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Borderless Business: Middle East-ASEAN Corridor

Opening doors to diverse opportunities

Contents:

Executive Summary

Borderless Business: Middle East-ASEAN Corridor, a strategic point-of-view commissioned by Standard Chartered and prepared by PwC, highlights target opportunities and key success factors for Middle East companies to drive sustainable and resilient growth in the Association of Southeast Asian Nations (ASEAN) region. The report analyses macro-level factors, industry shifts and company developments and incorporates insights from a pulse survey[a] of senior-level executives from Middle East businesses engaged in cross-border activities across the Middle East-ASEAN corridor.

WHY ASEAN: An attractive destination for Middle East investments and business growth

ASEAN's rising middle class and its expanding industrial sector offer strong growth prospects for Middle East investors and businesses seeking international opportunities. The past two decades have already seen ASEAN emerge as a major economic partner for the Middle East, especially as a key market for Middle Eastern energy exports. However, the relationship is now diversifying into new sectors, in line with the Middle East's focus on boosting non-oil exports. Consequently, outbound investments from the Middle East into ASEAN have risen strongly in recent years, with many leading Middle East companies also looking to enter or expand their operations in the ASEAN region.

Growing government-level engagement has provided additional impetus to economic activity in the corridor. ASEAN members have signed several cooperation agreements with Gulf Cooperation Council (GCC) states to facilitate inter-regional trade and investments. New partnerships are on the horizon as well, such as the Comprehensive Economic Partnership Agreement (CEPA) being discussed between the UAE and Indonesia. Wider areas of collaboration are also being explored by the ASEAN-GCC Framework of Cooperation for 2020-2024 and other bilateral agreements, focusing on segments such as digital solutions, renewables, infrastructure and halal consumer products.

WHERE TO INVEST: Growing sector opportunities allow Middle East companies to thrive

Driven by rising consumer and industrial demand, consumption of fuels and petrochemicals continues to grow strongly in ASEAN. To address energy security concerns, the region is now focusing on boosting local production capacity by building integrated refining and petrochemical facilities. This is creating new investment and business expansion opportunities for Middle East companies. Rapid economic and social progress have also accentuated ASEAN's infrastructure needs. In particular, demand for healthcare and transport infrastructure as well as logistics and industrial real estate is set to rise.

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[a] Survey commissioned by Standard Chartered in August 2021 and completed by senior executives from 45 Middle East companies (from Saudi Arabia and the UAE) focusing on the Middle East–ASEAN corridor

Corridor Highlights

USD52B	Worth of merchandise exports from the Middle East into ASEAN in Q1-Q3 2021
33%	Year-on-year growth in merchandise exports from the Middle East into ASEAN, for Q1-Q3 2021
USD 700M	Worth of FDI inflows from the Middle East into ASEAN in 2020
3x	Rise in FDI inflows from the Middle East into ASEAN over 2017 to 2020

Note: For the figures above, the Middle East refers to GCC countries including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

Growth Sectors

- Refining and petrochemicals
- Infrastructure and real estate
- Renewable energy
- Retail and consumer goods
- Digital infrastructure and services

ASEAN nations are further prioritising solar and wind solutions to meet their future energy requirements, enabling even greater opportunities in the renewables space. Many Middle East businesses are already making forays into these sectors in ASEAN to gain an early advantage. Besides these, the retail and consumer goods sector in ASEAN is also expected to regain momentum in the years ahead, led by an expected surge in consumer spending. Changing consumer needs have today established digitalisation as a key growth pillar for ASEAN's economy. Demand for digital solutions and enabling digital infrastructure is accordingly expected to see significant growth as well. The region's flourishing digital start-ups are increasingly attracting capital from leading investment firms globally, including many from the Middle East.

HOW TO GROW: Focus areas for Middle East companies to succeed in changing times

Middle East businesses will need to focus on certain areas to succeed in ASEAN's evolving landscape. As per our survey results, the need for digitalisation is the most important factor highlighted by Middle East businesses targeting ASEAN. Driven by the pandemic, the adoption of digital tools has now become essential for profitable and resilient growth in the region. With their strong digital capabilities, leading Middle East businesses can play a major role in this regard, and help transform traditional sectors such as refining and petrochemicals, and infrastructure development. However, during this transformation journey, businesses will also have to bolster their cybersecurity measures to mitigate rising digital threats in the region.

Another major shift is occurring on the Environmental, Social & Governance (ESG) front. Sustainability concerns are increasingly driving consumer choices and government policies in ASEAN, necessitating a realignment of business models with these changing priorities. To better position themselves, Middle East businesses will need to start transitioning towards more eco-friendly solutions (such as clean energy or energy efficient infrastructure projects) and also adopt more sustainable business practices. To facilitate this change, Middle East companies can leverage government assistance and green financing options that are increasingly being made available in ASEAN.

Partnerships with local industry players will also be vital in adapting business models. Besides industry alliances, Middle East companies can work with financial institutions and government agencies to ease market entry, address financing gaps and minimise expansion risks. Finally, to support all these initiatives and better manage future disruptions, Middle East businesses will need to create stronger talent development programmes and adopt improved risk management practices in ASEAN. These will be crucial to remain competitive in ASEAN's highly diverse and dynamic business landscape.

Survey Insights*

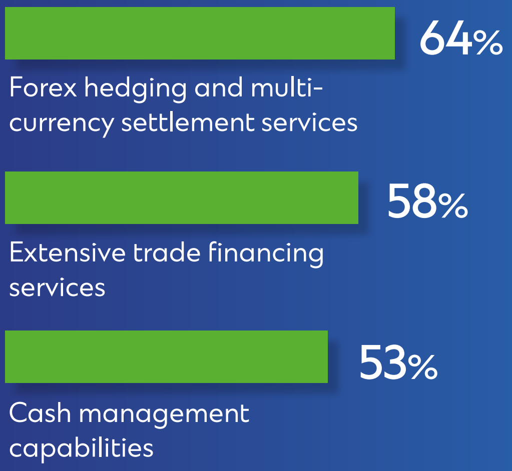
Key focus areas for Middle East companies

60% Digital transformation programmes

53% Sustainability and ESG initiatives

47% New partnerships and joint ventures

Key requirements from banking partners



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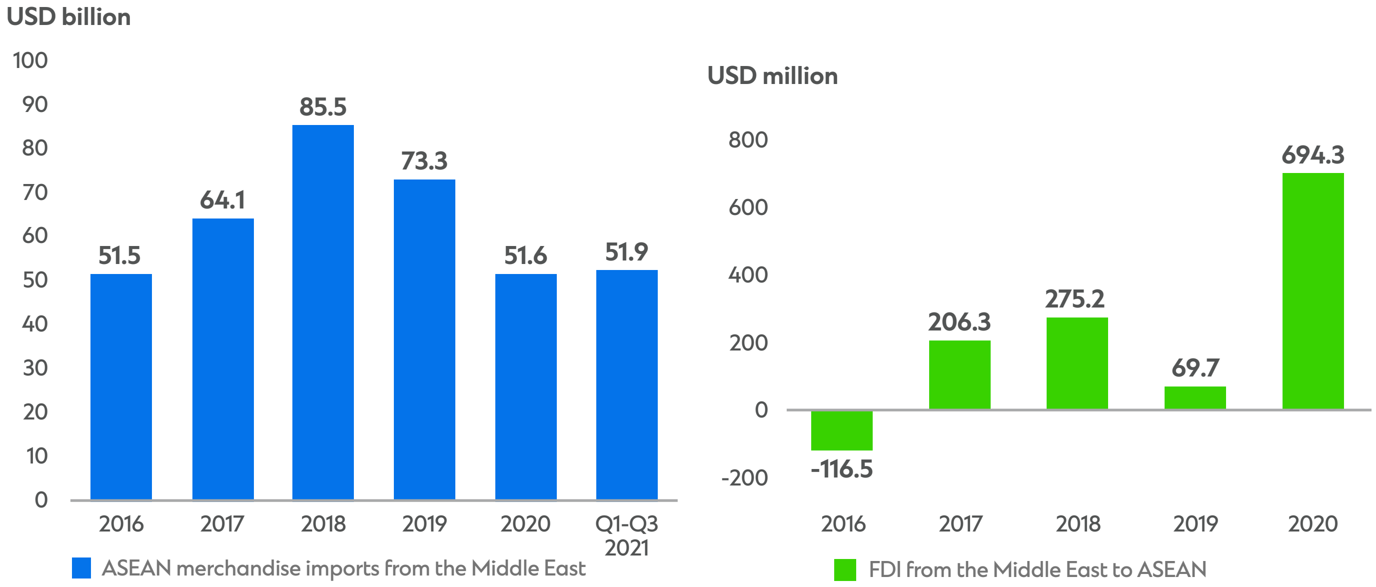
* Values indicate percentage of survey respondents who included the stated factors as one of their top three ranked choices

Overview of the Middle East-ASEAN Corridor: Opening New Doors for Middle East Businesses in ASEAN

Economic ties between the Middle East (ME) and the 10-member ASEAN bloc have strengthened significantly since the first 'ASEAN-GCC Joint Vision' was adopted in 2009. In particular, Saudi Arabia and the UAE have today become major trading partners for ASEAN – each accounting for over a 30 per cent share in ASEAN's goods imports from the GCC in Q1-Q3 2021. Within Southeast Asia, Singapore was the leading destination for GCC exports (33 per cent share) in Q1-Q3 2021, followed by Thailand (29 per cent), Indonesia (11 per cent), Malaysia (10 per cent) and Vietnam (10 per cent) to make up the top five. Although ASEAN's goods imports from the GCC have dropped recently, Foreign Direct Investment (FDI) inflows into ASEAN have increased sharply, and have grown over three-fold since 2017 to reach almost USD700 million in 2020.[1]

