the presence of non-national airlines (other than LCCs).

The challenge, for all flag carriers, is to continuously stay nimble and adapt to constant changes in the industry. They must either reinvent a new business model or develop new competencies to compete against the LCCs. 🚧

Mr. Shukor Yusof is the founder of aviation and economics research outfit Endau Analytics. He blogs at www.endauanalytics.wordpress.com.

Aviation Industry in ASEAN

GENERAL

Southeast Asia's share in the global seat capacity increased from: ¹



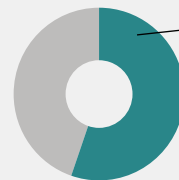
Air passenger traffic in Southeast Asia grew by approximately: ⁴



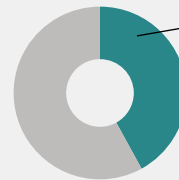
Southeast Asian countries on the list of fastest growing countries in the world for air passenger traffic in 2016-2040: ⁵

- 1st** Vietnam (8.5%)
- 7th** Indonesia (6.4%)
- 9th** Malaysia (5.9%)
- 10th** Philippines (5.7%)

Air passenger traffic **growth** in Southeast Asia is forecast at **6.2%** outpacing the **global growth rate** by **1.5%** from 2017-2036. ¹



Cebu Pacific has a **55.3%** share of the Philippine domestic market in 2017. ⁷



VietJet Air accounts for **42%** of Vietnam's domestic airline market in 2016. ³



International LCC seats to and from Thailand nearly tripled from: ⁴



LOW-COST CARRIERS

The share of low-cost carriers in the ASEAN aviation market increased from: ²



Scoot accounts for **41%** share of LCC capacity and **13%** share of total seat capacity in Singapore. ⁴

FLEET

Southeast Asia's **top three** airline groups in terms of fleet size as of 1 Jan 2018: ⁴

		Aircraft:
1st	Lion Air 	294 
2nd	Garuda Indonesia 	192 
3rd	SINGAPORE AIRLINES 	191 



The Royal Brunei Airlines is expected to grow its fleet by **40%** in 2018. ⁴

As of mid-2017, LCC groups in Southeast Asia have placed nearly **1,300** airplane orders,¹ or



BUSIEST ROUTES

ASEAN countries on the list of world’s busiest international flight route in March 2017 – February 2018.⁸

- 1st** Kuala Lumpur – Singapore (30,537 flights)
- 3rd** Jakarta – Singapore (27,304 flights)
- 5th** Jakarta – Kuala Lumpur (19,849 flights)
- 11th** Bangkok Suvarnabhumi – Singapore (14,859 flights)

AIRPORTS



ASEAN countries on the list of world’s 20 busiest airports in terms of international passenger traffic in 2017:⁶

- 6th** Changi, Singapore (61.6 million)
- 9th** Suvarnabhumi, Thailand (48.8 million)
- 12th** Kuala Lumpur, Malaysia (42.4 million)

Busiest airports in Southeast Asia in terms of passenger traffic in 2017:⁶

- 1st** Soekarno-Hatta (63 million)
- 2nd** Changi (62.2 million)
- 3rd** Bangkok Suvarnabhumi (60.9 million)



US\$60 billion would be needed for investment in airports across ASEAN in 2016-2030 to maintain economic growth.⁹



Singapore’s Changi Airport:

the world’s **12th** busiest airport in terms of cargo volume (2.16 metric tonnes) in 2017.⁶

named as the **World’s Best Airport** by air travellers for the **sixth consecutive year** (2012-2018).¹¹

MAINTENANCE, REPAIR AND OVERHAUL (MRO)



Singapore accounts for



which generates an annual revenue of **US\$5.8 billion**, and employs **more than 18,000** employees.¹²

Malaysia’s aerospace industry, of which MRO is a key sub-sector, generated an annual revenue of **RM12.7 billion** and has more than **21,000** employees.¹³

The MRO sector in **Indonesia** generated **US\$900 million** revenues in 2015 which is expected to rise to **US\$2 billion** by 2020.¹²

AVIATION CONTRIBUTION



Air connectivity contributed to the growth of the ASEAN tourism industry at annual average rate of **10%** in 2005-2015.²

Aviation and related activities contribute:

1.2 million jobs and **US\$9.2 billion** to Philippines’ GDP

2 million jobs and **US\$29 billion** to Thailand’s GDP¹⁴

World’s Top 100 Airlines:¹⁰



- 2nd** Singapore Airlines
- 10th** Garuda Indonesia
- 11th** Thai Airways
- 21st** Bangkok Airways
- 26th** AirAsia
- 31st** Malaysia Airlines
- 45th** AirAsia X
- 47th** Vietnam Airlines
- 56th** SilkAir
- 60th** Scoot
- 61st** Jetstar Asia
- 67th** Philippine Airlines
- 92th** Royal Brunei Airlines

1 Boeing Current Market Outlook, 2017. 2 Centre for Aviation, 2015. 3 Centre for Aviation, 2017. 4 Centre for Aviation, 2018. 5 Airports Council International, 2017. 6 Airports Council International, 2018. 7 Philippines Civil Aeronautics Board, 2017. 8 OAG, 2018. 9 McKinsey Global Institute, 2016. 10 Skytrax, 2017. 11 Skytrax, 2018. 12 ASEAN Secretariat, 2016. 13 Malaysia MITI, 2017. 14 International Air Transport Association, 2017.

Business with a Vision

Mr. Douglas Foo shares with us how Sakae Sushi, in its journey to build a global brand, has expanded its footprint across the ASEAN region.

AF: Sushi is synonymous with Japan, and yet Sakae Sushi, a Singaporean brand, is offering high-quality Japanese cuisine across the region. How did you start and grow with Sakae Sushi, and what is Sakae's business concept?

DOUGLAS FOO: To start with, we decided to do something with healthy food. We learned from analysis on how nutrients affect human body in order to provide a naturally healthy dining choice. But dining is also a culture, and we want to provide a pleasant dining experience. So Japanese food fit the bill very well.

Secondly, even today there is no such global brand for Japanese food as Starbucks for coffee, McDonalds for hamburgers, and KFC for fried chicken. We want to build the next Starbucks for sushi. That was where we started with Sakae Sushi, which means “drink Sake, eat Sushi.” We want to bring high-quality Japanese food to the masses at affordable prices. Technology is a strong enabler for our business model. We were ahead of the curve by using the interactive menu since 1999. It received a patent in 2005, the first in the world.

Over time, Sakae has diversified its business line. In 2014, we set up Sakae Corporate Advisory to help other enterprises to build their global strategy and add value to their current businesses. In 2015, we ventured into Sakae Fintech, Sakae Blockchain, and now Sakae Cybersecurity. Sakae also does a lot on data analytics. In the longer term, we want to build a compact whole food service that connects aqua and agro farms to the F&B outlets in the frontline. It will reduce a lot of carbon footprint since you harvest the fish and vegetables upon an order. We want to revolutionise the Farm-to-Table concept, and use digital capacity to build the future of food.

AF: The green frog mascot has become a popular symbol of Sakae Sushi. Could you share with us the rationale behind its design?

DOUGLAS FOO: We want to present a mascot that is globally recognised and attractive to young people. The green frog in many cultures signifies a new beginning. Green is our corporate colour, a symbol of sustainable development and healthy dining. The bottom of the logo looks like a rice bowl, meaning that you will never go hungry. At the heart of the logo is the golden ingot for prosperity and good business. As a small company with a grand dream, we need all the good elements to be with us.



The frog is also a metaphor for our corporate body. Some of us are the eyes, planning the strategy; other colleagues who serve customers at the frontline are the smile; and the rest form the body – the production, procurement and administration. As we come and strive together, the frog moves in leaps and bounds. We want to put 30,000 frog prints across the world. It has been our target since the beginning and ASEAN is a great place to begin this quest.

