ECONOMIST IMPACT

# Uncharted Territory: Deepening trade and investment between ASEAN and the GCC

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# About the research

*Uncharted Territory: Deepening trade and investment between ASEAN and the GCC* is an Economist Impact report, sponsored by Dubai Chamber of Commerce and Industry. The report examines the business and investment environment in the Association of South-East Asian Nations (ASEAN)[1] and opportunities for greater economic co-operation with the Gulf Co-operation Council (GCC)[2] countries in a post-pandemic era.

The report is based on a survey of 200 senior executives in ASEAN,[3] conducted between May and July 2021. Respondents were drawn from a range of sectors: around 15% each from agriculture and food, financial services and fintech, retail and e-commerce, industry and energy, and 10% from professional services and marketing. The survey focuses on how businesses performed during the pandemic, their responses to challenges, the post-pandemic business outlook, and drivers of engagement with different regions within the Middle East (including the GCC) and Africa.

As part of the research, in August and September 2021 we also conducted a series of in-depth interviews with senior executives from ASEAN and the GCC. Our thanks are due to the following (listed alphabetically) for their time and insight:

- Kevin Aluwi, CEO and co-founder, Gojek
- Ysmael Baysa, chief financial officer, Jollibee Foods Corp.
- Piyush Chowhan, chief information officer, Lulu Group
- Han Kwee Juan, managing director and group head of strategy and planning, DBS Group Holdings
- Ayman Sejiny, CEO, Islamic Corporation for the Development of the Private Sector, Islamic Development Bank

[1] The ASEAN countries are Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

[2] The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

[3] This report is the first in a three-part series, the other two reports focus on sub-Saharan Africa and Latin America. An identical survey was conducted across sub-Saharan Africa, ASEAN and Latin America, with 200 respondents in each region.

# Executive summary

The GCC's pivot to Asia has yielded some strategic partnerships with the region's giants, including China and India, but the relationship with the ASEAN countries remains underdeveloped. Imports from the ASEAN countries made up just 6% of the GCC's total imports between 2016 and 2020. Although exports from the GCC to ASEAN have been on the rise, they mainly consist of crude oil and plastic polymers.

This research report highlights areas for deeper collaboration, particularly among ASEAN's growth sectors of food and agriculture, e-commerce and fintech.

**Key findings of the report:**

- **The digital economy is going to drive growth in ASEAN's key sectors.** In our survey, executives in the following sectors were most optimistic about revenue expansion in 2022: transport and logistics (90%), agriculture and food (90%), retail and e-commerce (87%) and financial services and fintech (83%). The increasing use of digital platforms, from ride-hailing and e-commerce apps to blockchain and robo-advisers in financial services, is expected to enhance efficiency and help companies deliver innovative services to businesses and consumers. A higher share of respondents expects a majority of their revenue to be secured through online channels in 2022 (67%) compared with 2019 (26%).
- **The GCC and ASEAN regions already have a foundation for future collaboration.** In ASEAN, GCC companies have invested in establishing oil refineries and petrochemical facilities but have also ventured into food, e-commerce and financial services. ASEAN companies are active in the GCC's hospitality and food sectors but also have a small presence in financial services. Lessons learned from these endeavours could enable further expansion.
- **There is scope for increasing trade in agricultural products.** The GCC relies on the ASEAN region for just 7% of its total food and beverage imports. Given that ASEAN is known for its production of rice, soybeans and tropical fruits, among others, the GCC could explore a wider variety of agricultural products to import. Strengthening transport and logistics links as well as harmonising rules for halal products may enable greater trade in agriculture, food and beverages between the two regions.
- **Knowledge sharing in key sectors can provide a framework for deeper collaboration.** Regulators aiming to develop the fintech sector in the GCC could learn from progressive regulators in the ASEAN region such as Singapore, for example. Collaborating on the training of halal auditors could facilitate trade in a host of halal products from food to pharmaceuticals.

# Introduction

As alarm over covid-19 spread worldwide in the first few months of 2020, strict national lockdowns and safety measures saw the countries in the Association of South-East Asian Nations (ASEAN) succeed in containing the pandemic in its early stages. In November 2020, when Europe was at the height of its winter wave with an average of 383 daily cases per million people, countries in ASEAN were all averaging fewer than 35 daily cases per million.[4]

Despite the relative resilience, the global economic slowdown caused real GDP in the ASEAN region to fall by 4.3% in 2020, according to estimates from The Economist Intelligence Unit (EIU).[5] The contraction in trade activity was modest: total exports from ASEAN fell from US$1.42trn in 2019 to US$1.39trn in 2020.[6]

A survey conducted by Economist Impact between May and June 2021 of 200 senior executives across ASEAN reflects these trends. Although over 40% of respondents reported a contraction in revenue in 2020, about 32% saw revenue expand. Performance reported by executives in some sectors was significantly higher: 70% of those in healthcare, 67% in financial services and fintech and 50% in professional services and marketing say revenue expanded in 2020.

What drove this growth was the increased demand for healthcare and the digital consumption of services in the financial, professional and marketing sectors. The affected organisations managed the resultant supply chain disruptions—the top challenge faced by businesses during the pandemic, cited by 35% of respondents to our survey—by diversifying their supply base and establishing stronger communications with their suppliers, according to respondents.