Figure 1: Goods imports and FDI from the Middle East into ASEAN

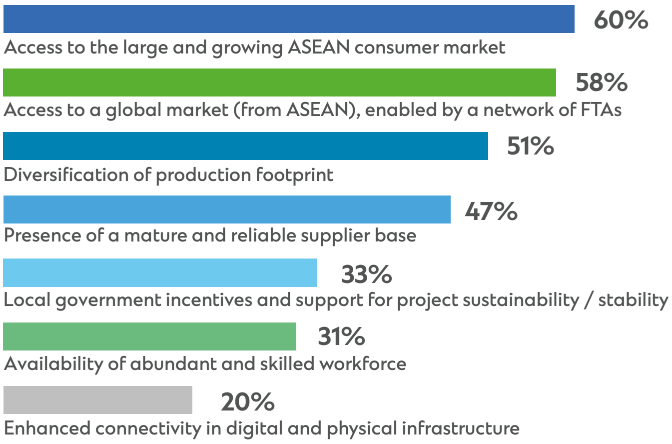


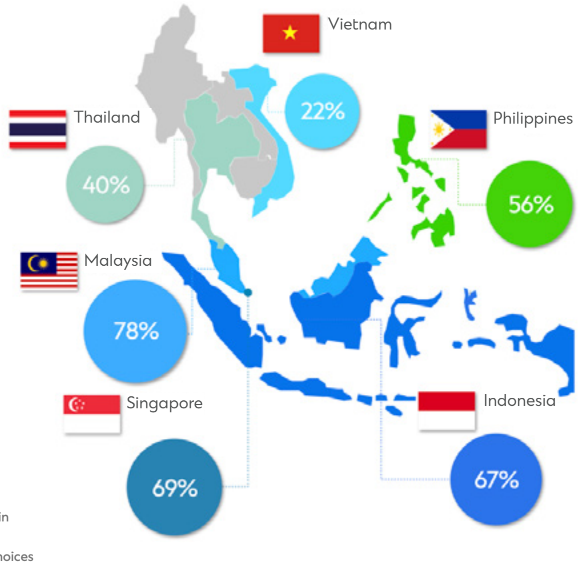
Source: ITC Trade Map and ASEAN Stats

Note: Middle East refers to GCC countries including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

Businesses in the Middle East considering to expand their footprint in ASEAN will find multiple opportunities across the region – driven by its large and growing consumer market and a fast-expanding industrial base. Our survey also reveals that a majority 60 per cent of Middle East businesses are driven to ASEAN due to its large market size, and 58 per cent are looking to access global markets through ASEAN's trade connections. A significant 78 per cent of Middle East companies viewed Malaysia as their top ASEAN market for expansion, followed by Singapore (69 per cent) and Indonesia (67 per cent).

Figure 2: Key drivers for focus on ASEAN and major economies offering the best expansion opportunities





Note: Survey questions asked: 'What are the key drivers for your focus on ASEAN?' and 'Which of these major economies within ASEAN do you think offer the best expansion (sales / production) opportunities for your company?'

For key drivers – values indicated above refer to % of survey respondents who included the driver as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

Regional governments who are keen to increase the participation of Middle East organisations in ASEAN are forging new partnerships to facilitate trade and investments in the corridor. In particular, collaborations in next-generation areas such as digital technologies and renewable energy are being prioritised. These segments are of mutual interest as they align with ASEAN's digitalisation and sustainability commitments, and the Middle East's growing focus on economic diversification.

Middle East's focus on boosting non-oil exports drives investments in new areas

Economic diversification is a policy priority for the Middle East in order to drive growth within economies relying heavily on oil and gas exports at present. In 2020, hydrocarbons accounted for more than 60 per cent of total goods exports in many Middle East countries such as Saudi Arabia, Qatar, Kuwait and Oman. Regional governments have launched several initiatives to boost earnings from non-oil exports. For example, Saudi Arabia's 'Vision 2030' reform seeks to increase the share of non-oil exports to 50 percent of non-oil GDP by 2030. Similarly, the UAE's 'National Agenda for Non-Oil Export Development' aims to boost the country's exports by 50 per cent by exploring non-oil sectors and new global markets for trade. Over the years, many Middle Eastern states have emerged as major global exporters of mineral fuels and metals. However, going forward the region is increasing its focus on new export segments such as consumer products, petrochemicals, building materials and digital services. Government-backed investment funds as well as Middle East businesses (both state and private-owned) have already begun targeting opportunities in these sectors in new growth markets worldwide – further resulting in a sharp rise in FDI flows into ASEAN in 2020.[2]

Middle class and industrial base expansions provide a fertile environment for companies targeting ASEAN

ASEAN is home to over 650 million people, making this economic bloc the third largest consumer market in the world. Underpinning growth in the region is the fast-rising middle class (those having daily expenditures of up to USD100) and its maturing industrial base. ASEAN's middle class will account for more than two-thirds of the population by 2030. The number of high- and upper-middle income households in ASEAN are also expected to double to almost 60 million by then. This is expected to trigger stronger demand for higher quality products as well as richer consumer experiences. In addition, ASEAN's industrial base continues to experience strong growth. Spurred by a growing need for multinationals (MNCs) to diversify their production footprint and the availability of attractive incentive plans, Manufacturing Gross Value Added (GVA) in ASEAN-6[b] countries is expected to touch USD950 billion by 2025 – growing at a CAGR of 9 per cent over 2020-25. With the growth of manufacturing activity, ASEAN's demand for energy, infrastructure and industrial inputs such as chemicals will continue to rise, creating even greater trade and investment opportunities for Middle East businesses.[3]

82%

of Middle East respondents expect more than 10 per cent growth in their ASEAN business revenues over the next 12 months

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[b] ASEAN-6 markets include Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Increasing collaboration enables greater participation of Middle East companies in Southeast Asia

The Middle East's engagement with ASEAN has deepened over time through multiple regional and country-level alliances. In particular, the ASEAN-GCC Joint Vision has served as the foundation for pursuing closer economic and cultural cooperation between the regions. In 2019, the two blocs further agreed to finalise the ASEAN-GCC Framework of Cooperation for 2020-2024 to advance collaboration in multiple sectors including smart cities, energy, connectivity, agriculture and halal products. Bilateral partnerships between individual countries have also risen. The Singapore-UAE Comprehensive Partnership (2019) and the Malaysian Investment Development Authority's (MIDA) MoU with the Investment Promotion Agency of Qatar (2019) are notable examples. More recently, Singapore and the UAE announced plans in March 2021 to expand business and innovation partnerships in areas such as Artificial Intelligence (AI), 5G, Internet of Things (IoT) and smart cities. Similarly, first round negotiations were launched on the Indonesia-UAE Comprehensive Economic Partnership Agreement (CEPA) in September 2021. Business forums aligned with the partnership have already started discussing growth opportunities in sectors such as real estate, food security, e-commerce and renewable energy.[4]

"The Middle East and ASEAN enjoy increasingly close economic ties. In 2020 alone, Middle East companies invested USD700 million into ASEAN, a three-fold surge from 2017. We continue to see a growing number of opportunities for Middle East businesses in the region. Apart from being a destination for energy exports, ASEAN is emerging as a promising economic partner for Middle East companies' expansion into growth sectors such as refining and petrochemicals, infrastructure and real-estate, renewable energy, retail and consumer goods, and digital infrastructure and services. As the only international bank with a presence in all 10 ASEAN markets, Standard Chartered is well-positioned to help our Middle East clients diversify into new non-oil sectors and leverage the tremendous opportunities the region has to offer."

Rino Donosepoetro
Vice Chairman, ASEAN
& President Commissioner Indonesia,
Standard Chartered

"ASEAN is a fast-growing trade bloc with increasing economic and financial influence. As Middle East countries look to diversify their economies away from oil, regional businesses are exploring new avenues of investments and ASEAN has emerged as the preferred option due to multiple regional and country-level alliances. The region provides unparalleled trade and investment prospects across various sectors such as refinery and petrochemicals, real estate, and infrastructure. Furthermore, ASEAN's focus on becoming future-ready in areas such as digital and renewable energy offers Middle East companies and investment firms' ample opportunities to invest, develop and provide solutions to meet their sustainability goals. Given our unique global footprint, Standard Chartered has the right mix of local knowledge and expertise across all ASEAN markets to better help our clients leverage these potential opportunities and strive for continued success."

Mohamed Salama
Head of Client Coverage, Head of
Corporate, Commercial & Institutional
Banking MENA & Head CCIB UAE

Our Growth Watchlist: Five Sectors Driving the Future of the Middle East-ASEAN Corridor

ASEAN has witnessed significant economic and social prosperity over the past few decades, with industry reforms and government initiatives supporting the region's transformation for the future. This steady progress generates new trade and investment opportunities for Middle East companies. With growing economic activity, demand for fuels and petrochemicals is on the rise, along with the need for investments to expand and upgrade local production. Spending on consumer goods is growing steadily, while regional governments are prioritising infrastructure development to accelerate a post-COVID recovery. Finally, ASEAN's focus on becoming future-ready in areas such as digital technologies and renewable energy is also creating new growth prospects for Middle East businesses and investment firms.

Figure 3: Key sectors in ASEAN-6 (by contribution to national GDP), 2021

Thailand
GDP (2021): USD505.9 billion
Imports from GCC (Q1-Q3 2021): USD14.9 billion
Top 3 sectors by contribution to GDP
Manufacturing, Wholesale and retail trade, Agriculture

Malaysia
GDP (2021): USD357.4 billion
Imports from GCC (Q1-Q3 2021): USD5.4 billion
Top 3 sectors by contribution to GDP
Manufacturing, Wholesale and retail trade, Agriculture

Singapore
GDP (2021): USD393.4 billion
Imports from GCC (Q1-Q3 2021): USD17.1 billion
Top 3 sectors by contribution to GDP
Professional and Technical Services, Manufacturing, Wholesale and retail trade

Vietnam
GDP (2021): USD286.7 billion
Imports from GCC (Q1-Q3 2021): USD5.1 billion
Top 3 sectors by contribution to GDP
Manufacturing, Agriculture, Wholesale and retail trade

Philippines
GDP (2021): USD405.3 billion
Imports from GCC (Q1-Q3 2021): USD2.4 billion
Top 3 sectors by contribution to GDP
Manufacturing, Wholesale and retail trade, Real Estate

Indonesia
GDP (2021): USD1186.6 billion
Imports from GCC (Q1-Q3 2021): USD5.5 billion
Top 3 sectors by contribution to GDP
Manufacturing, Agriculture, Wholesale and retail trade