AF: Freshness of the sea products is key to success in the sushi business. Could you walk us through how tuna makes its way from source countries to Sakae Sushi dining tables?

DOUGLAS FOO: In fact, it is part of the global supply chain. Our tuna comes in from Australia and Mexico, and many of our ingredients are imported from Japan. In today's world, different countries have competitive edges to produce different things, and that is the essence of international free trade. Trying to do everything yourself is not an optimal and responsible usage of resources which are limited globally. To build 30,000 stores under a global brand, we need steady sufficient supplies from across the world. That is not easy since fish take time to grow. Therefore, we have built up a pipeline of human capital, real estate for business locations, and resources around the world to ensure safe and consistent supplies. In this respect, the ASEAN Single Window would go a long way in helping businesses such as Sakae to strengthen our supply chain.

AF: Sakae Sushi has become a well-known brand with footprint across many ASEAN countries. Could you share with us your 'going regional' experience and your most memorable moment in that course?

DOUGLAS FOO: We started going out in the late 1990s with the first shop opened in 1997 in Jakarta. Sakae entered Jakarta when the city was in a chaos and there were many security issues. I vividly remember on *The Straits Times'* front page, there were photos of people jumping off burning buildings. On my flight to Jakarta, it felt like a private jet because the whole plane was empty. That experience still sticks in my mind. No one was going to Jakarta, and I was heading there for a new venture. Upon arrival, I realised that only certain parts of the city were in disorder. In the

rest, life went on with business as usual. Back in Singapore, we shared with many enterprises here that that things were better than meets the eyes. So from Jakarta, we extended to Bangkok and then other places in Malaysia, the Philippines, Vietnam and Myanmar.

AF: How has ASEAN been that facilitating factor in Sakae's regional journey?

DOUGLAS FOO: My involvement in ASEAN was in the later part, not at the beginning in Jakarta or Bangkok. At that point, our outbound investment consideration was more about country-specific than about ASEAN as an integrated market. When the whole narrative of ASEAN got mooted in 1967, peace and stability was the principal concern, and economics only secondary, because without stability, countries could not focus on economic development. Then, the ASEAN Economic Community (AEC) was launched in 2015 and now continued with the AEC Blueprint 2025. From my perspective, we can only fully realise the AEC potentials if ASEAN enterprises get to know each other better and work closely together, maybe on small-scale projects in the beginning which can be expanded. So it is a journey that has just begun. But it holds a lot of potential for Singapore businesses, given our small market base at home.

From the vantage point of a manufacturer, ASEAN makes a perfect business model. Ten ASEAN member states are at various stages of development and have different competitive advantages. Each of them can manufacture different component parts that can be assembled into a single final product. I am currently serving as President of the Singapore Manufacturing Federation. Manufacturing accounts for 20% of Singapore's GDP but land and labour – two out of three key production factors – are tremendously challenging for Singapore. How do we continue our robust manufacturing sector if we have very little of both factors? So the Federation in the last few years has promoted ASEAN both as a manufacturing hub and consumption market for all products made in ASEAN.

AF: To what extent have regional economic commitments made by ASEAN member governments trickled down to the domestic investment regimes to benefit companies like yours?

DOUGLAS FOO: The AEC is a work in progress and how to operationalise it at the business level remains a key challenge. The government-to-government framework seldom gets things operationalised automatically. That is where the ASEAN Business Advisory Council (ABAC) comes in to 'sell' the AEC's potential benefits to the business. As ABAC's work progressed over the years, the ASEAN narrative has become more common and gained greater traction compared to ten years ago. As all ten member states align themselves and traction among the business comes through, digital technology will enable greater ease of communications across borders and bring everybody closer together. Upon that momentum, things will accelerate going forward.

AF: You mentioned Sakae Fintech and Sakae Blockchain. What opportunities do you see your company could leverage in this new field?

DOUGLAS FOO: Business models are changing dramatically. There are large transportation companies that do not own a single vehicle. The world's biggest accommodation system does not own a single room. These are cross-technology businesses that marry off-line accommodation and transportation services with digital solutions. For us, while building Sakae Sushi to become a global brand, we know that the returns from this brick-and-mortar model cannot have exponential growth like a digital one. While diversifying our revenue streams, we started looking at Fintech, where we use technology to bring wealth and financial management to the masses. That is how we sustain growth in the longer term so that the stakeholders within the whole eco-system can all benefit.

Blockchain also creates an opportunity for Sakae to grow our business organisation in which everyone can be part of and benefit from the community. Because nobody owns the blockchain – it is a ledger distributed to the entire community. We want to use that to manage our whole supply chain, and eventually even our business-to-business (B2B) and business-to-customer (B2C) transactions. It is a very beginning for us, but the beauty of this technology is its potential levelling effect. It can create opportunities for progressive and inclusive growth for the whole ASEAN Community where no one should be left behind.

AF: It's happening faster than we can grasp, and cybersecurity concerns come in. It is a priority issue under Singapore's ASEAN Chairmanship with the theme of Resilience and Innovation. What is Sakae doing for cybersecurity?

DOUGLAS FOO: We have a Sakae Cybersecurity Business Unit which can help enterprises to go digital with security safeguards. In ASEAN, governments, militaries and financial institutions are big on cybersecurity but enterprises are just beginning to grasp the challenge. Furthermore, ASEAN as a manufacturing hub can only happen if the production networks are digitally and seamlessly connected. Our niche is cybersecurity needs of SMEs in ASEAN. When they go digital, Sakae Cybersecurity services can look after their needs. 🍷

Mr. Douglas Foo is the Founder and Chairman of Sakae Holdings Ltd. He is also the President of the Singapore Manufacturing Federation (SMF), and Singapore's Representative to the ASEAN Business Advisory Council (ASEAN-BAC). Mr. Foo is recipient of the Singapore Youth Award (2003, 2008), ASEAN Youth Award 2004, and ASEAN-China Young Entrepreneur Award 2011. He was also awarded the Public Service Star Award in 2013 from the President of the Republic of Singapore. In 2015, he was named the Entrepreneur of the Year by Asia Corporate Excellence and Sustainability (ACES).

Unlocking ASEAN E-commerce Potentials

Chua Soon Ghee urges policies and measures that enable robust and fair e-commerce in ASEAN.

E-commerce, or online retail, is currently a US\$11 billion industry in ASEAN, and is expected to grow to almost US\$90 billion by 2025, according to Google and Temasek's e-Conomy SEA Spotlight 2017 report. This includes sales of first-hand goods by businesses online through their own websites, or through third-party platforms such as Lazada or Alibaba. If we include consumer-to-consumer sales through social media or platforms like Facebook, the e-commerce market size will be even bigger.

E-commerce has had a major impact in large markets such as the US and China in terms of disrupting existing retailers. That impact is gradually being felt in Southeast Asia as well, as seen in slowing offline sales growth and significant online sales growth. E-commerce is expected to continue with its significant growth going forward (25-40% per year) as the ASEAN population is young and tech-savvy, and rising incomes and growing ease with Internet transactions will drive volume.

The net impact of e-commerce is expected to be hugely positive, not just in terms of lower prices in general for consumers and buyers. E-commerce is an avenue for SMEs (and to some extent individual sellers) to reach a much larger regional or even global market and grow significantly. E-commerce also allows companies to increase their productivity, as they are able to sell more and increase revenue without adding a lot more labour or other costs.