[4] https://ourworldindata.org/explorers/coronavirus-data-explorer?zoomToSelection=true&time=2020-03-01..latest&facet=none&pickerSort=asc&pickerMetric=location&Metric=Confirmed+cases&Interval=7-day+rolling+average&Relative+to+Population=true&Align+outbreaks=false&country=BRN~MMR~KHM~IDN~LAO~MYS~PHL~SGP~THA~VNM~OWID_WRL~Europe

[5] [To add description of Economist Intelligence]

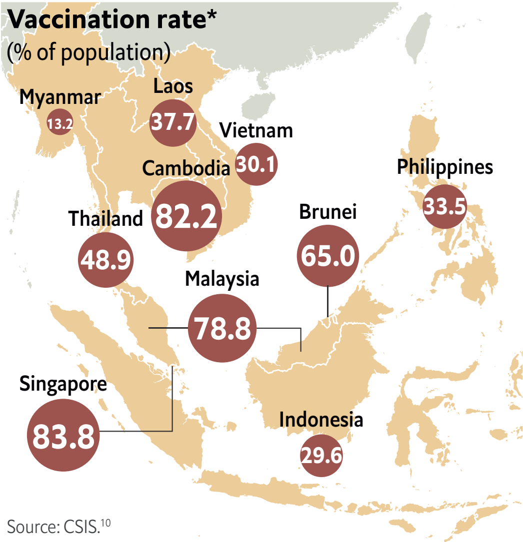
[6] ITC Trade Map

But the emergence of the Delta variant in 2021 changed circumstances in South-East Asia. With uneven vaccination rates and a reluctance to reimpose lockdowns, the region was in the midst of a devastating wave of covid-19 cases between July and October.[7,8] As of November 2021, the region had recorded approximately 13m cases; around 93% of these occurred between November 2020 and November 2021.[9]

The latest EIU estimates put real GDP growth in 2021 at 3.4%, which is also reflected in our survey results. Just under 60% of respondents expect revenue to expand in 2021, increasing to 80% in 2022.

The effective management of covid-19, which the ASEAN countries demonstrated at the outbreak of the pandemic, will undoubtedly be the primary driver of growth (cited by 35% of respondents). The vaccination rollout in these countries will be critical, but progress has been slow: as of November 2021, just Singapore and Cambodia had achieved a vaccination rate of over 80% of their populations; the other ASEAN states lag behind (see Figure 1).

In addition to the vaccine rollout, improvements in infrastructure (across transport and electricity) and easier access to international markets will be just as important for future growth, with each cited by 26% of respondents.




Source: CSIS.[10]
*as of 10th November 2021.

As far as easier access is concerned, although expansion within the region is the first port of call for most companies in South-East Asia, some have ventured beyond. In this report we explore the scope for engagement with one particular region—the Gulf Co-operation Council (GCC). We examine the state of the relationship as it currently stands as well as the potential for closer collaboration in the growth sectors in ASEAN. In the next chapter we set the stage by exploring these growth sectors in more detail. This will be followed by a review of the trade and investment relationship between the GCC and ASEAN.

[7] https://www.thestar.com.my/aseanplus/aseanplus-news/2021/01/12/thai-government039s-reluctance-to-impose-covid-19-lockdown-stirs-unease

[8] https://edition.cnn.com/travel/article/malaysia-singapore-travel-covid-intl-hnk/index.html

[9] https://www.reportingasean.net/covid-19-cases-southeast-asia/

[10] https://www.csis.org/programs/southeast-asia-program/projects/southeast-asia-covid-19-tracker, Data as of 10 November 2021.

# Chapter 1: ASEAN's growth sectors

The story of South-East Asia's businesses aligns with that seen in other regions during the pandemic. As in sub-Saharan Africa and Latin America (the other emerging markets we surveyed), the highest share of healthcare executives in ASEAN (70%) report that their revenue expanded in 2020. Healthcare executives remain the most optimistic for 2021 (70% expect an expansion), but executives in agriculture and food (69%) and financial services and fintech (67%) are just as optimistic.

Surprisingly, though, 20% of the healthcare executives we surveyed expect revenue to contract in 2022, perhaps in anticipation of reduced demand for their services as the pandemic abates. Survey respondents from the other key sectors of the ASEAN economy are most optimistic about revenue expansion in 2022 in the following sectors: transport and logistics (90%), agriculture and food (90%), retail and e-commerce (87%) and financial services and fintech (83%). Below we take a closer look at the drivers and challenges defining the growth trajectory in each sector.