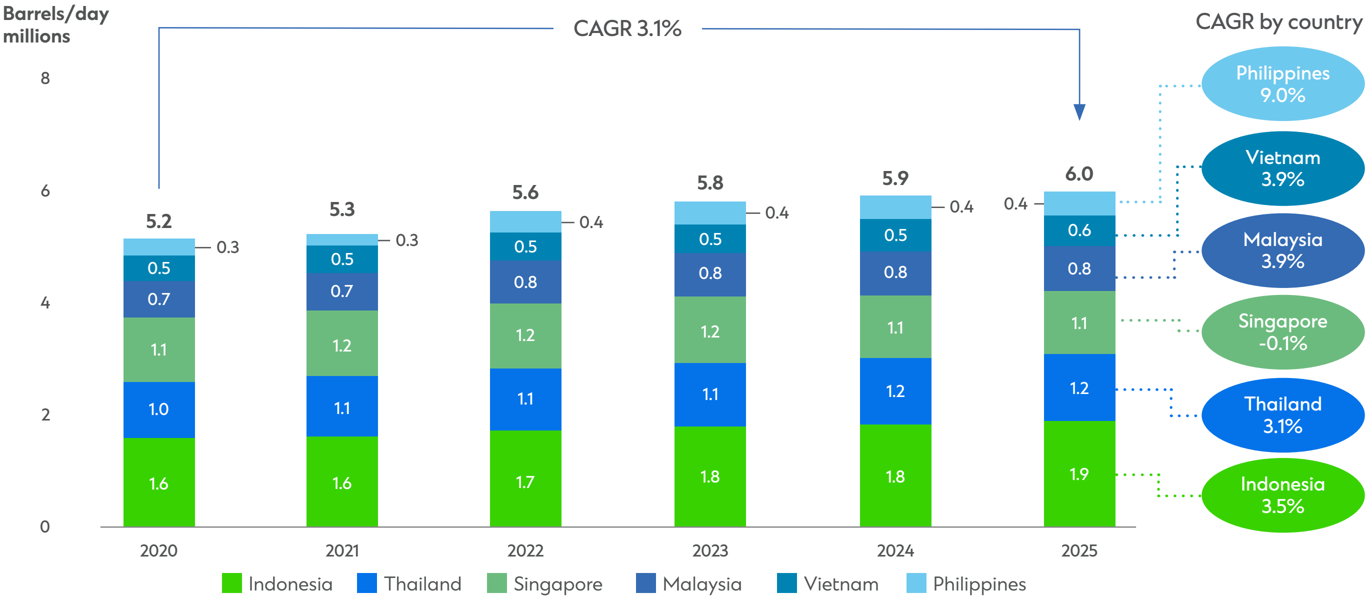
Manufacturing **Mining** **Wholesale and retail trade** **Real Estate** **Agriculture** **Professional and Technical Services**

Source: ASEAN Stats, IMF, Fitch Solutions

I. Need for investments in the refining and petrochemicals sector

Demand for fuels and petrochemicals is rising in ASEAN, with increasing economic activity driving consumption across household, transport and industrial segments. However, growth in fuel demand has far exceeded capacity addition over the past few years, and has intensified the region's reliance on imports. Looking ahead, the consumption of petroleum-based products in ASEAN-6 is expected to rise even further, at 3.1 per cent annually over 2020-25. To address increasing import costs and energy security concerns, ASEAN is now focusing on boosting local production capacity in the sector. Middle East countries have been major industry partners for ASEAN, with mineral fuels accounting for 72 per cent of ASEAN's goods imports from the GCC. There are now opportunities for Middle East businesses to expand further in the downstream segment in ASEAN, especially through investments in local production. For this, integrated refining and petrochemical facilities are being considered in particular. To help attract foreign investments, ASEAN governments are developing stronger support infrastructure, while offering multiple tax and production incentives. For example, Malaysia has established integrated petrochemical zones that offer centralised utilities, storage services and a comprehensive transportation network, to help reduce capital and operations costs for companies.[5]

Figure 4: Consumption of petroleum-based products in ASEAN-6 markets



Source: Fitch Solutions

National governments are focusing on foreign investments to boost local refining and petrochemicals in ASEAN

Indonesia

National initiatives such as the Refinery Development Master Plan aim at boosting Indonesia's refining and petrochemical production, in line with growing demand. Foreign investments are being prioritised to help build new plants and upgrade existing facilities. In 2020, the Abu Dhabi National Oil Company (ADNOC) and Indonesia's Pertamina signed an agreement to explore the development of a crude-to-petrochemicals complex in Balongan, Indonesia.

Malaysia

Malaysia's 2021-2030 blueprint for the oil and gas sector seeks to double the sector's contribution to the country's GDP to USD10 billion by 2030. Tax incentives and quality support infrastructure are also aiding the growth of the petrochemicals industry in the country. Saudi Aramco has formed a Joint Venture with Malaysia's Petronas to develop the 'PRefChem' integrated facility in Malaysia. The plant is expected to become operational by the end of 2021.

Singapore

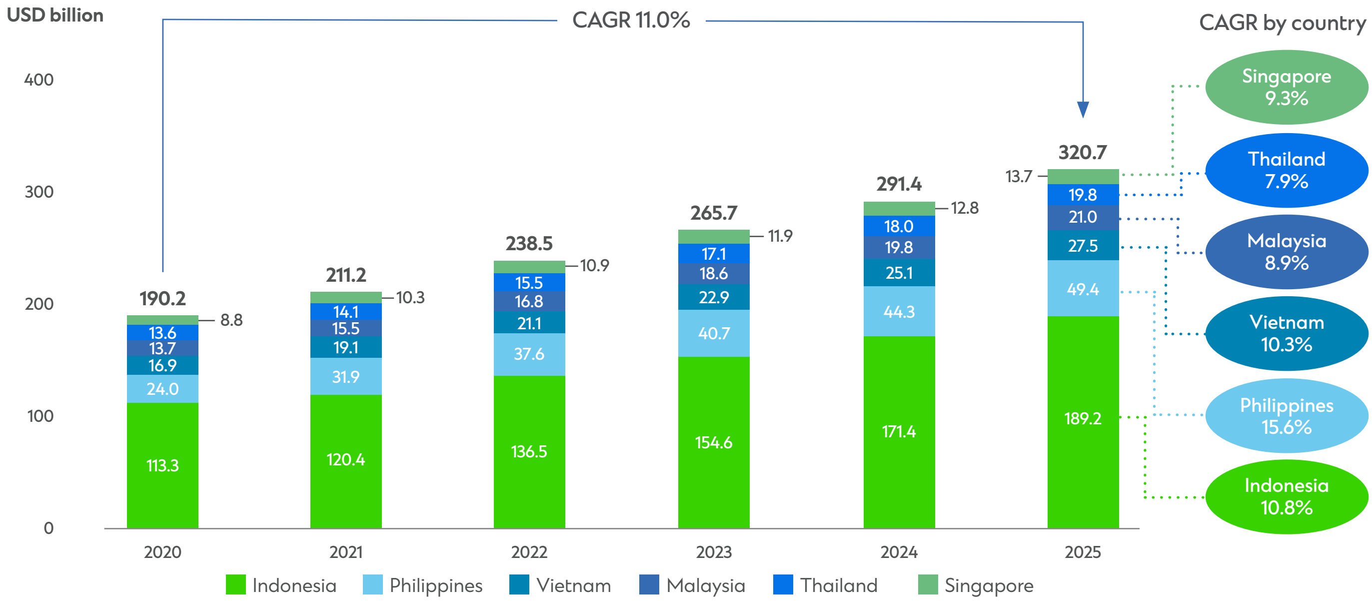
Singapore is a regional hub for refining, petrochemicals and specialty chemical activities. The city-state has Asia's fifth largest refinery capacity and houses over 100 petroleum, petrochemical and chemical companies. In 2019, Qatar Petroleum entered into a five-year agreement to supply six million barrels of low sulfur condensate to ExxonMobil Asia Pacific's integrated petrochemical complex in Singapore, to drive more direct sales with end users in the region.

Source: EDB Singapore, Asian Downstream Insights, Pipeline Oil & Gas News, S&P Global, Argus, Reuters

2. Infrastructure and real estate witness a strong surge

Rapid economic growth and urbanisation continue to drive demand for infrastructure and real estate in ASEAN, with leading regional economies investing heavily in their domestic markets. For example, Indonesia plans to spend USD429 billion on infrastructure development over 2020-24, marking an increase of 20 per cent over the previous four-year cycle. To address financing deficits, ASEAN governments are creating a favourable environment for foreign investors and developers. Most notably, the Philippines has raised foreign-equity ownership limits for infrastructure projects from 25 per cent to 40 per cent, while Indonesia now allows 100 per cent foreign ownership of airport and seaport facilities. Backed by these factors, the construction industry in ASEAN is projected to recover from the impact of the pandemic and witness double-digit growth of 11 per cent per year over 2020-25. The infrastructure segment will continue to dominate the construction industry, maintaining a 46 per cent share in sector GVA by 2025, followed by commercial real estate (32 per cent) and residential real estate (22 per cent). In particular, areas such as healthcare and transport infrastructure and logistics and industrial real estate are expected to drive growth, which is creating new investment and business opportunities for Middle East companies.[6]

Figure 5: Construction sector GVA in ASEAN-6 markets



Source: Fitch Solutions

Note: Construction sector figures include infrastructure and real estate (residential and commercial) segments

ASEAN economies have launched key infrastructure development programmes to drive economic growth

Indonesia

Already among the fastest growing construction markets in ASEAN, Indonesia plans to develop 89 new infrastructure projects over 2020-24, as part of its National Strategic Project Initiative – across areas such as roads and bridges, irrigation systems, energy and industrial zones. Emirati company DP World is investing USD1.2 billion (with partners) to build in East Java, Indonesia a port and logistics park, which is expected to be operational by 2023.

Vietnam

Under its Transport Infrastructure Master Plan, the Vietnamese Government plans to spend up to USD65 billion by 2030 to build expressways, high-speed rail routes, deepwater ports and international airports. Vietnam is looking to increase private and foreign participation in these projects by offering incentives through its revised public-private partnership (PPP) law. In 2020, the UAE and Vietnam held a business forum to promote investments in the sector.

Philippines

The Philippines has allocated a budget of USD165 billion for its 'Build Build Build' infrastructure programme over a six-year period (2017-2022). The programme includes 20,000 projects nationwide including roads, airports and seaports. Private businesses and the government of Qatar have already been exploring investment opportunities in the Philippines across infrastructure projects, direct real estate investments and asset-backed securities such as REITs.

Source: Fitch Solutions, ABS-CBN News, Qatar Tribune, ASEAN Post, ASEAN Briefing, Gulf News

DP World partners with Maspion Group to advance Indonesia's infrastructure initiatives

Background

In February 2021, UAE-based DP World (along with a Canadian investor) entered into a Joint Venture with Indonesian conglomerate Maspion Group to construct and operate an integrated container port and industrial and logistics park in Gresik (Java), Indonesia.

The project will help boost East Java's infrastructure, providing an impetus to the expanding industrial and manufacturing base in the region.

Highlights

This agreement between a foreign direct investment partner and a private sector Indonesian company is the first of its kind in the Indonesian transport infrastructure sector.

The USD1.2 billion agreement will include construction of port facilities and a 110 hectare integrated industrial and logistics park.

The port will have a capacity of up to three million TEU (twenty-foot equivalent unit), and will help meet rising demand in East Java's container market, which is seeing strong growth and high utilisation rates.