In addition, e-commerce investments are helping to create jobs and new industries, particularly in the digital and Internet space, and catalysing the rapid development of the payment and logistics sectors. For example, a study by A.T. Kearney for a Southeast Asian economy showed that e-commerce can help to increase retail productivity by 80%, boost potential market reach of SMEs by more than 100 times, attract more than US\$10 billion in additional investments and create 15,000 new jobs. We are also seeing the rapid emergence of online payment solutions such as Alipay and GoPay, as well as the growth of last-mile solutions providers such as NinjaVan, GoJek Delivery and aCommerce.

Barriers to e-commerce in Southeast Asia

E-commerce has thus been a focus of the recent ASEAN integration efforts under the ASEAN Economic Community 2025. For e-commerce to grow significantly,

the 2014 study *Lifting the Barriers to E-Commerce in ASEAN* by A.T. Kearney and CIMB ASEAN Research Institute (CARI) identified five barriers that need to be overcome. They are (a) limited and costly broadband access in some member states hampering online activities, (b) limited local offers that will appeal to consumers and drive e-commerce take-up, (c) fear of online security and disputes, (d) limited e-payment and online payment options given low banking penetration in some member states, and (e) high delivery costs related to immature logistics particularly in the last-mile.

The ASEAN initiatives on e-commerce thus far have aimed to address the above barriers. For example, there are sub-initiatives on boosting broadband infrastructure development through identification of priority areas for investment, as well as improving logistics services in the ASEAN region through coordination of ASEAN sectoral bodies and logistics players. ASEAN member states have also focused efforts on developing ASEAN-wide frameworks on cybersecurity, authentication for payment and trade documents, consumer protection and dispute resolution so as to ensure a level playing field for all online service providers. These are institutional and policy measures that, if adopted ASEAN-wide, will help to address many of the barriers to further uptake of e-commerce.

However, many of these ASEAN frameworks and recommendations will take time and effort to translate into actual policies by member states on the ground. ASEAN works by consensus, and regional agreements can only be effected through national implementation and enforcement. Therefore, we are likely to continue to see differing levels of maturity with regard to e-commerce policies across the region for the next few years, as member states proceed with e-commerce related legislations at different paces.

In the meantime, the private sector has not been sitting still as significant activities and investments have been undertaken in the e-commerce space in the last few years by large regional and global players. Investments have been in the form of platforms (e-commerce, payment) and infrastructure (logistics, warehouse), as well as subsidies given to consumers to entice them into online transactions. These investments have helped to fuel e-commerce growth, and e-commerce players are compelled to continually raise funds. Some players such as Rakuten and Axiata/SK Planet have withdrawn from the B2C (Business-to-

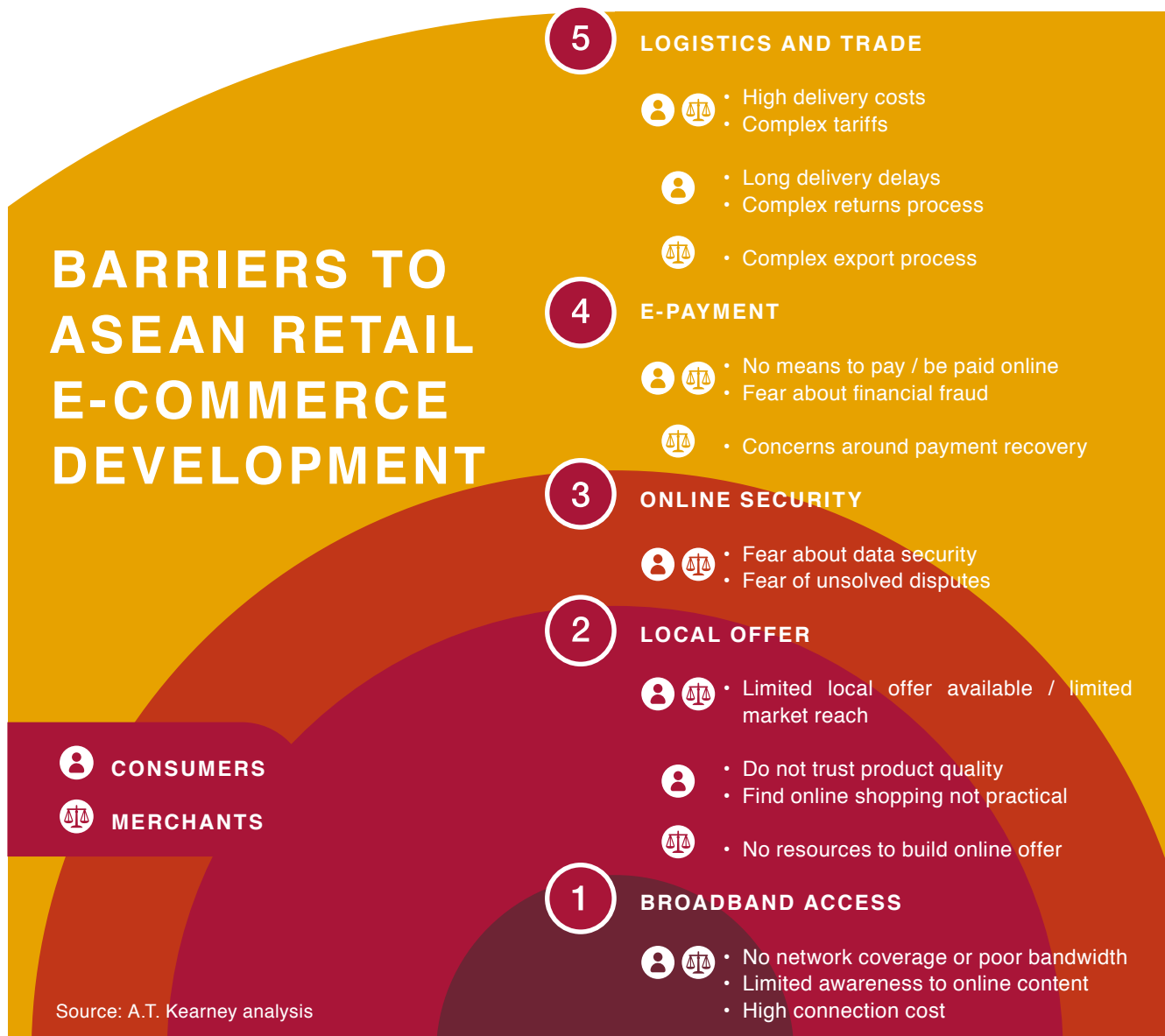
Customer) scene to cut losses. Meanwhile, the mass B2C market is being consolidated towards large international players such as Alibaba, Amazon and Zalora, and a few regional and local players such as Shopee and Tokopedia in Indonesia. The market is expected to consolidate further, as funds in the hundreds of millions and even billions from investors have tended to flow towards the largest players, allowing them to continue to grow faster than less-well-funded competitors.

Given that e-commerce is largely a scale game based on network effects, it will be hard to avoid situations of oligopolies in various ASEAN markets. The key will be to ensure that the e-commerce space remain open to new players with limited entry barriers. For example, there will always be niche areas such as grocery or luxury goods, and adjacent spaces such as C2C (Customer-to-Customer) and payments, where innovative players can thrive alongside the large B2C marketplaces. In addition, policy makers should focus on consumer protection for goods

sold online and have policies to deal with issues related to fraud, disputes, online security and data protection. Increasingly, governments will also have to figure out how to tax transactions appropriately as more offline retail (which is usually taxed) moves online. This is to ensure that e-commerce and traditional retail have a level playing field, and that governments (and their tax paying constituents) get a fair share of the economic activities to fund national budgets.

E-commerce has a bright future in ASEAN. It is up to policymakers to ensure that measures are in place to ensure fair competition, consumer protection and investments to bring benefits to all. 🇲🇵

Mr. Chua Soon Ghee is Partner, Head of Southeast Asia Unit, A.T. Kearney.