**Sectors poised for growth in ASEAN**
Percentage of executives surveyed expecting revenue to expand in 2022

## Agriculture and food

Agriculture is among the key economic sectors in the ASEAN region, a leading global producer of rice, corn, sugarcane and soybeans, among others, with certain countries dominating the production of different goods.[11,12,13] Indonesia and Malaysia, for instance, are strong producers of industrial crops such as palm oil, while rice production is concentrated in Vietnam and Thailand.[14]

In 2019 the agri-food sector contributed US$717bn to the GDP of Indonesia, Thailand, the Philippines and Vietnam, marking a 30% increase from 2015 in a sector that is also an important source of employment.[15,16] Across ASEAN, the share of agricultural exports has been on the rise, driven by higher levels of labour and land productivity, greater trade liberalisation and demands from a richer, more populous regional consumer base. In 2020 agricultural products[17] represented 53% of ASEAN's total exports.[18]

During the pandemic navigating supply-chain disruptions was the top challenge facing the industry, according to 48% of the sector's executives we surveyed. Companies in the sector had to diversify their supplier base (38%) and collaborate closely with suppliers (35%) to build buffers and stay responsive.

This was particularly challenging for smaller companies that rely on third parties, says Piyush Chowhan, chief information officer of Lulu Group, a UAE-based hypermarket which sources produce from the ASEAN countries and also has a presence in Indonesia and Malaysia. Larger companies fared better. "The beauty of Lulu is that we own a large part of the supply chain, so we don't rely too much on the middle man," says Mr Chowhan. "We typically go to the producers and have local sourcing offices." Improvements in infrastructure will also alleviate some supply-chain challenges and is expected to be the most important driver of growth in the sector, say 55% of the sector's executives.

More broadly, climate change—resulting in more frequent droughts, floods and salinisation—poses a significant risk to the region's agricultural productivity, highlighting the need to identify more climate-resilient crop varieties and practices in the region.

Finally, the shift to online shopping, which accelerated during the pandemic, meant that many food businesses had to revamp their e-commerce operations. We explore this and the sector's intersection with delivery services in more detail below.

## Retail and e-commerce

E-commerce took centre stage during the pandemic, providing a platform for businesses to connect with their consumers amid lockdowns. About 70m people in ASEAN were added to the pool of digital consumers in 2020.[19] There are numerous players active in this space, from Singapore's Shopee and Lazada to Indonesia's Tokopedia, all of which have a strong presence across the region.

[11] https://www.mdpi.com/2071-1050/12/23/9860/pdf

[12] https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/133195/filename/133405.pdf

[13] http://investasean.asean.org/index.php/page/view/agriculture

[14] http://investasean.asean.org/index.php/page/view/agriculture

[15] https://www.newfoodmagazine.com/news/142252/agri-food-industry-southeast-asia/

[16] https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/133195/filename/133405.pdf

[17] HS codes 01 to 22.

[18] ITC Trade Map.

[19] https://scontent-man2-1.xx.fbcdn.net/v/t39.8562-6/240725403_245810084073631_4081640424985540226_n.pdf?_nc_cat=109&ccb=1-5&_nc_sid=ad8a9d&_nc_ohc=dkCE_8osG-MAX_zOx2Z&_nc_ht=scontent-man2-1.xx&oh=37a739911e18ae9889677649d4a4e284&oe=614B6424

> **"The model [in ASEAN] is unique. They look at faster deliveries, smaller baskets, quick commerce and convenience."**
>
> Piyush Chowhan, chief information officer, Lulu Group

In 2020 the e-commerce market in the region was worth around US$62bn; this is expected to almost triple to US$172bn by 2025.[20] In addition to effective management of the pandemic, the executives we surveyed in the retail and e-commerce sector expect easier access to international markets and improvements in the ease of doing business in key markets to be the main drivers of growth (each cited by 30%), indicating their ambitions to grow through geographical expansion. South-East Asia's young consumer base, with 483m using social media, makes it a ready market for growth.[21]

Underpinning the sector's success is the logistics network. "The model [in ASEAN] is unique," says Mr Chowhan. "They look at faster deliveries, smaller baskets, quick commerce and convenience." But infrastructure and logistics in ASEAN are not without their challenges: apart from Singapore, which ranks 7th on the 2018 Logistics Performance Index of the World Bank, other ASEAN countries, such as Thailand, Indonesia and the Philippines, rank 32nd, 46th and 60th, respectively.[22] As such, ride-hailing and delivery service companies such as Grab and Gojek are playing a pivotal role, enabling the transformation of the retail and food sectors.

## Transport and logistics

Transport and logistics encompasses urban mobility as well as vast supply chain systems supporting regional and global trade. Over the past decade the sector has seen gradual growth in the region, driven by economic growth, urbanisation, greater participation in international trade and the deepening of regional ties.

The transport and logistics sector grew in importance during the pandemic because of the limitations imposed on mobility amid unprecedented and sporadic lockdowns. Within urban areas, a host of growth sectors in ASEAN—from food to retail—continue to rely on innovative mobility solutions, currently dominated by Singapore's Grab and Indonesia's Gojek.

"During the pandemic there were these pockets of entrepreneurship, a new crop of brands and restaurants," explains Kevin Aluwi, co-founder and CEO of Gojek, a super app providing ride-hailing and delivery services, among others. "Our job is to provide the platform where they can grow and thrive in our marketplace." He says that 96% of their food merchants today are small enterprises.