> Maspion Group is committed to support Indonesia's sustainable economic development to be aligned with President Jokowi's grand plan to make Indonesia the fifth largest economy in the world. Surabaya is an important gateway in Indonesia and the existence of this Container Port will further enhance economic development and investment opportunities in Indonesia.
>
> **– Dr. Alim Markus**
> **Chairman and CEO, Maspion Group**

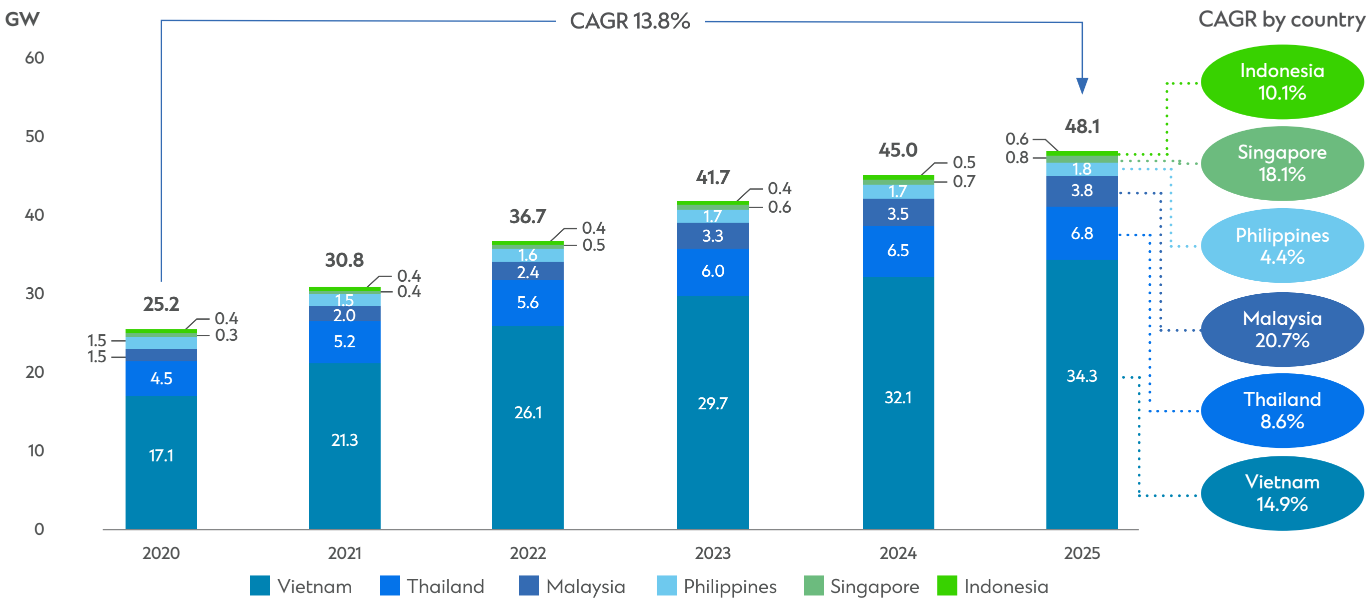
> This project will create modern, efficient infrastructure, as well as an industrial zone that provides quality logistics. DP World's business model and vision are aligned with President Jokowi's vision to spur faster economic growth through trade infrastructure development, more investment opportunities, and job creation.
>
> **– Sultan Ahmed Bin Sulayem**
> **Group Chairman and CEO, DP World**

Source: Company websites, Port Technology, Press articles

3. Renewables become a priority to meet rising energy needs

ASEAN is among the fastest growing regions worldwide in terms of energy demand. Electricity consumption has grown by more than six per cent annually over the past two decades, with regional demand projected to soar by another 70 per cent by 2040. To address these requirements whilst ensuring a sustainable future, ASEAN governments have committed to increase the share of renewable energy to 35 per cent of total installed power capacity by 2025. Within renewables, solar and wind energy emerge as the fastest growing segments. Vietnam is the regional leader in solar and wind power capacity, while Malaysia has emerged as a major hub for solar photovoltaic (PV) production and Indonesia plans to develop 60 new floating PV plants by 2030. Additionally, Singapore is positioning itself as a regional hub for green finance by developing a market for green bonds and launching initiatives such as the Singapore Green Finance Centre (SGFC) to foster research and talent development in this area. With such fast-expanding activity in the sector, ASEAN offers ample opportunities for Middle East businesses to invest, develop and provide solutions to help meet the region's sustainability goals.[7]

Figure 6: Solar and wind energy capacity in ASEAN-6 countries



Source: Fitch Solutions

Ambitious renewable energy goals are fostering growth in solar and wind power generation in ASEAN

Indonesia

Indonesia aims to increase the share of renewables in its 2021-30 National Electricity Plan to 48 per cent, rising from 30 per cent in the 2019-28 plan. As per estimates, scaling up renewables could save between USD16-52 billion per year for the Indonesian economy. In December 2020, UAE's Masdar entered into a Joint Venture with Indonesia's PJBI to develop a 145MW floating solar power plant, the largest in ASEAN – expected to begin operations in 2022.

Vietnam

Under the Power Development Plan 8, Vietnam is looking to significantly boost solar and wind energy and triple its renewable production over 2030-2045. In particular, it plans to prioritise 35 new offshore wind projects by 2030. Middle East companies are already supporting Vietnam's ambitions. Saudi Arabia's ACWA Power has developed a USD58 million solar plant in Binh Thuan, in partnership with Vietnam's FECON which has been operational since 2019.

Malaysia

Malaysia's revised Renewable Energy Policy targets increasing the share of renewable energy in total installed capacity to 31 per cent by 2025 and 40 per cent by 2035. Most of Malaysia's renewable energy is expected to be contributed by the solar power segment. UAE's Masdar and Malaysia's Petronas signed an MoU in March 2021, to jointly explore ground-mounted and floating solar projects, along with offshore wind projects across Asia.

Source: Reuters, Offshore Energy, US International Trade Administration, VietnamPlus, US EIA, The Star, Petronas, IRENA

UAE's Masdar partners with PT PLN to build Indonesia's first and ASEAN's largest floating solar power plant

Background

In August of 2021, Masdar and Indonesia's PT PJBI, a subsidiary of Indonesia's state-owned electric company PT PLN, commenced construction on the Cirata floating photovoltaic power plant in West Java.

Standard Chartered was one of the financing partners of the project.

Impact

The USD129 million plant will be the largest of its kind in Southeast Asia.

The plant will produce 145MW of electricity, powering 50,000 homes and offsetting 214,000 tonnes of carbon emissions, while creating roughly 800 jobs.

Government support

The Indonesian government has designated the power plant as a National Strategic Project, in recognition of the economic and social benefits the plant would bring to the region.

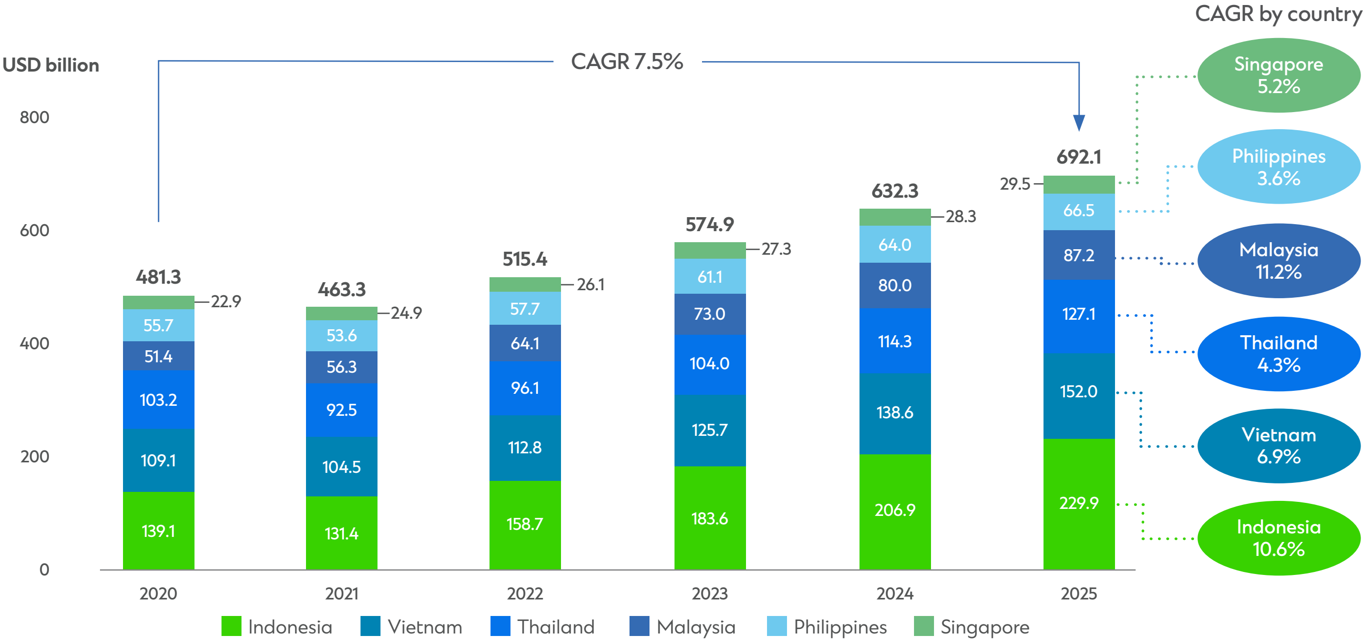
To ensure project completion, Indonesia's Investment Coordinating Board (BKPM) is supporting the project by jointly supervising it with other government bodies.

Source: Jakarta Post, Company websites

4. Retail and consumer goods sector to remain a strong growth pillar

ASEAN's retail and consumer goods sector continues to thrive, with a burgeoning middle class expected to double consumer spending in the region by 2030. Attracted to this fast-growing potential, many global consumer goods companies are looking to enhance their sales and production presence in ASEAN to better-understand regional nuances and address consumer needs with greater agility. Despite setbacks induced by the pandemic, the retail segment also seems well-poised for a rebound, rising at a CAGR of 7.5 per cent over 2020-25. The e-commerce channel will lead growth, already doubling its share in ASEAN's[c] overall retail market since 2018, to reach 9 per cent in 2020. However, brick-and-mortar outlets will continue to denote an important part of the shopping experience for ASEAN consumers. Success in the post-COVID marketplace will therefore require Middle East businesses in ASEAN to deliver richer omni-channel experiences that ensure a seamless transition between digital and physical stores. Looking at these promising trends, leading Middle East retailers and consumer goods companies have already started expanding their presence in ASEAN.[8]

Figure 7: Retail sales in ASEAN-6 countries



Source: Euromonitor

Growth across multiple segments is drawing Middle East businesses to ASEAN's consumer markets

Malaysia

Malaysia is a key market for halal goods (e.g. food and beverages, personal care, pharmaceuticals), with demand expected to touch USD113 billion by 2030. To improve trade, Malaysia plans to build a stronger halal ecosystem between ASEAN and the Middle East. More recently, Saudi Arabia has started working with the Department of Islamic Development Malaysia (JAKIM) to streamline halal certification and drive its halal exports to Malaysia.