E-commerce in ASEAN: Views from the Businesses

ASEANFocus invites six prominent players in three key aspects of the e-commerce ecosystem – platforms, logistics and e-payments – to share perspectives on the prospects and challenges of e-commerce in ASEAN.

- ☆ **Gladys Chun**, General Counsel, Lazada Group
- ☆ **Santitarn Sathirathai**, Group Chief Economist, Shopee, SEA
- ☆ **Muhammad Fikri**, Head of Community Management, Bukalapak
- ☆ **Lai Chang Wen**, CEO, Ninja Van
- ☆ **Au Kah Soon**, CEO, Get Go Global
- ☆ **Ho Suu Wei**, Southeast Asia Government Relations Director, PayPal

E-COMMERCE PLATFORMS

What role does e-commerce play in your company's business model?

LAZADA: Lazada is present in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The online shopping platform currently has over 300 million products from 155,000 sellers and 3,000 brands, accessible to millions of consumers in the region through the Lazada mobile app or website. We partner with entrepreneurs and SMEs to bring them onboard and provide them with the knowledge, tools and solutions to grow their businesses online. Lazada also runs a logistics network comprising its owned-and-operated infrastructure (such as fulfilment centres, last-mile delivery fleet) and third-party logistics partners.

SHOPEE: Our Shopee e-commerce platform is a core business of Sea, along with digital entertainment and digital financial services. Our mission is to use technology to empower entrepreneurs and consumers. Shopee connects and supports buyers and sellers both within and across economies. Launched in 2015, Shopee's gross merchandise value (GMV) reached around US\$2 billion in the first quarter of 2018, a 200% year-on-year increase, while gross orders increased by 217% to reach 111.4 million. The growing platform enables consumers to purchase a wide selection of products wherever they are, and helps entrepreneurs, many of which are small businesses, to access national and international markets.

BUKALAPAK: E-commerce is the driving force of Bukalapak, accounting for 90% of our business. Through e-commerce, Bukalapak has been promoting domestic SMEs, opening opportunities for them to grow not only in Indonesia but also the ASEAN region. With the Master Plan for ASEAN Connectivity (MPAC) 2025 which would

help alleviate logistical obstacles to cross-border trade, Bukalapak is confident that e-commerce will play a greater role in the economy of Indonesia and ASEAN.

What are the opportunities for e-commerce in ASEAN?

LAZADA: We estimate that 150-200 million Southeast Asians will enter middle class in the coming years. Consumer education and engagement help us shape their thinking and level their playing field with other consumers in e-commerce-savvy cities. For example, Lazada has created engaging educational content and online communities to provide easy access to seller information. We also integrate social media platforms with content by opinion leaders and influencers to increase customer interaction. The data and insights from e-commerce businesses like Lazada help us understand consumers better to give them a more personalised experience.

SHOPEE: With 158 million middle-class consumers, ASEAN is seen as the next e-commerce frontier. Key supportive factors for ASEAN's e-commerce growth include a rapidly growing middle-class, burgeoning young population, and relatively weak offline retail infrastructure especially outside first-tier cities. Internet penetration rates in the region are rising fast, with many users experiencing the internet for the first time through mobile phones. Shopee has been a key beneficiary of this tailwind. Our mobile-first approach has attracted many online ASEAN consumers who bypass desktops straight to mobile shopping. E-tailing penetration in the region however remains less than 2% of total retail sales, a tenth of e-commerce penetration in China.

BUKALAPAK: With e-commerce, our local SMEs can expand into the ASEAN region which holds a lot of potential and appeal with high economic growth and young populations. We are especially interested in the MPAC which we hope would unite ASEAN through digital connectivity. Bukalapak plans to further develop its business both across Indonesia and in regional countries. We are developing our research and development, and working on Artificial Intelligence (AI) and drone technology to address geographical and distribution challenges.

What do you think of the existing government policies on e-commerce?

LAZADA: The governments in Southeast Asia are supportive of e-commerce and want to do more. They are recognising its explosive growth – which is transforming business models and the nature of international trade – and that the consumer is at the centre driving this phenomenon. We welcome more dialogue with government bodies to help provide a better understanding of the challenges and opportunities for e-commerce businesses and to remove barriers to ensure viable e-commerce growth in the region.

SHOPEE: ASEAN policymakers have increasingly recognised the transformative power of e-commerce and technology for SMEs and consumers in the region, and have rolled out policy initiatives to support e-commerce. For example, the Indonesian government has issued an e-commerce roadmap with the aim to become the largest digital economy in Southeast Asia by 2020. Thailand has a program to install high-speed internet for over 75,000 villages which helps villagers and local businesses leverage on e-commerce channels. Singapore's SMEsGoDigital Programme helps improve SMEs' digital readiness and supports SMEs' scale-up by funding the adoption of pre-approved technology solutions. Singapore and Thailand are also promoting e-payments such as Paynow and Promptpay, developing their own QR code standards, and planning to implement a National Digital Identity system.

BUKALAPAK: The Indonesian government has made efforts to support e-commerce. One such initiative is the establishment of Bonded Logistics Centres (PLBs) in the country, including a logistics centre for e-commerce goods. Warehouses of imported goods and logistics areas designated for PLBs are not required to pay import duties in advance. Import duties will be charged if the goods are sold domestically. To protect domestic production, e-commerce imported goods passing through PLB will no longer get import duty exemption, even when the value is under US\$100. PLBs support local SMEs, especially those who do not have a warehouse to store and distribute goods abroad.

What challenges do e-commerce businesses face in ASEAN? Do you have any solution to address these challenges?

LAZADA: Harmonisation of rules on data flow and consumer protection – while appropriately protecting consumer privacy, national security and trade secrets – can promote rapid development of a data-based ASEAN economy. It will help reduce market barriers and costs for SMEs to enter e-commerce and ensure viability of e-commerce business. Besides, we suggest providing transparency of cross-border trade requirements including in product standards, licensing, registration; streamlining processes; and promoting mutual recognition and/or harmonisation of product standards and testing procedures. It will address the complexity of assessing, classifying and declaring, in particular low-value consignments at the border, and make compliance easier.

Given the high mobile phone usage in Southeast Asia, digital payment is a win for consumers. E-commerce

platforms should help usher consumers into these frictionless payments. Our e-wallet in Malaysia, the Philippines, Singapore and Thailand offers a free, convenient and seamless way for users to pay for their purchases on Lazada. The launch of the e-wallet is a significant step that helps customers get over the initial barriers of adoption and form new habits.

SHOPEE: E-commerce can help reduce “distance” between sellers and buyers and improve access to information on product pricing and variety but it does not on its own eliminate several traditional barriers to trade, including logistics, payment and regulations. Getting products delivered to customers in a cost-effective and timely manner remains a challenge in ASEAN.

High reliance on cash is another constraint. ‘Cash-on-Delivery’ still accounts for 65% and 80% of e-commerce transactions in Indonesia and Thailand respectively. The constraint on payment is particularly challenging in Indonesia, the Philippines and Vietnam where 60-70% of citizens are unbanked. Furthermore, traditional constraints on offline cross-border trading are also impeding cross-border e-commerce such as logistics, lack of familiarity with other countries' regulations, tariffs and non-tariff barriers.

BUKALAPAK: E-commerce is a relatively new industry and we have difficulty recruiting local expert talent in this field. Bukalapak has launched the “Buka Jalan Pulang” (Open the Way Home) campaign and adopts the same salary standards as Australia and Singapore to attract more Indonesian talents.

Additionally, although Bukalapak has recruited 3 million sellers, getting more new sellers to join its marketplace remains a challenge. SME owners in Indonesia account for only 3% of Indonesia's total population of 262 million people. There are other challenges in increasing the quantity and variety of goods. This is generally due to limited funds/capital owned by SMEs, besides the geographical and distribution issues. It is therefore important for Bukalapak to empower and serve as an inclusive platform for SME owners.