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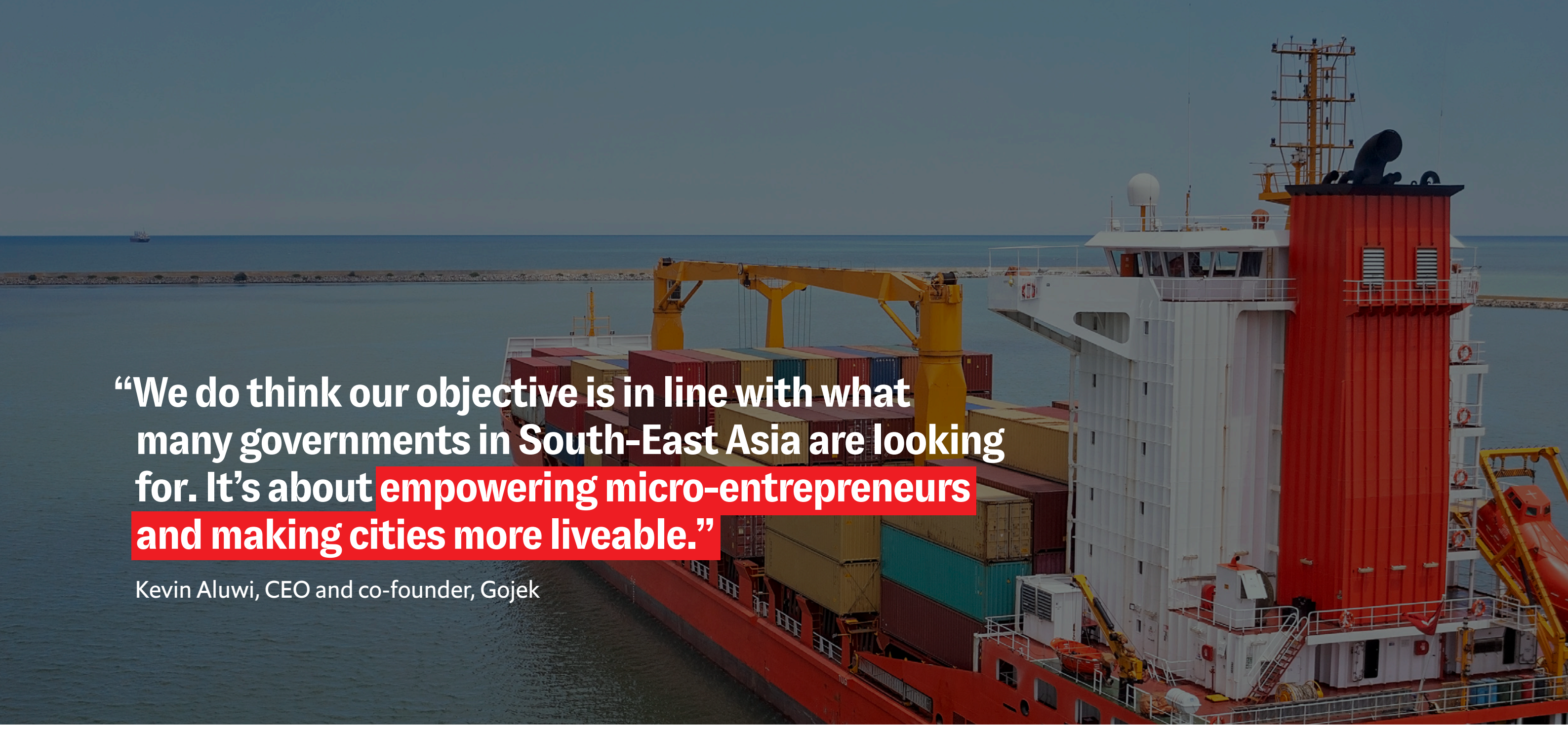
[20] https://www.statista.com/statistics/958414/southeast-asia-e-commerce-market-value/

[21] https://www.statista.com/statistics/454772/number-social-media-user-worldwide-region/

[22] https://lpi.worldbank.org/



"We do think our objective is in line with what many governments in South-East Asia are looking for. It's about empowering micro-entrepreneurs and making cities more liveable."

Kevin Aluwi, CEO and co-founder, Gojek

Driving demand for these mobility services is the increasingly urban and affluent South-East Asian consumer. "We are very optimistic about the demographic factors in Indonesia and the rest of South-East Asia," says Mr Aluwi. "As people become more and more affluent, they will have more and more mobility needs. They will start spending more on comfort, convenience and be open to new culinary experiences." The size of the sector in South-East Asia, which was estimated at about US$11bn in 2020, is forecast to increase to US$42bn by 2025.[23]

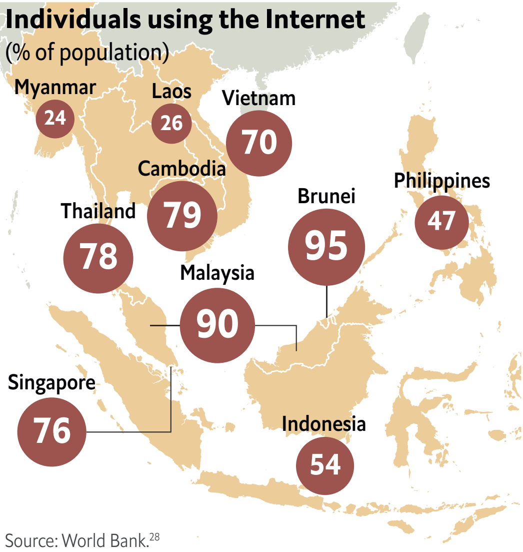
A key challenge going forward is the patchy regulatory environment, cited as the top challenge by 55% of the sector's respondents (one of the factors that drove Uber out of the region in 2014).[24] To overcome these challenges, Gojek is communicating with regulators to ensure that their objectives align with economic development goals. "We do think our objective is in line with what many governments in South-East Asia are looking for," says Mr Aluwi. "It's about empowering micro-entrepreneurs and making cities more liveable."