Indonesia

The largest consumer market in ASEAN will continue to see a sharp rise in retail spending, with 75 per cent of Indonesia's population projected to be in the middle class by 2030. Attracted by Indonesia's strong economic and demographic potential, UAE's LuLu Group announced plans in 2021 to open 15 new hypermarkets, 25 express markets and a state-of-the-art logistics centre in the country over the next 5 years, while employing over 5,000 people by then.

Singapore

Singapore remains a lucrative market, especially for luxury goods, due to its more affluent consumer base and higher per capita spending. It is also emerging as a regional innovation hub to develop more sustainable consumer products (e.g. plant-based proteins). In 2021, UAE-based Gulf Marketing Group acquired Singapore's leading multi-brand sports retailer Royal Sporting House to enter key ASEAN markets (Singapore, Malaysia and Indonesia).

Source: Fitch Solutions, Inside Retail, Arab News, Euromonitor, Jakarta Times, Khaleej Times, World Economic Forum

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c Excluding Brunei

Gulf Marketing Group executes global growth strategy via ASEAN acquisition

In 2021, Dubai's Gulf Marketing Group (GMG) acquired Royal Sporting House, a retailer having large market presence throughout Southeast Asia. Prior to the acquisition, GMG operated 300 stores in the Middle East and North Africa region.

The acquisition of Royal Sporting House's 200 stores in ASEAN has allowed GMG to access millions of new consumers in some of Southeast Asia's largest markets, including Indonesia, Malaysia and Singapore.

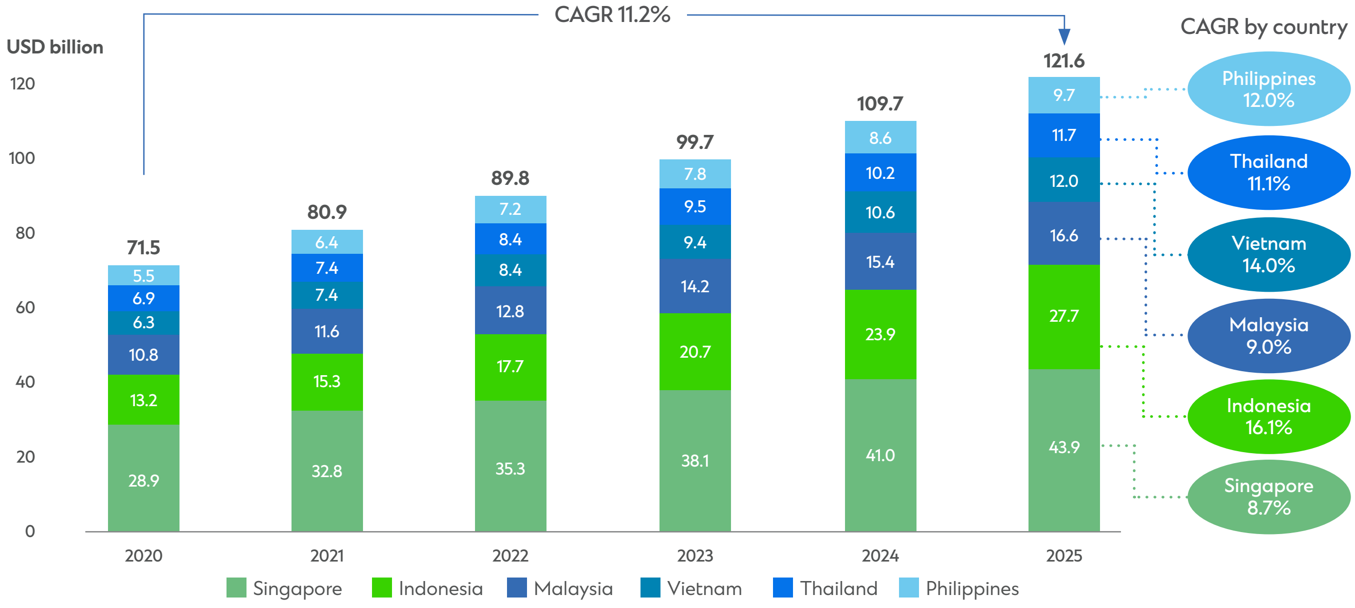
GMG views its entry into ASEAN as an important step in advancing its global expansion strategy. The acquisition also affirms the company's commitment to brick and mortar retailing in the region.

Source: Gulf Business, Arabian Business

5. A booming digital economy offers robust growth prospects

Accentuated by the pandemic, digitalisation is gaining strong momentum in ASEAN, having added more than 40 million first-time internet users in 2020 alone. By 2030, this fast-growing digital economy is expected to add USD1 trillion to ASEAN's GDP, with nearly 80 per cent of the region's population being online by then (compared to 58 per cent in 2019). However, to sustain this growth trajectory, ASEAN markets will need to strengthen their digital infrastructure across areas such as data centres, fibre networks and telecommunication towers – more so in alignment with upcoming technologies such as Industry 4.0 solutions and 5G connectivity. Spending on technology solutions in ASEAN-6 is accordingly projected to reach USD121.6 billion in 2025, and is growing at 11.2 per cent annually. This offers significant opportunities for Middle East businesses and investors. Moreover, ASEAN's digital start-up ecosystem continues to prosper – gaining growth capital from leading investment firms worldwide, including the Middle East. ASEAN is already home to 35 unicorns at present (such as Grab, the GoTo Group and Lazada), 19 of which have gained this status in 2021 itself. Many new innovative and digitally-enabled businesses continue to launch and address the evolving consumer needs in the region.[9]

Figure 8: Technology solutions market in ASEAN-6 countries



Source: Fitch Solutions

Note: Figures include sales of Information Technology (IT) hardware, software and services.

ASEAN's growing ecosystem of digital start-ups and rising digital infrastructure needs are creating investment opportunities

Malaysia

Launched in August 2020, Malaysia's National Digital Infrastructure Plan (JENDELA) seeks to increase access to high-speed fixed broadband and mobile internet by developing new fibre networks and mobile towers and prepare for a transition to 5G technology. In 2021, Abu Dhabi's sovereign wealth fund ADIA invested USD500 million in EdgePoint Infrastructure, to help the company in expanding its existing network of telecommunication towers in Malaysia (and Indonesia).

Indonesia

Indonesia is home to many rapidly growing start-ups, fuelled by its large domestic market and growing digital adoption. Internet penetration is projected to reach 92 per cent in urban areas and 82 per cent among the rural population by 2030. Middle East investors are already recognising the opportunities presented by the country's digital sector. In July 2020, the Qatar Investment Authority (QIA) led a USD250 million funding round in Traveloka, a leading online travel booking company.

Thailand

To accelerate investments and promote digital adoption amongst its industries, Thailand's Board of Investment (BOI) is offering several tax and non-tax incentives to businesses. These cover areas such as the development of digital applications (such as AI and IoT), digital infrastructure (such as submarine cables, data centres, digital parks) and digital start-ups (such as e-commerce, smart distribution centres). The Thai government also aims to make the country a global start-up hub.

Source: Malaymail, Reuters, Bangkok Post, Nikkei

Middle East Venture Capital firms seek investment opportunities in ASEAN

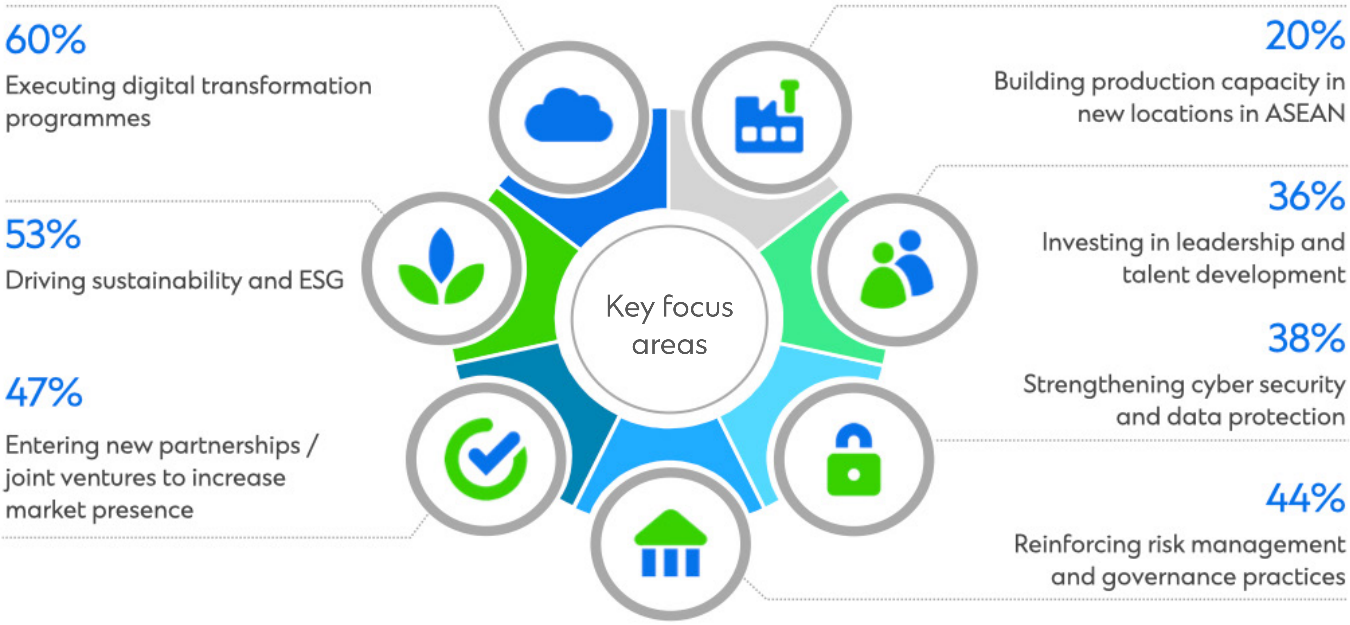
ASEAN's thriving start-up ecosystem has started attracting greater interest from Middle East Venture Capital (VC) firms, with investors eyeing opportunities across a range of sectors including FinTech, EdTech, HealthTech, and e-commerce. In 2021, the Alpha Wave Incubation (AWI) Fund, backed by Abu Dhabi Developmental Holding Company (ADQ), led the Series A funding rounds in Indonesian EdTech platform CoLearn and Singapore-based social commerce start-up Raena. Besides providing capital, AWI will offer its portfolio companies market access to the United Arab Emirates and the Middle East and North Africa (MENA) region. More recently, Abu Dhabi-based Chimera Capital closed its USD50 million VC fund that will invest in start-ups in Southeast Asia as well as the Middle East and US.

