

NEWS RELEASE - Malaysia can play a leading role in growing Southeast Asia's digital economy

High on the ASEAN Economic Ministers' annual meeting, which took place in early September, was how Southeast Asia could address many of the global economic headwinds that we currently face.

Another agenda item was how to advance Southeast Asia's digital economy. Here's the bottom line.

Southeast Asia's digital economy was worth USD31 billion in 2015, and is forecast to grow to USD200 billion by 2025¹. The kicker is that this could be a substantial underestimate if the region reaches an agreement on a common set of standards for data handling and digital commerce.

Over the next 10 years, there are some essential issues that will be at the heart of this transformation including data localisation, cloud computing, AI and cybersecurity.

In an ideal world, government regulators, digital businesses and multilateral organisations will come together to create a coherent regional architecture to ensure the full benefits of a digital economy are reaped.

But we don't live in an ideal world.

In fact, the World Bank has reported that the full potential of Southeast Asia's digital economy is not being realised due to pervasive regulatory barriers and constraints at the country level.

The June ASEAN Leaders Summit in Bangkok saw broad recognition that policy gaps remain and that ASEAN must identify concrete next steps towards a holistic, coherent, and coordinated strategy for the digital economy.

Within Southeast Asia, there are a number of aspirational planning frameworks that have been agreed in principle. This includes the Information Communications & Technology Masterplan 2020; the Thailand-led ASEAN Digital Integration Framework Action Plan which aims to accelerate a coordinated regionally integrated digital economy; and the ASEAN Framework on Digital Data Governance.

¹ According to research by Google Inc. and Temasek Holdings Pte, November 2018
https://www.thinkwithgoogle.com/intl/en-apac/tools-research/research-studies/e-economy-sea-2018-southeast-asias-internet-economy-hits-inflection-point/?_ga=2.232585951.191801127.1542602175-311463328.1542602175.

See also - <https://www.cnn.com/2018/11/19/google-temasek-report-mobile-internet-is-driving-sea-internet-economy.html>

So while we do need to keep our eyes on the ultimate aim of creating regionally consistent standards, we also need to supplement this with a new strategy and tactics if we are to accelerate its attainment.

There are two elements to this new strategy.

The first is flexibility in striking a balance between digital innovation and regulation. Many companies active in the digital sector are used to building platforms that are both scalable and adaptable to new tech as it becomes available. We need to apply that same flexible thinking to standards.

From a banking perspective, for example, a digital banking facility needs to be broad and elastic enough to satisfy the divergent, and sometimes conflicting, data regulations of jurisdictions like the EU, Malaysia and the US.

The second strategic shift is that we need to start building consensus from the bottom up, rather than continuing to hope for a top-down solution.

The history of global standards teaches us that they come about in one of two ways.

The first is when a dominant power – in the past it has often been the United States or the European Union – creates a standard and the world conforms to retain access to the market. In the new multi-polar world, that path has become less likely.

The second is when clusters of interested parties come together to find common ground and others are persuaded to join them through common interests. This is an opportunity for Southeast Asia.

What this means is that Southeast Asian countries should not be frightened of starting small. For example, having two nations focus on a collaboration which could be the start of something much greater.

Whilst the integration of Thailand and Singapore's instant payment schemes is the clear example of starting small and building, there are many other instances of Singapore's collaboration across the technology spectrum including its pioneering work with other countries in the trade blockchain space.

HSBC also worked with KPMG in helping the MAS, Bank of Canada and Bank of England to evaluate possible models for sovereign-backed digital currencies to be used for high value cross border payments (securities settlement, trade transactions, and corporate remittances).

Malaysia also has the opportunity to play a leading role.

In Malaysia, a Digital Free Trade Zone (DFTZ) was launched in 2017 to capitalise on the confluence and exponential growth of the internet economy and cross-border eCommerce activities. The initiative was also set up to facilitate seamless cross-border trade and enable local businesses to export their goods with a priority for eCommerce.²

² <http://www.matrade.gov.my/en/digital-free-trade-zone-dftz>

It's now crucial that we see this model become industrialised across a wider spectrum of technologies and countries throughout Southeast Asia.

“The defining characteristic of successful organically grown holistic standards is that they have to be outward looking: designed for broad mutual benefit rather than to isolate and sustain the privileges of the local market. Any agreement should allow the free-flow of data across borders, a measure that has been proven to foster innovation, while protecting the security and integrity of personal information”, said Stuart Milne, CEO, HSBC Malaysia.

To achieve this, regional governments, tech companies and financial services need to work together to develop local systems that protect users while creating the openings needed to facilitate Southeast Asia's digital economy.

“While technology is inherently borderless, the regulation governing it is not. This creates frictions for global businesses operating global technology estates. The only solution is an open and integrated digital economy, driven by governments and regulatory authorities working together – even if it is initially on a bi-lateral basis”, Milne concluded.