More broadly, fragmented planning regarding urban transport and port infrastructure is considered a key challenge, as the sector tends to be managed by different ministries and departments. With the exception of Singapore, the physical transport infrastructure in ASEAN is weak and uneven. Critical technology upgrades are lacking, including the standardisation of data and IT systems. Against this backdrop, South-East Asia has seen a rise in startup "middle men", who have been helping businesses meet the growing demands of logistics through new technologies, such as the internet of things, blockchain, drones and last-mile delivery solutions.[25]

## Financial services and fintech

During the pandemic the adoption of technology across sectors accelerated. The financial services sector in the ASEAN region was no exception. "Whatever was [planned] for a three-year period got compressed into six months," says Han Kwee Juan, managing director and group head of strategy and planning at DBS Bank in Singapore, one of the region's leading banks. He says

[23] https://www.statista.com/statistics/958376/southeast-asia-ride-hailing-market-value/
[24] https://thediplomat.com/2014/11/uber-faces-more-regulation-in-southeast-asia/
[25] https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/innovation/sea-inno-converge-paving-the-way-for-the-future-of-sea-logistics.pdf




Source: World Bank.[28]

that the willingness to adopt digital means of transacting skyrocketed, especially among older people (the uptake of digital and mobile banking by customers over 60 years of age was four times what it used to be, he says).

In 2019 digital financial services accounted for US$11bn (around 5%) of South-East Asia's total revenue. By 2025 this figure is expected to rise to US$38bn. The expansion of these services will come from a combination of pure fintech firms as well as partnerships with established financial institutions. DBS Bank, for instance, has been collaborating with fintech startups in Singapore through its Startup Xchange programme.[26]

By August 2021, private equity investments in Southeast Asian Fintech firms reached US$8.2bn, compared to US$8.9bn throughout the whole of 2020.[27] Singapore and Indonesia are key fintech markets and home to Grab and Gojek, the region's super apps, which have a digital payment platform.

Government support for this industry will be critical to the removal of the top two impediments to growth. Forty-three percent of executives we surveyed in financial services and fintech cite weak telecommunications and internet connectivity as the top impediment, while 40% cite burdensome regulation and bureaucracy.

On internet connectivity, while some countries—such as Brunei, Malaysia, Thailand and Singapore—fare well, others—such as the Philippines—fall short (see Figure 2). Without the right telecoms infrastructure in place, growth in fintech, as well as in many other sectors in the digital economy, will falter.

As far as regulation is concerned, some governments are working together with industry players to create a suitable framework, balancing industry growth with consumer priorities. "Regulators are not just regulating on security, but they are really quite interested in making sure that it is easy to use," says Mr Han of DBS bank. The Monetary Authority of Singapore (MAS) has established a regulatory sandbox to encourage new players into the market and provide them with access to underpenetrated market segments.[29]

More broadly, enabling digital financial services can meet important social and economic development goals for governments in the region, particularly financial inclusion. Seventy-three percent of South-East Asia is either unbanked or underbanked, although this varies significantly across countries: in Singapore, this figure is closer to 40%, while in Vietnam it is 79%.[30]

[26] https://innovationinbanking.efma.com/content/articles/transforming-dbs-bank-tech-company

[27] https://www.reuters.com/world/the-great-reboot/southeast-asia-tech-dealmaking-booms-investors-place-post-covid-bets-2021-08-2

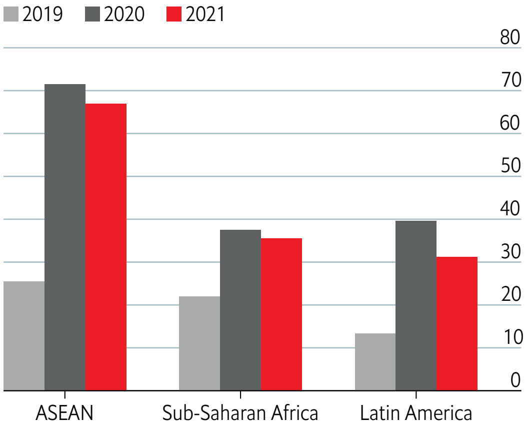
[28] https://data.worldbank.org/indicator/IT.NET.USER.ZS

[29] https://www.ey.com/en_gl/financial-services-asia-pacific/how-2021-will-reshape-southeast-asias-financial-services-ecosystem, https://www.imf.org/-/media/Files/Publications/CR/2019/1SGPEA2019006.ashx

[30] https://www.bain.com/globalassets/noindex/2019/bain-report-fulfilling-its-promise.pdf

The digitalisation of financial services is not without its challenges, however. Data breaches and cyber-attacks are cited by 53% of respondents as the top challenge in the industry during the pandemic. Here, too, governments have an important role to play to ensure that financial institutions are putting in place appropriate measures for cybersecurity. Some governments even insist on storing consumer data in country, with particularly stringent data localisation requirements in Malaysia and Indonesia.[31] Navigating this rapidly evolving landscape can be challenging, which explains why few home-grown ASEAN fintech firms have branched out beyond a few countries in the region. To spur future growth, a collaborative effort between innovators and regulators will be required.