Source: Tech Circle, Tech in Asia, Chimera Capital

Acting with Impact: Five Focus Areas for Middle East Companies to Drive Resilient Growth in ASEAN

Middle East businesses targeting ASEAN's diverse and dynamic landscape will need to focus on several critical areas to achieve profitable and resilient growth. Our survey reveals (see Figure 9) that many Middle East companies are already prioritising digitalisation programmes and sustainability principles to remain competitive and build long-term resilience against disruptions. Businesses are also focusing on new partnerships to ease entry and improve market access in ASEAN. Underlying all these focus areas is the need to adopt stronger risk management practices and develop local talent in ASEAN, which a notable share of Middle East companies have recognised as well.

Figure 9: Key focus areas to drive resilient growth in ASEAN



Note: Survey question asked: 'What are the key initiatives / focus areas for your organisation to drive resilient and rebalanced growth in ASEAN? Please select the relevant options and rank them in order of importance, 1 being the most important.'

Values indicated above refer to the % of survey respondents who included the initiative as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

I. Fuel ASEAN's digitalisation ambitions by transforming traditional industries and building cyber-resilience

Digital adoption has become imperative for business growth in the post-pandemic world. Besides enabling performance improvements, businesses at the forefront of technology adoption will also be able to better anticipate and respond to an emerging crisis. ASEAN governments acknowledge this pressing need and have launched several roadmaps to digitally transform their economies. With their growing presence in the region, Middle East companies can also play an important role in advancing ASEAN's agenda – by driving technology investments and sharing digital capabilities with their ASEAN partners.

60%

of Middle East respondents place strong emphasis on digital transformation programmes to drive resilient growth in ASEAN

A. Combine digital expertise and global best practices to revamp traditional sectors

Digital solutions have emerged as critical tools in transforming traditional industries by improving efficiency, boosting profitability and increasing resilience. For example, a 2020 study by PwC showcases the rising importance of digital tools in the energy industry – with oil and gas businesses expecting digital applications to deliver a 10 per cent rise in revenues and an 8.5 per cent reduction in costs over the next five years. Anticipating this potential, leading Middle East companies have been making great strides in using digital tools to enhance operational performance. For example, the Abu Dhabi National Oil Company (ADNOC) has developed a digital command centre that uses analytics, AI and big data tools to provide real-time operational insights and recommendations. The command centre has helped improve operational performance by reducing unplanned downtime and improving visibility over dispersed operations – generating USD1 billion in business value for the company since 2017.[12]

To digitally transform their industries, several ASEAN governments have also launched Industry 4.0 focused programmes. For example, the 'Making Indonesia 4.0 Roadmap' intends to boost productivity by encouraging the adoption of IoT, AI and Robotics. Similarly, Malaysia's 'Industry4WRD' policy aims to make the local industry more competitive by adopting smart manufacturing solutions. However, these programmes need stronger cooperation with the private sector to generate impact. Large Middle East companies can become key drivers of change in this regard – especially in more traditional and capital-intensive sectors such as refining and petrochemicals or infrastructure development in ASEAN. Possessing stronger digital expertise and financial capacity, these leading companies can share new ways of working with their regional project partners in ASEAN, while also helping the local industry to develop a supportive ecosystem for digital talent, infrastructure and investments.[13]

Taking advantage of new digital trade initiatives in ASEAN

Middle East businesses targeting ASEAN can utilise regional initiatives enabling more trusted and secured data sharing to facilitate cross-border trade. A notable initiative is the 'TradeTrust' platform promoted by the Singapore Government. It uses blockchain technology to enable digital exchange of trade documents. This allows for more seamless trade flows by reducing complexities and inefficiencies associated with paper-based trading processes.[10]

Another key initiative is the Singapore Trade Data Exchange (SGTraDex) – a platform co-founded by Standard Chartered and other industry partners. Devised by the Singapore Together Alliance for Action (AfA) on Supply Chain Digitalisation, the platform offers a digitally connected ecosystem of shippers (importers/exporters), logistics players and financial institutions – both regionally and globally. Increased transparency and visibility enabled by the platform helps speed-up customs clearances and document processing, and improves access to trade finance. SGTraDex is expected to fully be rolled out in early 2022 and is estimated to generate USD200 million in value annually for its participants.[11]

Abu Dhabi Investment Authority (ADIA) invests in ASEAN's digital infrastructure growth through a stake in EdgePoint Infrastructure

Background

In July 2021, the Abu Dhabi Investment Authority (ADIA) announced plans to invest up to USD500 million in EdgePoint Infrastructure.

EdgePoint operates wireless towers across Indonesia and Malaysia and has recently grown its regional presence through acquisitions.

In Indonesia, EdgePoint acquired a majority stake in PT Centratama Telekomunikas owning 4,000 sites, and reached a sale-leaseback agreement with Indosat Ooredeoo to manage 4,247 towers.

In May 2021, the company acquired 178 towers in Malaysia from another infrastructure company called Asiaspace.

Impact

ADIA's investment will help fuel EdgePoint's growth plans. The company aims to add up to 50,000 additional sites across Asia-Pacific in the next five to seven years.

EdgePoint sees growth opportunities in both the rural and urban segments, and plans to use a combination of acquisitions and greenfield projects to expand its presence.

Source: Company websites, Nikkei

B. Implement a zero-trust security model to build digital resilience

As Middle East businesses look to ramp up their digitalisation efforts in ASEAN, they will also need to bolster cybersecurity measures to mitigate growing digital risks. Recent changes in ASEAN's regulatory environment are also necessitating greater investments in data security. For example, Singapore updated its Personal Data Protection Act in November 2020 to place greater responsibility on organisations in case of a data loss, by increasing reporting requirements and financial penalties. Despite these developments, our survey indicates that only 38 per cent of Middle East companies currently see cybersecurity as a strategic priority in ASEAN. This will need to change for businesses to build digital trust and ensure effective and efficient data flows. New security models such as the 'zero-trust' architecture can help companies in combatting growing instances and increased sophistication of cyber threats in the region. A zero-trust-based system focuses on stronger user authentication and on managing cyber threats more proactively – thereby providing continuous protection to users, data and other digital assets. To help understand and comply with diverse and evolving regulatory needs in ASEAN, Middle East companies can also utilise tools such as the ASEAN Data Management Framework (DMF) – which provides businesses with step-by-step guidelines on developing effective data governance structures and protection safeguards.[14]

Role of financial partners

Financial partners can offer digital tools to streamline and aggregate payment methods, with minimal need for technological know-how, investment or operating requirements, which provide a more seamless experience overall

Standard Chartered's digital solutions include online, last mile and in-store, and invoice collections, multi-channel payment links and instant payments, among others, which are available across multiple ASEAN countries

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Multi-Channel Payment Links

Due to COVID-19, the Hindu Endowments Board (HEB) in Singapore wanted a "light touch" online collections solution without the hassle of managing a website, app or POS (point-of-sale) terminals.

With Standard Chartered's payment link feature – Straight2Bank Pay – HEB could collect payments via e-mail, SMS, digital invoice or social media (WhatsApp), providing operational efficiency and a seamless experience for both the client and its devotees.

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Online Collections

DHL had to rethink their cash payment ecosystem to minimise paper-based processes and facilitate payments in local currencies across different markets.

Standard Chartered partnered with DHL to co-create an online collections solution that would allow DHL's customers across Asia to make online payments via the DHL portal using local payments, bank transfers, e-Wallets and cards; as well as a QR code generation app to generate dynamic QR codes for accepting payments for shipments at DHL's service points in Singapore.

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Last Mile and In-Store Collections

A leading consumer electronics, IT and furniture retailer wanted to provide an additional payment option – instant payment at checkout, in addition to payments by credit card or cash.

Standard Chartered collaborated with the retail client to integrate their POS terminal with the bank's Straight2Bank Pay platform to generate dynamic instant payment QR codes.

Shoppers can scan the QR code using their smart phone and authorise contactless payment via their mobile banking app.

2. Adopt environmentally and socially responsible principles to remain relevant in ASEAN's evolving market

Efforts by ASEAN governments to shift to a greener future and rising sustainability considerations amongst ASEAN consumers are creating new growth avenues for companies. However, to capitalise on these opportunities and build a stronger competitive advantage, Middle East businesses will need to redesign traditional business models. Supporting these requirements, companies can benefit from fast-growing access to new sources of growth capital such as green finance within ASEAN.

53%

of Middle East companies plan to focus on ESG (Environment, Social and Governance) initiatives to drive future growth in ASEAN

A. Align corporate growth with sustainability needs of regional stakeholders

Across ASEAN, governments have made strong commitments to addressing climate risks and reducing emissions. For example, Malaysia plans to reduce greenhouse gas (GHG) emission intensity of GDP by 45 per cent by 2030, while Indonesia is also looking to cut emissions between 29 to 41 per cent by then. Supporting this agenda, ASEAN consumers are making more sustainability-based choices as well and are increasingly opting for brands that showcase environmental and social responsibility. A 2020 'Global Consumer Insights' survey conducted by PwC highlights this trend, with 52 per cent of consumers in Southeast Asia wanting businesses to be held accountable for their environmental impact. This shift is creating new opportunities for companies to differentiate by creating a sustainability-based market positioning.[15]

Middle East companies that align themselves with these changing priorities will be better-placed to succeed in ASEAN. For energy companies, this will mean transitioning to low-carbon segments such as natural gas, biofuels and renewables. Real estate and infrastructure developers will have to turn their attention towards climate-resilient and energy efficient projects such as smart cities and green buildings. Similarly, consumer goods companies will need to align with ASEAN's changing preferences by offering new products (e.g. those using biodegradable materials) and adopting new practices (e.g. using recycled raw materials). During this transition journey, Middle East companies can also take advantage of key government initiatives in ASEAN. For example, Singapore Government's 'Enterprise Sustainability Programme' supports companies in developing their sustainability strategy, adopting sustainability standards and developing targeted market offerings.[17]