Do you have any recommendation to ASEAN policymakers to facilitate cross-border e-commerce in the region?

LAZADA: Singapore is the forerunner in legislative framework for e-commerce. The government has been proactive in involving industry players, and Lazada has been actively participating in various consultative sessions including on data localisation, privacy and e-commerce tax. In some other countries, laws are less transparent and the businesses have to deal with nuances unique to local jurisdictions. We believe that more best-practice sharing between government bodies will be useful in advancing the legislative framework in the region.

SHOPEE: ASEAN governments could benefit from two main types of cooperation to further develop the e-commerce ecosystem.

First, ASEAN policymakers could engage private-sector players more extensively. We share the same goals to develop the e-commerce industry to empower entrepreneurs and consumers. Business can bring in sector-specific know-how while the government can shape policy environment. Therefore, active consultation and cooperation with industry players will be crucial.

Second, ASEAN governments could also enhance cooperation, coordination and communication with each other since many barriers to e-commerce require regional collaboration. Currently each country has its own digital economy development plan with limited linkage across countries. ASEAN could consider developing a common framework to tackle barriers to cross-border e-commerce including non-tariff barriers, customs procedures, rules of cross-border data flows.

BUKALAPAK: What SMEs need the most is financing. The Indonesian government has several SME-financing programs such as the People's Business Credit (KUR), but has encountered difficulties in terms of socialisation and distribution. The government has expanded the KUR coverage by increasing the number of channelling agencies from both banks and non-bank financial institutions. These institutions can cooperate with Bukalapak to channel financing for SMEs since Bukalapak as a marketplace is in direct contact with SMEs.

We also suggest increasing education and craft training programs that can inspire Indonesian youth to join the business world. Bukalapak is conducting a series of training programs for creative business players in cooperation with the Creative Economy Agency (Bekraf).

LOGISTICS

How do you assess the quality of logistics infrastructure in ASEAN for cross-border e-commerce?

NINJA VAN: Domestic infrastructure has improved significantly over the past few years, with heavy investment and problem-solving by local governments instead of through global arrangements. However, cross-border regulations and customs clearance in many countries remain a significant hindrance to cross-border e-commerce.

GET GO: Thanks to the emphasis on export-led growth, the region as a whole has adequate logistics infrastructure that is structured for bulk exports. The quality of e-commerce logistics boils down to high product speed to customers, responsive data/information flows and e-commerce specific capabilities. What we see is that the more developed ASEAN economies are also more advanced in cross-border e-commerce. Existing infrastructure could be re-purposed to serve e-commerce as this sector in ASEAN remains in its early stages of growth.

What customs issues need to be addressed to facilitate growth of cross-border e-commerce in the ASEAN region?

NINJA VAN: Customs regulations in certain countries

such as the Philippines, Thailand and Vietnam are protective of local distributors. Business-to-Customer (B2C) clearance is either not possible, or come with high restrictions (e.g. requiring the importer to have a permit or low de minimis values). Individual consignees cannot be expected to have such permits. Sellers find it difficult to price in expected duties and taxes if they want to provide a seamless experience for the consumer. The processing requirements of certain customs also constitute the majority of cost of end-to-end logistics. This cost is passed to the consumer, which stifles the potential growth of cross-border e-commerce.

GET GO: According to feedbacks from customers and shippers, e-commerce deals with high volume of small-value packages. These packages are routinely shipped via express services, such as postal EMS or courier services. The sheer volume of packages (not to mention potential product returns) is pressuring customs across ASEAN to speed up package clearances while maintaining high service and security levels.

Many shippers are not conversant with customs matters, resulting in long delays if origin/destination customs processes or declaration requirements are not met. Customs requirements can also change by country or product, hence "correct" declaration is more complicated than just filling in forms or details. Some shippers respond to this by engaging third-party logistics providers (3PLs) who are familiar with local customs procedures to facilitate the process.

Do you have any recommendations to ASEAN policy makers to promote cross border e-commerce?

NINJA VAN: Since ASEAN is not primarily a consumer product manufacturing bloc, cross-border e-commerce should not have a significant impact on domestic manufacturers. However, levelling the playing field between cross-border sellers and domestic sellers is important as domestic sellers are unfairly taxed while cross-border sellers are able to evade taxation.

GET GO: Several measures would be immensely useful to promoting e-commerce, such as: (a) Putting in place rules for free flow of e-commerce data so as to provide a level playing field for both small and big businesses and ensure that e-commerce activities can be consolidated and scaled up; (b) Having clear customs rules for e-commerce shipments, or even fast-tracking of e-commerce shipments to promote trade growth; (c) Speedily implementing the ASEAN Single Window for digitalising trade documents to reduce duplication and speed up customs clearance; and (d) Pressing on with pro-trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to broaden market reach.

E-PAYMENTS

What are e-payments and how important are e-payments to e-commerce?


An E-commerce Journey around ASEAN

Let's take an e-commerce journey around ASEAN! From Kuala Lumpur, we will travel to three cities - Jakarta, Singapore and Bangkok.


Thinking of jetsetting to other ASEAN countries for a week-long trip? This is all you need:



Internet-connected device



Credit card or e-payment account









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KUALA LUMPUR

- 1 Book flights via 
- 2 Book accommodation for your journey with 
- 3 Time to go! Take a ride to KLIA with 
- 4 Pick up tidbits or last minute essentials at the airport with 

JAKARTA

- 1 Pick up a SIM card with mobile data at the airport
- 2 Grab a  to get to your hotel
- 3  is great for city sightseeing too!
- 4 Get cheap eats using vouchers from  or  for food delivery. You can use  for food delivery.
- 5 Want to shop but afraid of peak hour traffic? Use 

SINGAPORE

- 1 Book your **ChangiWiFi** online, and pick it up when you land.
- 2 If you're pressed for time,  will take you anywhere for affordable prices.
- 3 Get some kaya toast or Michelin-starred food from either  or 
- 4 Want some tips for where to eat? Go to: 
- 5 To get attraction tickets fast and at discount rates, use 
- 6 Want to go online shopping while waiting in line at the sights? Go to: 
- 7 Your items can be sent to you via 
- 8 Tickets for shows are available on 
- 9 If you'd like to buy some secondhand goods from locals, try 
- 10 Use a digital wallet like  to pick up some last minute gifts. 

BANGKOK

- 1 Go to your accommodation with 
- 2 You can buy train tickets from the 
- 3 When you get thirsty seeing the sights, pay for a drink with 
- 4 Need to relax?  lets you book a spa appointment, at a reasonable price. 
- 5 While relaxing in the spa, do some online shopping on 
- 6 Buy tickets for shows, museum entrances, and theatre performances via 
- 7 Buy tickets for shows, museum entrances, and theatre performances via  and get immersed in Thailand's art and culture!

PAYPAL: Electronic payments enable payment for goods and services through an electronic medium without the use of cash or cheques. With e-payments, individuals can send and receive funds almost instantly, engage in cross-border transactions, and have greater visibility over their transactions online. For businesses, partnering up with digital payments providers can help reduce operational costs and increase business efficiencies. The availability of e-payment services has been instrumental to the growth of e-commerce in the region as it provides convenience and added security to e-commerce buyers and sellers. It is especially beneficial to freelancers and SMEs, who can operate with ease in the global economy.

What measures and solutions are your company rolling out to promote e-payments in the region?

PAYPAL: PayPal focuses on our customer accounts' security through various measures, including tokenisation and fraud detection technologies. Transactions are monitored in consideration of local and international laws and regulations. PayPal also offers Buyer and Seller Protection to our customers, which helps keep their eligible transactions protected in the event of fraud, non-arrival of orders, or orders that are significantly different from the seller's description. In addition, PayPal constantly innovates and develops solutions that make it easier for our customers to manage their funds online. We also collaborate with various service providers in the region such as Grab, GCash and PayMaya so that our customers can enjoy more seamless and secure payments for a wide variety of needs.