**Share of respondents securing online revenues in ASEAN, sub-Saharan Africa and Latin America**
(%)




Source: to come.

## Digital foundations

While there are other underlying drivers of growth for most sectors, a central theme across all is the power of digital connectivity. "There is no doubt that the digital economy is going to be an increasingly important part of growth," says Mr Aluwi of Gojek.

According to our survey, the shift to digital channels for sales and service delivery was greater in the ASEAN region than in either Sub-Saharan Africa or Latin America (see Figure 3). In 2019 only 26% of respondents in the ASEAN region secured a majority of their revenue from online channels; that figure surged to 72% in 2020.

As with other regions, this trend is likely to continue even after the pandemic ends. In 2022, 67% of ASEAN respondents expect to secure a majority of their revenue from online channels. "The percentage of the trips, meals [and other services] that we are serving on our digital platform versus [the total volume physically and with cash], is still a very, very small number," explains Mr Aluwi. So there is great scope for digital expansion, he concludes.

Yet in many sectors—from e-commerce to fintech—the challenges posed by the region's fragmented infrastructure and logistics industry will need to be addressed if it is to reach its full potential. As we have seen above, internet connectivity in many ASEAN countries is low, the digital payments infrastructure is limited and the transport infrastructure is poor.

Collaborating with governments and businesses in other regions that are successfully delivering on some of these elements can facilitate an exchange of innovative ideas and best practice. In addition, deeper collaboration could enable ASEAN companies to expand their operations into new markets and unlock new sources of investment. In the remainder of this report we explore the possibilities being offered by the six GCC countries, particularly in the context of the growth sectors discussed in this chapter.

[31] https://www.cambridge.org/core/journals/asian-journal-of-international-law/article/data-localization-and-asean-economic-community/A789033EF8E48D038C0B5D95CB210444

# Chapter 2: Business ties between ASEAN and the GCC

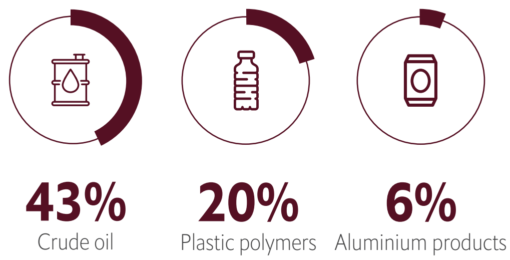
The GCC's pivot to Asia over the past two decades has resulted in growing levels of trade and investment between the two regions, but the relationship is dominated by trade with China and India. Between 2016 and 2020 China accounted for nearly 15% of the GCC's total imports, compared with just 6% from the ten ASEAN countries combined.

The GCC is a destination for some of ASEAN's key exports. Over the five-year period electronics and machinery—both of which are among ASEAN's three main export products—were the top items imported by the GCC. They accounted for 28% and 12%, respectively, of the US$144bn worth of imports from ASEAN between 2016 and 2020.

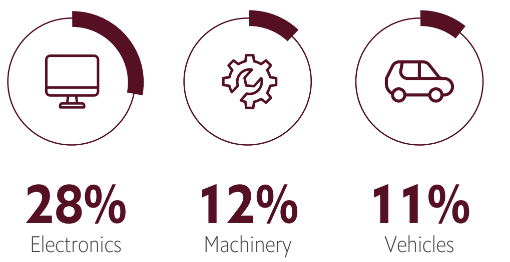
Imports from ASEAN took a hit during the covid-19 pandemic: 2020 saw a 25% decline as consumer demand for electronics and vehicles and business demand for machinery and ships fell sharply.

The trade relationship between the two regions is tipped in favour of imports into the GCC. Just 2% of ASEAN's total imports between 2016 and 2020 came from the GCC, although this share has been on the rise even during the pandemic.[32]

**Trade statistics 2016-2020 (% of total)**
Top exports from GCC to ASEAN:




Top imports into GCC to ASEAN:




[32] ITC Trade Map

Nevertheless, ASEAN accounted for just 4% of the GCC's total exports over the same five-year period, amounting to US$126bn. The bulk of this comprised crude oil (43%) and plastic polymers (20%). While the export of plastic polymers from the GCC declined in 2020, the export of crude oil increased by almost 180% between 2019 and 2020 and has been increasing steadily since 2016. One reason for the increase in 2020 may be that, while most of the world's factories were operating at lower capacities, Asia had recovered quickly from the first wave of the pandemic.