B. Leverage green financing opportunities to fund sustainability plans

According to a study published by Standard Chartered in 2021, 67 per cent of global companies considered the lack of capital as a major barrier to transitioning to a net-zero future. To address this challenge, banking institutions in ASEAN have started extending new financing options to businesses seeking opportunities in low carbon and climate-resilient areas. Green, Social and Sustainability (GSS) bonds and loans issuance in the region reached an all-time high of USD12 billion in 2020, growing YoY by 5.2 per cent. Singapore accounted for more than 50 per cent of bond issuance (by amount) in 2020, followed by Indonesia (24 per cent) and the Philippines (9 per cent). ASEAN governments are also implementing new mechanisms to boost sustainable investments. For example, Malaysia published a taxonomy in 2021 to help determine which activities qualify as environmentally sustainable. Discussions are further underway to develop an 'ASEAN Taxonomy for Sustainable Finance' to complement the efforts of individual markets. Singapore also offers a Green and Sustainability-Linked Loan Grant Scheme (GSLS), which covers borrower expenses associated with getting external reviews to validate credentials and report compliance with sustainability principles.[18]

Explore carbon markets to augment long-term emission reduction efforts

Carbon credits are emerging as a cost-effective solution for companies to offset emissions and meet their decarbonisation targets. With a growing number of governments and corporates in ASEAN committing to net-zero emission goals, demand for high-quality carbon credits is expected to rise significantly. To address these needs, Standard Chartered has partnered with other industry stakeholders in Singapore to establish a carbon exchange, Climate Impact X (CIX). Expected to host regular auctions of voluntary nature-based carbon credits in 2022, after a pilot completed in October 2021, the initiative includes two distinct platforms catering to the needs of buyers and sellers. It also uses technologies such as satellite monitoring, machine learning and blockchain to enhance transparency, integrity and the quality of carbon credits. While Singapore has taken a lead in this space, other ASEAN markets such as Indonesia, the Philippines, Thailand and Vietnam have also initiated regulatory changes and pilot projects to enable carbon credit trading in the coming years.[16]

Increased focus on low-carbon alternatives is creating opportunities for Liquefied Natural Gas (LNG) exports to ASEAN

Need for low carbon alternatives

ASEAN is turning to low-carbon alternatives to improve energy security while also reducing emissions.

Though renewable energy remains a core area of focus, it alone may not be able to meet ASEAN's growing energy demands.

Growing focus on LNG in ASEAN

Being a cleaner fossil fuel, LNG demand is rising in ASEAN.

Vietnam plans to build 41 LNG-to-power plants and is speeding up the development of LNG import terminals.

Thailand cancelled plans to build two coal-fired power plants in 2021, and will instead build a USD1 billion gas-fired complex.

Qatar's QP Trading helps meet Singapore's LNG demand

In 2020, Singapore's Pavilion Energy and Qatar's QP Trading reached a 10-year agreement to provide Singapore with up to 1.8 million tonnes of natural gas per year.

Carbon reduction concerns remain at the forefront. Each shipment will include a statement of its greenhouse gas emissions measured from well to port – thereby promoting development of more environmentally responsible LNG

Source: Company Reports, Nikkei, Pinsent Masons

Standard Chartered takes the lead in sustainable finance in Vietnam, affirming the Bank's commitment to the UN Sustainable Development Goals

Background

Standard Chartered successfully completed a USD462 million trade finance transaction for renewable wind power projects in Vietnam, in May 2021.

In another significant deal, the Bank helped price a USD200 million corporate green bond issuance by BIM Land JSC, a Vietnamese real estate company.

Highlights

The Bank's trade finance transaction will provide financing support for four wind power projects in Vietnam – helping advance the sustainable development agenda in the country.

In the BIM Land JSC project, the Bank played a critical role in structuring the transaction, creating the green bond framework, developing the marketing and execution strategies and advising the issuer on favourable windows in the market.

BIM Land JSC plans to utilise the funds raised from the bond to finance Excellence in Design for Greater Efficiencies or EDGE-certified (a green building certification) projects in Vietnam.

> "By using our sustainable financing solutions, our clients can now complement their sustainable procurement and their own sustainable agenda with Standard Chartered's tailor-made solutions. The recent wind power and green bond transactions are two notable deals that reinforce our sustainability commitment. Leveraging on these, we will take greater strides to meet our clients' sustainable finance needs."
>
> – Michele Wee, CEO, Standard Chartered Bank Vietnam

3. Leverage regional partnerships to understand market complexities and address capability gaps

Strategic partnerships can better-support Middle East companies in their internationalisation efforts by facilitating market entry and mitigating growth risks associated with new geographies or target segments. ASEAN's diverse landscape can pose a challenge to Middle East businesses in suitably adapting their business models, considering their limited familiarity with the region. Building local alliances will be essential in this regard – to better understand local nuances and become more competitive by working with their ASEAN partners.

64%

of Middle East companies consider adapting their business models to local industry practices and conditions as a growth challenge in ASEAN

A. Explore corporate mergers and acquisitions to become more competitive

Limited understanding of consumer behaviour, the competitor landscape and local business practices can be a major impediment to cross-border expansion. To address these concerns and suitably adapt their business models in ASEAN, Middle East businesses can enter into strategic partnerships with local industry players. Larger companies having greater financial resources can also explore acquisitions in ASEAN to quickly expand their presence in new markets or product categories. These corporate partnerships and acquisitions can further enable Middle East companies to access new capabilities such as product innovations, R&D skills or an existing customer base that are critical to succeed in the marketplace.

Middle East businesses considering the Mergers and Acquisitions (M&A) route will foremost need to identify and screen the right target companies in ASEAN, while also strengthening their organisational capabilities to ensure successful post-deal integration. A comprehensive due diligence exercise is a must in this regard, reducing investment risks by outlining partner liabilities and uncovering compliance-related restrictions. A detailed integration plan will also be required to enable easier transfer of best practices and local market knowledge among partner firms. Additionally, establishing a dedicated corporate alliance management function to oversee international partnerships in ASEAN can be considered as well. This function is implemented to oversee and manage integration efforts, to ensure partner companies can successfully navigate through differences in their organisational structures and ways of working.

91%

of Middle East survey respondents plan to increase investments in ASEAN by more than 25 per cent, post ratification of the RCEP agreement

Use ASEAN's global connections to open doors to new markets

ASEAN's wide network of global trade agreements can provide new avenues of growth for Middle East businesses. Most notably, the Regional Comprehensive Economic Partnership (RCEP) Agreement is expected to significantly boost Asia Pacific trade, having been signed by 10 ASEAN and five other countries (Australia, China, Japan, New Zealand and South Korea). Middle East companies planning to establish production presence in ASEAN (e.g. petrochemicals or consumer goods businesses) can leverage reductions in tariffs, common rule of origins and other trade facilitation measures under the RCEP to access participating markets more easily. Additionally, Middle East companies can utilise ASEAN's ties with other major markets as well, through agreements such as the EU-Singapore Free Trade Agreement (EUSFTA), the EU-Vietnam Free Trade Agreement (EUVFTA) and the ASEAN-India Free Trade Area (AIFTA).[19]

Petronas forms strategic partnership with Saudi Aramco to build integrated refining and petrochemicals facility in Malaysia

Background: Petronas entered into a Joint Venture ('PRefChem') with Saudi Aramco, to build a USD16 billion integrated refinery and petrochemicals plant in Malaysia. The plant is expected to begin operations by the end of 2021.

PRefChem will help Petronas in increasing its refining and petrochemicals capacity, for domestic use and exports.

- The refinery complex has a capacity of 300,000 bpd and produces a range of refined petroleum products meeting Euro 5 fuel specifications.
- The petrochemicals facility has an output capacity of 2.5 million tonnes per annum.
- The facility will have high degree of integration between refining and petrochemicals, with petrochemicals production being more than 20 per cent of crude intake.

PRefChem will strengthen Saudi Aramco's ability to grow in Southeast Asia, across crude supply and downstream operations.

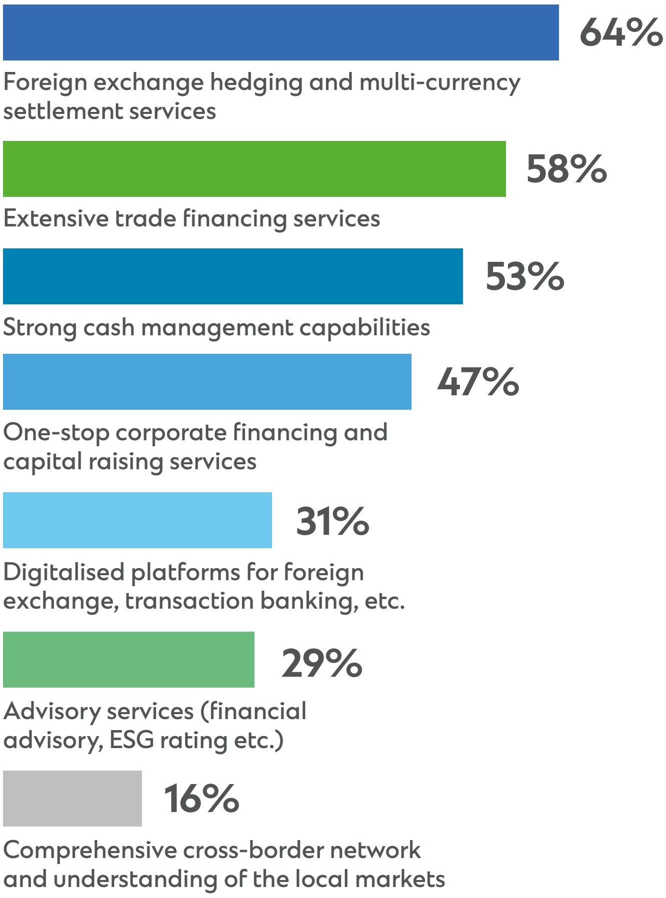
- The investment is part of Aramco's global strategy to grow its downstream business, and expand in new geographies such as Southeast Asia.
- Aramco will also supply half of the plant's crude feedstock, creating greater demand security.
- The project is expected to bolster future collaboration between the two state-owned companies.