What are the growth trajectory and prospects of e-payments in the ASEAN region?

PAYPAL: There is a general optimism about the growth prospects of e-payments in ASEAN. The private sector is investing heavily in new e-payment technologies and initiatives in the region. Several ASEAN governments are developing e-payment ecosystems in their jurisdictions and updating regulations to promote e-payments and enhance consumer protection. For instance, Singapore is finalising the Payment Services Bill while in Thailand, the new Payment System Law came into effect in April 2018. ASEAN member governments are also developing an ASEAN e-commerce agreement to advance trade rules in the industry, lower barriers to entry for businesses, and improve digital connectivity to facilitate e-commerce flows in the region. This will provide a framework for ASEAN member states to collaborate and share best practices in cybersecurity and digital payments.

What are the key challenges to promoting e-payment in the ASEAN region?

PAYPAL: Financial services are the lifeblood of an economy. Yet in many ASEAN economies, the majority of individuals and small businesses lack access to even basic savings and credit products. A study by KPMG in 2016 estimated that there are over 430 million unbanked people in ASEAN, and only 27% of the population in the region own a bank account. Despite the push towards digitisation,

cash remains the main payment mode for most transactions in several ASEAN countries. Although digital payments offer more convenience and security, consumers might shy away from adopting them due to various reasons, including lack of knowledge and aversion to change.

Another problem is the lack of quality infrastructure and stable broadband connectivity in some of the lesser-developed areas. This makes it difficult for digital payment providers to serve unbanked or underbanked populations with the relevant services and incentives.

What are the payment solutions for e-commerce in countries having big "unbanked" populations?

PAYPAL: FinTech has unlimited potential to bring unbanked or underbanked people into the financial system. Money digitisation and rapid proliferation of Internet access and mobile phones have made it easier and cheaper to save, spend, give and borrow. FinTech creates the opportunity to fundamentally reimagine financial services and make them more affordable, more convenient and more secure for everyone, especially hard-to-reach populations and small businesses, and to do so at scale. For example, the cost savings from switching to digital remittances would equate to approximately US\$21 billion, and it is estimated to be able to lift nearly 30 million people out of poverty, according to the UN Conference for Trade and Development.

Do you have any policy recommendations to regional governments to encourage cashless transactions?

PAYPAL: Governments in the region could further reduce the barriers to entry and provide initiatives to boost innovation, while ensuring that consumers' interests are safeguarded. They could (a) lead by example by embracing digital payments for taxes and government-related fees; (b) adopt consumer incentives to encourage adoption of e-payments, e.g. passing the savings of adopting digital payments to consumers through fee reductions or rebates; and (c) put in place adequate controls to protect consumers against cybersecurity breaches.

The private sector should be consulted in the formulation of these controls to ensure their effectiveness. Free cross-border movement of data is necessary for digital payments to catalyse the growth of the internet economy. Data localisation measures in the region are undermining the ability of small businesses and consumers to benefit from the global online marketplaces. Paradoxically, although these measures are meant for consumer protection, creating a single point of failure through localisation would only aggravate the fallout in the event of a successful cyber-attack. Governments therefore should tap into the private sector's expertise and technical know-how in dealing with cyber-attacks instead of introducing inefficient trade barriers. Public-private collaboration to set industry standards for data protection and enhanced interoperability and reciprocity between ASEAN members are viable alternatives to data localisation. ❧

Unity in Diversity: EU-ASEAN Youth Photography Competition

In 2017, on the occasion of the 40th Anniversary of ASEAN-European Union Dialogue Relations, the European Union Mission to ASEAN organised a Youth Photograph Competition. ASEAN youth between the ages of 15 and 25 submitted photographs that captured the common spirit of the EU and ASEAN peoples — “Unity in Diversity”.

More than 700 photographs were submitted from all ten ASEAN member states. The judging panel then selected the following winners based on their originality, creativity, and the messages behind each photograph.

Throughout 2017 and 2018, these photographs and other shortlisted images were displayed at many events that marked #EUASEAN40, including official ceremonies, conferences, concerts, celebrations and other activities, including the EU-ASEAN Young Leaders Forum and Strategic Thinkers Forum held in Brussels from 26-28 February 2018.



Singapore

Innocence – by Nur Zakiyah Binte Zakariah

“At a wedding at Al-Ansar Mosque in Bedok, Singapore, children of different races flocked together around a smartphone. They may not speak the same native language but they understand each other.”



The Philippines

Connected – by Prince Loyd Besorio

“Different and diverse in race, religion, language, and culture, ASEAN’s “One Vision, One Identity, One Community” provides the link for candid connections and ties among its peoples.”



Indonesia

The Potato Farmer – by Irianto Frederico Da Lopez

“A farmer proudly shows a handful of potato. Farming is a major source of employment in Indonesia where hard work is often rewarded with bountiful harvests.”



Laos

A Paddy Farmer – by Chanthavikhone Louangpradith

“Rice is an ASEAN staple. The cultivation of paddy is steeped in tradition and is an important source of many folklores and culture.”



Vietnam

Hot Tofu in Saigon – by Nguyen Le

“I called her “grandma” even though we are not blood-related. This street vendor has been serving hot tofu in my neighborhood for as long as I can remember. Whenever I look back at my childhood, I think of her bowl of hot tofu that put a smile on my face every time I saw it. Although this is not an easy job that she has, I can feel her genuine love for her job, observing the way that she serves her customers. Her tofu is not the most delicious cuisine I can find in this world, but her smile is definitely the warmest I have seen in my life.”



Myanmar

The Traditional Fisherman – by Wai Yan

“Fishing is not just leisure, it is a way of life!”



Cambodia

Riding for the Evening Meal – by Valinda Aim

“Children riding their bicycles across flooded rice fields in the rainy season at Takeo province on their way to help their parents look after cattle and collect freshwater crabs and snails to support their livelihood.”



Malaysia

The People of Malaysia – by Durgendharan

“Malaysia is a country unlike any other, full of promise and opportunity. Its historic, cultural and religious diversity makes it a rich, compelling and surprising land. I’m proud to be a Malaysian.”



Thailand

The Wonderful Life of Southern Thailand –

by Thisanut Kaewnukul

“I studied in a Catholic school, I live next to a Muslim village and I am a Buddhist. This is Southern Thailand, where I grew up. Thailand is the land of smile. However we feel, we just smile first. That can make us feel happy.”



Brunei

The Nature of Tradition – by Azam Adam

“Mixing nature and tradition is a thing of beauty! We must all strive to preserve our heritage and culture.”

The ASEAN Studies Centre thanks our friends at the European Union Mission to ASEAN in Jakarta for collaborating with us to showcase these unique snapshots of ASEAN.

Faster, Higher, Stronger: Traditional Sports in ASEAN

Cheryl Teh travels around the region to explore many of its traditional sports.

People in the ASEAN region indulge in many leisure activities, with sports reigning supreme as both a form of passion and a way of exercise. Despite the popularity of modern games like football, badminton and basketball, ASEAN peoples have developed and fostered a mastery for and love of their own traditional sports, so much so that many of these games continue to thrive to this day.

Some traditional sporting activities in the region are intrinsically related to, and rooted in, ancient Southeast Asian lifestyles and livelihoods which relied mostly on farming, fishing and hunting. For instance, for more than 140 years, the famed Buffalo Racing Festival has been held in the seaside province of Chonburi, Thailand. Buffalo racing is also very popular in Indonesia and Vietnam as a folk game to celebrate the buffaloes – an icon of traditional agriculture and rural living – for their hard work and diligent company with the farmers all year round.