Investments from governments and companies have been focused on similar industries, but there is interest in other sectors such as food, logistics and hospitality. According to the online database fDI Markets, among the known deals the total value of investments by GCC countries is estimated at US$13.4bn between January 2016 and September 2021. Of this, 74% came from the UAE and a little over 20% from Oman. Investment by ASEAN countries in the GCC was much lower, at an estimated US$3.6bn over the same period; of this, two-thirds came from Singapore.

Looking ahead, countries in the GCC are keen to deepen their trade and investment relationship with key economies in the ASEAN bloc. To date, Singapore is the only country in the region to have a free-trade agreement with the GCC (talks with Malaysia stalled in 2017).[33] The UAE and Indonesia have been in talks to boost bilateral trade, an estimated tenfold increase in the coming years,[34] and the UAE has committed to investing US$10bn in Indonesia's sovereign wealth fund.[35] Saudi Arabia has also identified


[33] https://www.nst.com.my/news/2017/03/216334/malaysia-gcc-trade-deal-hold-now
[34] https://www.reuters.com/world/middle-east/indonesia-uae-launch-trade-deal-talks-2021-09-02/
[35] https://www.reuters.com/article/emirates-indonesia-investment-int-idUSKBN2BF0LM

Indonesia and the Philippines as key markets for future trade relations, targeting construction and industrial supplies in particular.[36] In September 2021, Qatar and Malaysia discussed their trade and investment relationship, emphasising partnerships in agriculture, hospitality, oil and gas, and real estate.[37]

In the rest of this chapter we look more closely at the existing business relationship between the two regions; this will be followed by an assessment of areas for further collaboration.

## GCC presence in ASEAN

The GCC's investments in ASEAN have been focused on securing future exports of oil and petrochemicals. Investments worth US$4.3bn were announced between 2016 and 2021 in oil refineries, petrochemical facilities and trading offices in key markets such as Indonesia, Malaysia and Singapore. This includes investments from Oman-based Overseas Oil & Gas in 2016 and from Saudi Aramco into an oil refinery in Malaysia alongside Petronas in 2019.[38]

Beyond oil and gas, companies in the GCC have made some strategic investments in sectors that have strong potential for growth. The GCC has shown interest in ASEAN's food and beverage sector, and the UAE's Lulu Group has been a leader on this front. Since 2015 it has had a presence in Indonesia and Malaysia, and it has recently announced that it intends to deepen its presence in these markets, with plans to open four new hypermarkets across Malaysia as well as more hypermarkets and express markets across Indonesia.[39]

The large Muslim populations in these ASEAN countries mean that there are "many similarities in terms of the festivals, the themes and the kind of products [consumed]," explains Mr Chowhan of Lulu Group. "So it was a logical extension." But the model still required some adaptation. "The competitive intensity is higher than in the GCC," says Mr Chowhan. He also adds that given the small basket sizes and densely populated urban areas in ASEAN, they had to adapt their delivery model, relying more on bike deliveries as opposed to the vans they use in the UAE.

The GCC's investments are beginning to target some of ASEAN's growth sectors, including fintech, e-commerce and logistics. In 2020 Saudi Arabia's fintech startup, Tamara, established operations in Vietnam, and the UAE's B2B e-commerce provider Distichain set up a base in Singapore. In 2011 Qatar National Bank (QNB) bought a controlling stake in an Indonesian bank to set up PT Bank QNB Indonesia and tap into the growing demand for financial services in the region. Over the past couple of years QNB has continued to invest in expanding in the region.

More recently, in March 2021, DP World announced a US$1.2bn deal with Maspion Group to build an international container port and industrial logistics park in Java, Indonesia.[40] Such investments could work to target some of the key challenges faced by ASEAN's logistics sector, where infrastructure quality remains uneven across the region and current regulations make foreign investment difficult.[41]

One of the latest, and possibly largest, deals between countries in the two regions was the announcement in July 2021 by GlobalFoundries,

[36] https://www.arabnews.com/node/1914176/business-economy

[37] https://www.theedgemarkets.com/article/qatar-sees-malaysia-vital-investment-and-trade-partner; https://www.gulf-times.com/story/700831/Qatar-Malaysia-eye-investment-ties-in-agriculture-

[38] https://www.thejakartapost.com/news/2017/03/03/2-4b-mou-signed-on-king-salmans-second-day-visit.html; https://www.bbc.com/news/business-39112111

[39] https://www.khaleejtimes.com/kt-network/lulu-expands-with-fifth-hypermarket-in-indonesia

[40] https://logisticsgulf.com/2021/03/dp-world-signs-key-port-and-logistics-park-agreement-with-indonesias-maspion-group/

[41] https://www.oecd.org/daf/competition/oecd-competition-assessment-reviews-asean-2021.pdf

a US company owned by Abu Dhabi's Mubadala Investment Company, that it plans to invest US$4bn in a semiconductor plant in Singapore.[42] This is indicative of the UAE's ambitions on the global stage and highlights its intention to play a role in alleviating the current global shortage in semiconductors as well as its reliance on countries in Asia to realise these goals.