Source: Company websites, Nikkei, Bloomberg, S&P Global, Press Articles

B. Work with regional financial institutions to mitigate expansion risks

Financial partners with an extensive regional network and deep market knowledge can enable Middle East companies to expand suitably in ASEAN – apprising them of risks associated with new markets and assisting them with suitable mitigation strategies. For example, financial institutions can assist businesses in developing hedging strategies to secure investments from foreign exchange risks, counterparty risks or other market fluctuations. Capitalising upon their regional connections, financial advisors can also support Middle East businesses in identifying suitable targets for Joint Ventures (JVs) or acquisitions in ASEAN. Furthermore, banking partners can enable access to more customised solutions to facilitate cross-border payments and collections for multi-territory companies. Leading financial services players in ASEAN are increasingly offering new digital tools to further assist their clients in this regard. Aligned with these needs, the highest number of Middle East respondents in our survey have indicated 'forex hedging and multi-currency settlement services' and 'trade financing' as major requirements from their banking partners.

Figure 10: Key requirements from banking partners to support growth in ASEAN



Note: Survey question asked: 'What are the key requirements from your banking partner, to support your growth in ASEAN? Please select the relevant options and rank them in order of importance, 1 being the most important.'

Values indicated above refer to the % of survey respondents who included the requirement as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

Role of financial partners

Financial partners can provide companies with customised cash management solutions to facilitate cross-border payments, collections, information and liquidity management. Financial partners can also help navigate complex regulations and reduce the client's compliance burden.

Case study:

Order and payments management for a network and communications product manufacturer

Background

Client is a network and communications product manufacturer looking to expand its emerging-markets business by ensuring availability of working capital.

Client wanted to reduce financial administrative costs and share payment risks with channel partners, while fulfilling orders and paying invoices in a timely manner. They also wanted real-time reporting of channel partners' credit limits and tracking of invoices for financing and payment.

Transaction Highlights

Straight2Bank Access Host-to-Host securely connected client's ERP back-end system with Standard Chartered to directly import purchase orders and invoices.

Invoices and purchase orders were automatically matched to calculate financing for payments to the client.

Straight2Bank enabled real-time assessment of channel partners' credit limits as well as monitoring of purchase orders and invoices.

Impact

Increased productivity and performance from automation of payments and supply-chain financing via Straight2Bank Access.

Improvement in process efficiency with payment processes automated and simplified into a single step.

Real-time visibility and transparency of payment transactions with the ability to monitor status of purchase orders and invoices through Straight2Bank.

4. Bolster risk management and governance to address regional differences and emerging challenges

Institutional differences across ASEAN and emerging challenges will necessitate stronger risk management practices to be adopted by Middle East businesses targeting the region.

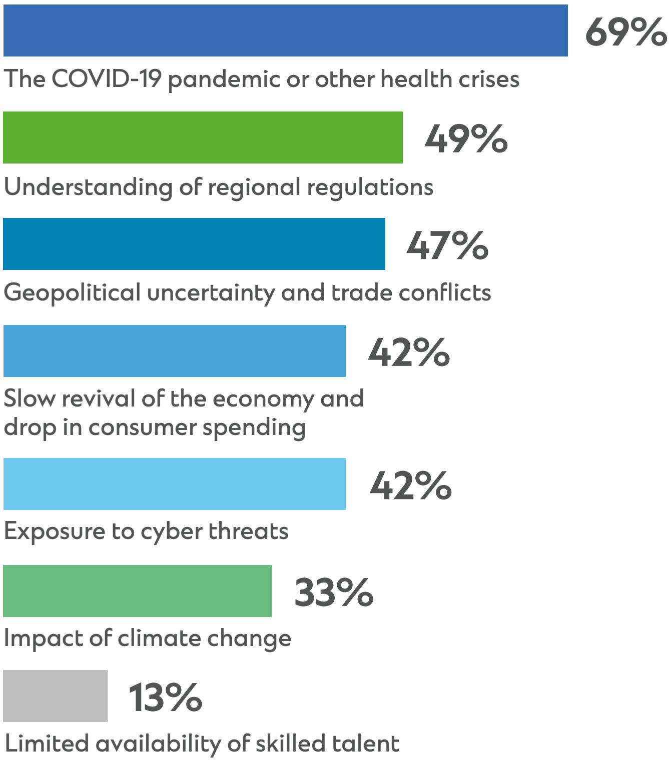
A. Understand regional disparities to effectively manage business risks

ASEAN's 10 member countries denote a highly diverse landscape, requiring Middle East companies to be aware of and prepare for any institutional disparities that can impact their regional operations. In particular, companies need to understand regional differences in the level of political stability, regulatory quality, strength of the legal system and the enforcement of intellectual property norms, and incorporate these elements within their governance and risk management frameworks for the region. Country-level risk assessments will need to cover multiple areas including strategic, safety, compliance and financial risks. Businesses will also need to build stronger due diligence skills (covering technical, financial and legal factors) to better estimate the viability of different markets and conduct periodic risk assessments and partner audits to identify potential issues in time.

B. Strengthen risk management principles to prepare for future disruptions

Our survey illustrates the risks associated by Middle East companies having operations in ASEAN (Figure 11), with the COVID-19 crisis emerging as a leading concern. Other areas such as trade protectionism and geopolitical concerns are also challenging the viability of traditional ways of working.

Figure 11: Key risks for businesses in ASEAN



Note: Survey question asked: 'What are the key risks for your business in ASEAN? Please select the relevant options and rank them in order of significance, 1 being the highest risk factor.'

Values indicated above refer to the % of survey respondents who included the risk as one of the top 3 ranked choices

Source: Standard Chartered Survey, 2021

To manage these issues, Middle East businesses in ASEAN will need to integrate risk management across all their business processes. They will have to ensure that different risk functions such as compliance, internal audit and reporting coordinate with each other to eliminate gaps in risk coverage. Given the size and importance of this task, risk functions should consider adopting new data analytics tools and strengthen their scenario planning capabilities to proactively identify and manage challenges. In addition to factoring in traditional areas (operational, financial, reputational and regulatory risks), Middle East businesses will also need to incorporate environmental, social and data security risks within their existing frameworks. Companies will further need to set up a dedicated risk management team for ASEAN, having the responsibility to monitor and communicate country-level risks with the regional leadership. Preparing for sudden and unexpected events, this team will need to develop comprehensive business continuity plans and outline the company's strategy and communication protocols in case of a future disruption.[20]

Upgrade governance frameworks for purposeful growth

Income inequalities, climate risks and COVID-19-related disruptions have emerged as key issues impacting people's lives and livelihoods. Tackling these challenges will now require markets to restore trust amongst various stakeholders including governments, businesses, employees and communities. Large Middle East companies are well-positioned to enable this change in ASEAN through partnerships with ASEAN governments and community organisations that help balance profits with environmental and social purpose. Establishing mechanisms that enhance information sharing and transparency among partners will also be integral to success. For example, new technologies can facilitate real-time visibility but will need stronger data governance and cybersecurity measures to enhance digital trust. Balanced growth will further require Middle East companies to adopt more holistic governance frameworks in ASEAN – incorporating areas such as environmental impact, social responsibility, workplace safety, inclusion and diversity and gender representation to suitably reconfigure their businesses for the future.

5. Build a workforce for the future to enable flexible and resilient business operations in ASEAN

Changing market dynamics and the pandemic have altered the business landscape in ASEAN, requiring companies to upskill and reskill their workforce to enable new growth propositions. Successful implementation of sector plans will depend majorly on having a strong talent base and developing the right culture that fosters learning and innovation.

A. Create a holistic and agile talent development programme

To prepare their talent for long-term success, Middle East businesses will need to adopt a more holistic talent strategy in ASEAN (covering planning, recruitment, development and retention aspects) that aligns with their corporate growth objectives and the wider industry needs in ASEAN. This will help companies to clearly identify current capability and capacity gaps, and create a detailed roadmap that highlights the resources and initiatives required to achieve defined goals. However, this will not be a one-time task. Once companies have put this plan into implementation, they will also need to ensure ongoing collaboration between business leaders and the HR team so that the talent roadmap can be consistently adjusted for evolving market characteristics and skilling requirements.

Government-led programmes such as Singapore's Industry 4.0 Human Capital Initiative (IHCI) and Thailand's Strategic Talent Centre (STC) can also help Middle East companies in addressing their talent needs in ASEAN. For example, the IHCI prepares companies for successful Industry 4.0 transformation by helping them in conducting skill-gap assessments and designing training programs for effective transformation. Similarly, the STC focuses on building local innovation expertise and facilitating a transition to Industry 4.0 solutions. It helps connect companies in Thailand with suitable science and technology experts globally and enable stronger cross-border collaboration.[22]

Utilise technology to personalise talent initiatives in ASEAN

To enhance workforce engagement, Middle East businesses will need to customise their learning programmes based on local employee needs in ASEAN. A 2020 report by LinkedIn shows that more than 75 per cent of global professionals value receiving personalised training recommendations based on their career goals and skills gaps. Employee expectations in ASEAN have also been changing, with a rising millennial workforce demanding a more flexible work environment and more personalised growth plans. New technologies such as AI-driven platforms and HR analytics solutions can be useful in this regard. These solutions can help provide a better understanding of workforce needs, tailor benefits based on different employee preferences and allow businesses to see how these benefits are being utilised in real-time, to make timely interventions.[21]

B. Develop a supportive work culture to drive implementation

Effective implementation of talent programmes will need a cultural shift as well, requiring employees to be given greater control over selecting their development path and timelines. Employees must be invited to suggest improvements to ongoing programmes, incorporating their feedback into an iterative development process. By establishing a sense of co-creation, much higher levels of skill development can be achieved at a faster pace with the organisation. Middle East companies will also need to design more targeted value propositions (monetary and non-monetary) to incentivise desired participation from employees. For multi-territory businesses, these policies will need to be benchmarked as per local practices and regulations and appropriately modified for each ASEAN market. Finally, leadership initiatives will be critical to enabling the right culture. Hiring and developing local leadership talent will be important for Middle East businesses to enable easier entry and achieve long-term success in ASEAN. Regional business leaders will also need to be adequately trained for international operations, educating them in global best practices and varying management styles required across different ASEAN markets.[23]

Conclusion

Economic diversification has increasingly become a critical growth priority for Middle East markets, more so as they seek to design a new development path relevant for the emerging post-COVID world. To achieve these ambitions, Middle East businesses will need to target new growth markets and address a wide range of opportunities to achieve profitability balanced with resilience. ASEAN has the potential to become a major growth partner for the Middle East in this regard. The region offers new trade and investment prospects across both established sectors (such as refinery and petrochemicals, real estate and infrastructure and consumer goods) and emerging segments (such as digital solutions and renewable energy). However, changing market conditions and consumer preferences will require Middle East companies to collaborate more closely with regional partners to understand ASEAN's diverse nuances. Businesses will also need to adopt ESG principles and lead digital transformation efforts within traditional industries. To further support these initiatives, Middle East organisations will need to enhance local talent development efforts and adopt more robust governance frameworks to mitigate future growth risks.

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