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Nazir Razak

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ASEAN and the Fourth Industrial Revolution

Michael Lawrence, Chief Executive of Asia House

Your excellencies

Distinguished guests

Ladies and gentlemen

Good morning.

INTRODUCTION

Thank you, Asia House, for inviting me to share some perspectives on ASEAN and the Fourth Industrial Revolution despite the fact that I am over 50, have spent my entire career in banking, and like all inherently conservative, arrogant and boring bankers, I am today struggling to help navigate my bank, my bankers and myself into this new era.

It is impossible to overestimate the significance of the Fourth Industrial Revolution. Some even call it the fourth revolution of humanity, as technological advancement in the digital, physical and biological realms change us and practically everything around us at an incredible speed.

I spent my career building CIMB into what I thought would be a robust financial edifice across the ASEAN region that would stand shoulder to shoulder with the best domestic and global banks in every ASEAN country. Less than five years ago, we would boast proudly about having the most branches and the newest proprietary core banking system across ASEAN to serve customers from Chiang Mai down to Bali. Today, we shout about how quickly we have reduced the size of our branch network and technologically connected business partners onto our platform.

As CIMB looks to the future, we point to our legacy processes, legacy people and legacy customers inhibiting change. We know that in order to survive, we need a complete overhaul of our business, front to back, including where we make money, how we organise ourselves and who our real competitors are. I think CIMB has been relatively successful at recognising the magnitude of the Fourth Industrial Revolution challenge and preparing for drastic changes, but we have yet to have a comprehensive game plan. But still, that probably already qualifies us into the group of likely survivors amongst legacy banks. And since that is a small, elite group of banks, maybe Asia House can still be excused for choosing me as the keynote speaker this morning.

Ladies and gentlemen

ASEAN AND FOURTH INDUSTRIAL REVOLUTION

While I have been struggling to find answers for CIMB, I have also been thinking about the Fourth Industrial Revolution in the ASEAN context. In my capacity as Chairman of the World Economic Forum's ASEAN Regional Strategy Group, I worked with teams from WEF and Asian Development Bank on a study that explores what the Fourth Industrial Revolution means for ASEAN integration and how the regional bloc should respond. At the ASEAN Summit in Manila last November, I presented to the ASEAN Heads of State a summary of the report with the following key points:

- 1) In the Fourth Industrial Revolution, we face a future of accelerating disruption. ASEAN must get ahead of these changes or we will be left behind.
- 2) It is essential that the nations of ASEAN respond at the regional level.
- 3) In order to build a regional response, we need to reform our ASEAN institutions and the 'ASEAN Way' of economic integration.

Ladies and gentlemen

REGIONAL RESPONSE AND A 4.0 PLAN

There is already reasonable awareness and concern amongst ASEAN governments about the Fourth Industrial Revolution challenge - the massive potential benefits and opportunities, and the massive potential disruptions and risks. Several have taken action – Malaysia has its Digital Free Trade Zone, Singapore has its Smart Nation plan, and there are Thailand 4.0 and, most recently, Making Indonesia 4.0.

The central argument of our WEF-ADB report is that responding at a national level is not enough. The Fourth Industrial Revolution does not recognise national borders and some of its greatest impacts will play out at a regional scale as the nature and imperatives of cross-border relations and economic interactions are transformed.

ASEAN can and must help its businesses navigate the Fourth Industrial Revolution. ASEAN banks, fintechs and platform companies look in awe at the likes of Ping An, Alibaba and Tencent, and how they have managed to exploit China's scale to invest and innovate. If ASEAN does not bring to bear the region's economies of scale for its businesses, its markets will be won by global players.

ASEAN needs a 4.0 plan to strategise how to defend and capture opportunities as well as address challenges of the Fourth Industrial Revolution at the regional level. Apart from availing regional scale, key areas to address in detail are:

- 1) Data sharing: Data is the foundation of the Fourth Industrial Revolution. Individuals, companies and governments will increasingly rely on the ability to move, process and store data throughout ASEAN. ASEAN must think about how to encourage data

to flow safely and with minimal friction across borders. Today's ASEAN governments have mindsets that are probably best described as being completely opposite of what is, in fact, needed.