Village festivals and harvest celebrations are the traditional playground for these folk games. For example, boat races are held along the Tonle Sap river as part of the annual water festival to pay tribute to the river and the bounties it gives to local people's livelihoods. These festivals also feature other traditional sports such as folk wrestling, archery and tug-of-war to promote community-bonding among village folks, fostering a deep *kampung* spirit through infectious laughter, exciting cheers and just plain fun.



A bokator match in Cambodia

For individual sports, Cambodia's *Bokator* and Thailand's *Muay Thai* would come to mind. *Muay Thai* may enjoy much greater popularity in modern times but its origins are believed to come from *Bokator* which even predates the Angkor-era. *Bokator*, which means "pounding a lion" in Khmer language, includes weapons techniques and close quarters combat. *Bokator* exponents still wear the uniforms of the ancient Khmer, and deal a diverse variety of elbow and knee strikes, shin kicks, and ground fighting styles inspired by the study of life in nature. An experienced fighter must prove himself a true master and contributor to the sport, and the mastery of *Bokator* is no child's play. It is time-consuming, and for some, a lifelong endeavour.

Meanwhile, the kickboxing discipline of *Muay Thai* has evolved into a wildly popular activity. It is known as "the art of eight limbs," as one must muster all the mental and physical discipline that one has to combine the use of fists, elbows, knees and shins to master the accurate strikes and clinches for success. *Muay Thai* is known to be similar to *Muay Lao* in Laos, *Tomoi* in Malaysia, and *Lethwei* (Burmese bareknuckle boxing) in Myanmar. *Muay Thai* enthusiasts can enroll in a gym to get training with local *Muay Thai* fighters in Thailand while the less athletically inclined may enjoy watching *Muay Thai* matches at Rajadamnern Stadium and the Sanam Luang Park. Another must-see for them is the World Wai Kru *Muay Thai* Ceremony as boxers from over 40 countries descend upon Ayutthaya to celebrate the sport.

Silat is another traditional martial art practised in many ASEAN countries. Originally developed in what are



Buffalo racing in Chonburi, Thailand

now Indonesia, southern Thailand, peninsular Malaysia and Singapore, *silat* has also become a traditional sport in Brunei and central Vietnam. Practitioners are called *pesilat*, who spend years mastering hundreds of different styles (*aliran*) and schools (*perguruan*). While strikes, weaponry and joint manipulation are all part of the martial art, *silat Melayu* (an overarching term for *silat* practiced in the Southeast Asian mainland focuses on slow, dance-like movements, hand positions and low stances. The *pesilat* might choose to wield any weapon, but *silat* today is most often associated with the *kris*, an asymmetrical dagger with a distinctive wavy blade.

Sepak takraw (an Indonesian term for kick volleyball) is a sport native to Southeast Asia as well. A rattan ball is used, and players can only allow their feet, knees, chest and head to touch the ball. It is a popular sport in ASEAN, with each country having their own name for the game. In Malaysia and Thailand, the sport is called *takraw*. In the Philippines, besides *takraw*, it is also known as *sipa*, meaning 'kick.' In Laos, the sport is called *kataw*

(the Laotian word for 'twine' and 'kick'), alluding to the twine-woven ball and the main movement by which the sport is played.

Myanmar people practise a variant of the sport known as *chinlone*. It is considered more an artful dance performance than a game, as there is often no opposing team. The aim of the game is to keep the ball aloft gracefully, and the players pass the ball from one to another without any points being tallied. It is said that the most skilled *chinlone* players are the elderly who presumably have had years of practice under their belt.

To this day, the sporting activities enjoyed by our forefathers are still showcased in regional sporting events, such as the Southeast Asian (SEA) Games. The 29th Southeast Asian Games in Kuala Lumpur last year featured a total of 38 sports, including *sepak takraw* and *pencak silat*, giving the athletes a platform to shine with these unique Southeast Asian sports.

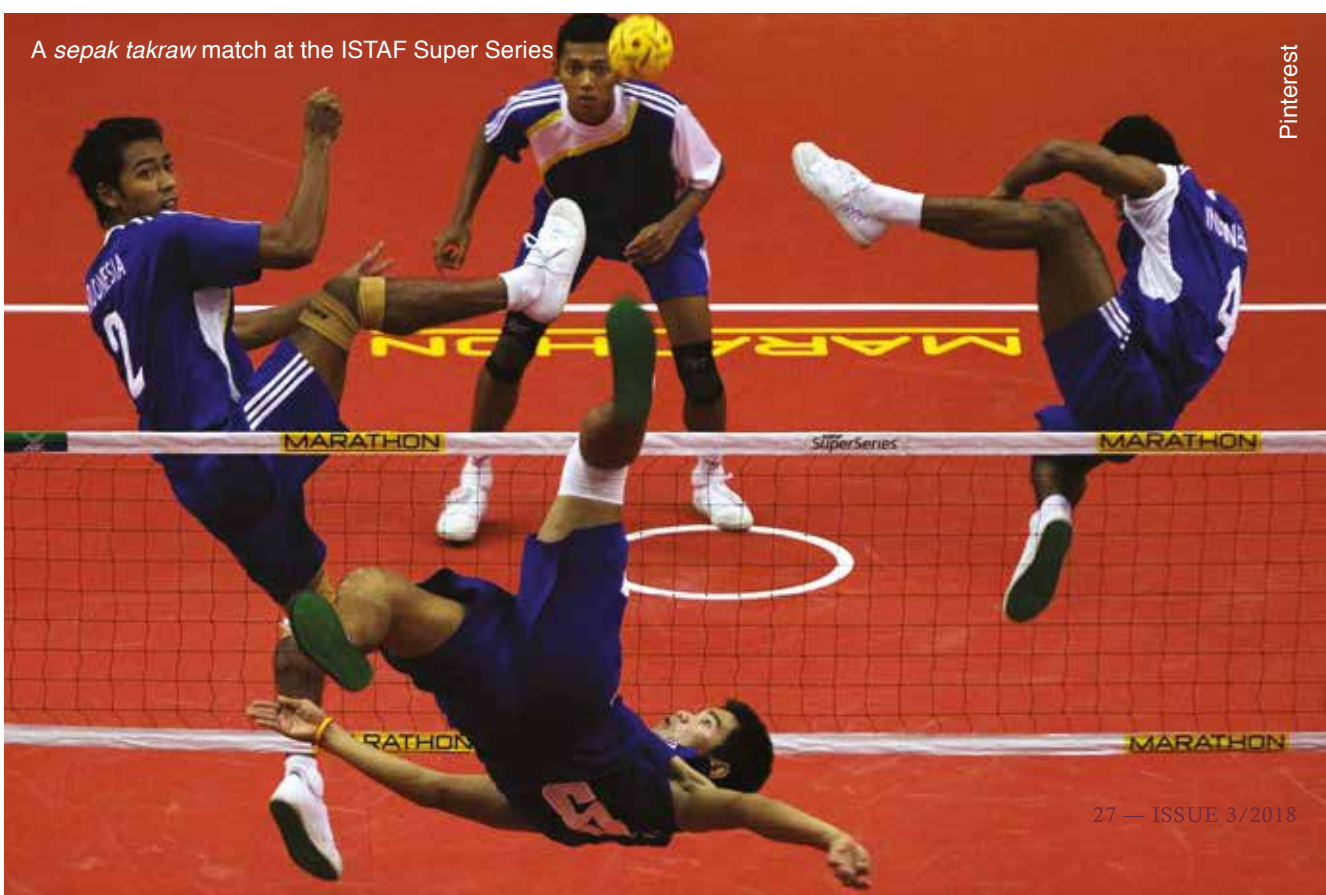
Passed down from generation to generation, the traditional sports of Southeast Asia are now preserved and promoted in many ways, shapes and forms. Some continue to ginger up traditional festivals such as dragon boat racing and buffalo racing while others have found their way to the region's most prestigious sporting games. Many Southeast Asians have made conscious efforts to keep the tradition alive, either by mastering the sport, or by teaching it to their children and grandchildren. Whether one learns of these sports as a spectator, or as a child, kicks a rattan ball around after school, it is comforting to know that the pure joy and the buoyant spirit of traditional ASEAN sports are cherished and carried to the everyday of modern life. 🇲🇾

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Chinlone in Myanmar

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A sepak takraw match at the ISTAF Super Series

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Durian – Southeast Asia’s King of Fruits

Nur Aziemah Aziz shares the captivating story of durians in Southeast Asia and how one may be spoilt for choice with all of the region’s durian offerings.