- 2) E-commerce: Online retailing pre-dates the Fourth Industrial Revolution, yet it remains inefficient at the regional level. Recently, I was shocked to discover that some Malaysian fashion retailers still find it easier and quicker to deliver their goods to the UK than to Indonesia due to logistics and customs issues.
- 3) Trade and manufacturing: As the character of trade is shifting away from physical goods towards virtual goods and services, ASEAN must think about governance issues. Even products, such as engines and spare parts, are becoming more virtual in character with 3D printing. In healthcare, we are already seeing, for example, Cambodians being treated online by medical centres in Manila. These trends will have profound implications on industrial policies in ASEAN - on who would set the industrial standards and safety regulations, and how they would be enforced, as well as how taxes would be collected.
- 4) Labour: Countries will need access to pools of human capital with new skills, such as data scientists, IT systems managers and software coders. Reducing barriers to the mobility of skilled workers in the region necessitates the expansion of existing mutual recognition agreements among ASEAN nations. Relatedly, ASEAN should also think about potential job displacements and regional collaboration initiatives to mitigate them.
- 5) Entrepreneurship and capital: ASEAN needs to ease flows of private equity and venture capital across the region to groom the region's best entrepreneurs. Currently, much of capital pooling is only national in focus. Relatedly, ASEAN needs to also help to protect emerging regional entrepreneurs from the might and restrictive practices of incumbents.

Ladies and gentlemen

The Fourth Industrial Revolution is complex, but what is simple is the certainty that it is overhauling everything around us, our companies and our nations. Everyone should have a response - to adjust, to prepare, to capitalise. From my experience at CIMB, a large incumbent business, the internal structural resistance and constraints on an organisation's ability to make necessary changes are huge – such as short-term KPIs, job protectionism and defending legacy decisions. At the national and regional levels, there are analogous challenges, such as unemployment, nationalism and vested interests. Therefore, leadership, strategic planning and methodical execution are crucial.

As ASEAN turned 50 last year, we acknowledged its many great achievements, not least peace and stability that have enabled growth and prosperity. Despite trends elsewhere, no country even thinks about exiting the bloc. The key to ASEAN's success

has been the so-called 'ASEAN Way' of how things work within the grouping. Although there is no official definition of the 'ASEAN Way', it would include unanimous decision-making, allowing countries to opt out or delay any initiative, minimum empowerment of supranational bodies, and absence of any legal enforcement for regional initiatives. While the ASEAN Way makes it politically easy to be part of ASEAN, it has made economic integration very hard; the ASEAN Economic Community that came into effect in 2016 is substantially short of what was envisaged.

The case for economic integration has of course been amplified by the advent of the Fourth Industrial Revolution. ASEAN, however, has yet to show any inkling of willingness to change the ASEAN Way to integration. It is certainly tough to reform something that has been a key success factor, but then again, nothing about the Fourth Industrial Revolution challenge is easy. We have to reform how we do things in ASEAN.

Ladies and gentlemen

ASEAN AS PLATFORM ORGANISATION AND SECRETARIAT'S FUNDING

It is time for the institutional capabilities of the ASEAN Secretariat to be reinforced. Our report makes several recommendations, but the most important one is the proposal to turn the Secretariat into a platform organisation and become the "operating system" for regional integration. The heavy lifting should be done by multi-stakeholder groups with much deeper expertise and vested interest than ASEAN Secretariat officials. The Secretariat would ensure that these groups work in the desired way and actively monitor effective implementation. This platform model would allow the Secretariat to harness the resources of a wider group and is consistent with the fact that today, the push for greater integration is really coming from businesses - we have tested some of the fruits and want more, and we can see the Fourth Industrial Revolution tsunami coming, and greater regionalisation is an imperative tactical move.

Our report also notes that it is crucial for the Secretariat to have better funding and staffing models. Today, each country contributes a standard yearly amount of US\$2 million, giving a budget of US\$20 million compared with €155 billion for the EU. Our report recommends an immediate increase to US\$200 million and a funding model based on the size of a country's GDP, with bigger economies paying more than smaller ones, much like the funding model at the United Nations. This is actually an insignificant amount when compared to the total annual ASEAN governments' spend of about US\$500 billion, but one that would make a significant difference on how the ASEAN Secretariat can help steer the region into the Fourth Industrial Revolution.

Ladies and gentlemen

CONCLUSION

The Fourth Industrial Revolution is a massive game changer, as were the three other revolutions before it. There is so much to be gained or lost - we have already seen start-

ups becoming giant businesses and giants becoming dinosaurs with stunning speed. Endangered most are those who chose to do nothing.

The region needs to respond together with an ASEAN 4.0 plan and the reform of ASEAN institutions - ASEAN Secretariat as a platform organisation with more funding and empowerment. The 'ASEAN Way' has been key to ASEAN's past success, but to fully appreciate the scale of the Fourth Industrial Revolution challenge is to realise that what got us here will no longer get us there.

Thank you.

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