Southeast Asia’s King of Fruits – the durian – may not be the most appealing fruit at the first sight. It resembles a spiky ball with greenish, yellow thorns surrounding a thick husk. Fruit sellers wear gloves to protect their hands from the prickly thorns while handling a durian. As they pry open the husk, a strong smell ambushes your senses even before the soft golden flesh comes into view. To durian lovers, the aroma of the fruit is heavenly and cathartic. Yet, not everyone feels the same. People have used words such as ‘blue cheese’, ‘rotten onions’ or ‘gym socks’ to describe its smell. It was even featured in the

US Fear Factor, a game show that pushes the contestants’ mental strength to the limit by challenging them to perform heart-stopping and sometimes dare-devilish acts. The durian is, indeed, a most strange fruit – you either obsessively love it, or simply cannot stand it!

Thailand, Indonesia and Malaysia are the top three durian producers in the world but durians are also grown and found in all other countries across Southeast Asia. Unique and native to this region, the durian has many variations that are distinctive to each country and locality. In Thailand, more than 200 varieties are registered with the government but the top four popular are *Monthong*, *Chanee*, *Kradum* and *Kan Yao*. The *Monthong*, or *Golden Pillow*, is popular for its rich and sweet flavor and less pungent smell. It can be a good starter as one attempts to get acquainted with the King of Fruits.

In Malaysia, the much sought-after *Mao Shan Wang*, or *Musang King*, has won the hearts and taste buds of durian aficionados with bright yellow flesh carrying a bittersweet flavour. Macau billionaire and gambling mogul Stanley Ho was reported to have sent his private jet in 2010 to Singapore to source for his beloved *Mao Shan Wang* durian. Other well-known durians from Malaysia include the *D24* and the *XO*, their meat coming in hues of pale or bright yellow. Meanwhile, the *Red Prawn* or *Hong Xia* has orangey-red meat and is said to be the sweetest durian in Malaysia, with its taste almost reminding one of honey.

Durian connoisseurs would prefer to eat the rich and creamy flesh of the fruit on its own for a pure, unadulterated flavour. But the durian also finds expression in various sweet creations ranging from the uniquely Southeast Asian desserts to more international variations. Durian sticky rice is a popular dish served in many ASEAN countries, an amalgamation of savory from glutinous rice soaked with coconut milk and durian sweetness. Western food franchises like Swensens’ Pizza Company offer seasonal durian sundae in local outlets in Yangon and Singapore.

For those who wish to cool down from Southeast Asia’s blistering heat, there are iced desserts like *ice kacang* and *cendol* served with a layer of durian, or durian smoothie and *durian pengat*. In various parts of Indonesia, *sop duren* is a popular delicacy which is served cold with a milk-



Duterte and Abe taste durians

Philippines News Agency



Mao Shan Wang durian

cavinteo.blogspot.com

Durian *cendol* in Shah Alam, Malaysia

based sauce topped with durian flesh and grass jelly or shredded cheese. In many ASEAN countries, the durian meat has been weaved into other delights such as durian mousse, durian pancakes, durian crepes, durian puffs, and of course durian ice-cream.

Many a traveller in the region would love to bring with them durian chips and biscuits for fuss-free, enjoyable snacks. These snacks are the best way to introduce the King of Fruits to newbies who might be averse to the strong smell of the fresh durian. One would be familiar with '*durian dodol*', a sweet toffee made of durian, sugar and coconut milk from their travels in the region.

The durian captures the imagination of Southeast Asians in other senses as well. One normally enjoys durians with company, e.g. their family, friends and neighbours. It is truly a fruit that binds people together. A good example of this is the annual Durian Mobilisation event held between 2013 and 2015 in Singapore in which durian lovers came together to enjoy and bond over their durian cravings. These durian picnics evoked the *kampung* spirit of sharing and helping each other among the local communities in the city-state as proceeds from tickets and donations of household necessities went to needy families. In addition, various durian degustation sessions have been held to connect people through a shared and appreciative durian dining experience. In countries like Myanmar and Malaysia, there are durian tours that bring city dwellers to durian orchards during its season, connecting them back to their *kampung* roots. The Bao Sheng Durian Farm in Penang, Malaysia, even offers the unique homestay experience allowing visitors to literally live and breathe durians!

Quintessentially a Southeast Asian delicacy, the durian has become part of cross-cultural bonding for many Southeast Asians. For example, durian tours or durian holidays between Singapore and Malaysia drive home the truth that people in the region share many things in common that transcend their nationalities and borders, including a shared appreciation of exotic tropical flavours. Even China have also caught the durian bug. Last year, Malaysia shipped 4,000kg of *Mao Shan Wang* for the Durian King festival in Nanning, China.

The durian has also ventured into the sphere of regional diplomacy. There is a light-hearted ASEAN saying that “the ASEAN states have only three things in common: karaoke, durian and golf.” Indeed, the bonding and friendship among ASEAN leaders have been catalysed over many a shared durian experience, such as one between Philippine President Rodrigo Duterte and Singapore Prime Minister Lee Hsien Loong during the former’s state visit to Singapore in 2016. In other instances, durians have facilitated diplomatic ice-breaking: 200 durians were in the gift bag of Thailand’s Prime Minister Kukrit Pramoj when he visited Beijing in July 1975 to pave the way for establishing Thailand-China diplomatic relations. A taste of “durian diplomacy” was also felt by Japanese Prime Minister Shinzo Abe during his 2017 visit to Davao city of Mindanao – the “durian republic” of the Philippines.

Along many Southeast Asian food streets, one may hear the inviting call of durian sellers to locals and curious tourists alike: “Come try!” – an invitation to taste the durian experience at first hand before making any judgment based on the look and smell alone. Many world-renowned travel and food writers, including the late Anthony Bourdain, have acknowledged the unequalled flavour of the fruit as separate from its forbidding smell and exterior. When it comes to the durian, it does not always have to be a love it-or-hate it relationship. Many cautious first-timers have been converted to life-long durian aficionados after acclimatising themselves to the King of Fruits. This reminds us to keep an open mind to embrace exhilarating experiences that the tropics of Southeast Asia have in abundance to offer. 🍷

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Durian on sale near Cirebon, Indonesia

Sumatran Tiger

Panthera tigris sumatrae

Numbers remaining in the wild: 400-500
Found in Sumatra, Indonesia

The Sumatran Tiger weighs up to 140kg, and inhabits tropical broadleaf evergreen forests, freshwater swamp forests, and peat swamps in Sumatra Island, Indonesia. It is the smallest surviving tiger sub-species, and is distinguished by heavy black stripes on its orange coat. The Sumatran Tiger was listed as Critically Endangered on the Red List of the International Union for Conservation of Nature (IUCN) in 2008, due to accelerating deforestation and rampant poaching. The last of its kind are holding on for survival in the remaining patches of forests on the island. (WWF, 2018)