## ASEAN presence in the GCC

ASEAN companies' expansion into the GCC has been focused on hospitality and food. Singapore-headquartered Fraser Hospitality has constructed serviced apartments and hotel suites across the UAE, Saudi Arabia, Oman and Qatar. Other hotel brands with a presence in the GCC include Thailand's Dusit Thani (a subsidiary of Dusit International) and Centara Hotels & Resorts. They are catering to the US$245bn travel and tourism market in the GCC, which is expected to recover well from the pandemic as a result of mega-events such as the Dubai Expo 2020 and the Qatar 2022 FIFA World Cup.[43]

Within the food sector, the most recent expansion by an ASEAN business into the GCC has been Singapore's Pure Salmon, which is setting up a salmon farm aligned with the UAE's strategic interest of expanding sustainable aquaculture.[44]

**"We got there primarily to serve Filipino [expatriates] but over time our customer [base grew to include] other [nationalities],"**

Ysmael Baysa, chief financial officer, Jollibee Group.

But perhaps the best-known expansion of an ASEAN food company into the GCC is the Filipino fast-food chain Jollibee. Jollibee Group, which signed a deal with Golden Crown Foods LLC to set up shop in the UAE in 2015 (the JV agreement was signed in 2014), has continued to expand across the region. "We got there primarily to serve Filipino [expatriates] but over time our customer [base grew to include] other [nationalities]," says Ysmael Baysa, Jollibee Group's Chief Financial Officer. The fast-food multinational operates primarily through franchises, relying on the network and market insights of local partners.

The value of local partners was all the more apparent during the pandemic. While Jollibee shuttered over 480 stores worldwide, none of their 81 stores in the GCC had to be closed as their local partners helped them navigate challenges on the ground. "The best way we overcome [challenges] is through our joint venture partners and franchises, because the franchise has knowledge of the market," says Mr. Baysa. "We're quite dependent on them; it's a synergistic partnership."

Other companies have been similarly motivated to expand into the GCC to cater to their overseas diaspora. Overseas Filipino Bank has operations in the UAE and Bahrain and Bank of Singapore has an office in the Dubai International Financial Centre.

ASEAN logistics firms are also active in the GCC. In 2019 a Malaysian logistics company, Kerry Logistics, ventured out and established facilities in both the UAE and Bahrain. In 2018 Singapore-based GPS Group invested in the Greenfield Terminal project in Hamriyah Port in the UAE to

[42] https://www.thenationalnews.com/business/mubadala-s-globalfoundries-to-build-4bn-singapore-chip-plant-1.1246489
[43] As of 2019 according to Hotelier Middle East. https://www.hoteliermiddleeast.com/business/report-gcc-travel-tourism-generated-245bn-in-2019
[44] https://www.fishfarmermagazine.com/news/pure-salmon-set-to-move-hq-to-abu-dhabi/

develop a hydrocarbon storage terminal, with plans for further expansions.

## Room for deeper engagement

Even during the pandemic businesses in ASEAN sustained their level of engagement with the GCC region, most probably because they were among the first to resume operations after the first wave of the pandemic. In our survey, among those executives who were engaged with the GCC,[45] only 31% report decreasing their level of engagement, while close to 70% report increasing or maintaining their level of engagement.

The outlook for future engagement is promising. Among those who wish to engage with the GCC once the pandemic is over (75% of respondents), 54% expect to increase their level of engagement, while 38% expect to maintain their current levels. In the final section of this report we highlight potential areas for further engagement.

[45] About 30% of respondents indicated that they were not currently engaging with the GCC region.

# Conclusion: Strategic collaboration

There are signs that the trade and investment relationship between the GCC and ASEAN countries is moving into uncharted territory. From a foundation of trading in crude oil from the GCC and electronics, machinery and automotive parts from the ASEAN countries, companies are venturing into other strategic sectors such as food, but also high-growth sectors such as financial services, e-commerce and logistics.

Executives we surveyed indicate that companies in the ASEAN region rely on the GCC mainly as a market to sell their products and services (see Figure 4). Thirty-six percent of respondents are interested in selling products or services to the GCC, compared with 23% who turn to the GCC for knowledge transfer, 22% for purchasing products and services and 21% for securing investment.

**Figure 4: The role of the GCC in ASEAN's key sectors**

| Sector | Role of the GCC |
|---|---|
| Agriculture and food | Market, investor |
| Financial services and fintech | Investor, advisor, market |
| Transport and logistics | Market, supplier, advisor |
| Retail and e-commerce (excluding food) | Market, supplier, investor |
| Healthcare | Market, supplier |
| Industry and energy | Advisor, supplier, market |
| Professional services and marketing | Market, investor, advisor |

Source: Economist Impact analysis

Political stability in the GCC is the primary reason why ASEAN executives find the region appealing (cited by 29% of respondents to our survey). “In the GCC, government regulations are stable, they do not suddenly change,” explains Mr. Baysa of Jollibee Group. “So doing business is predictable, but also governments [there] welcome foreign investments.”

Some companies also view the GCC as a springboard for wider expansion in the region. “We recognise the GCC as a hub for business development in other Middle Eastern countries and Africa,” says Mr. Baysa. Other reasons cited by respondents include strong transport and logistics links (24%), ease of doing business (23%) and access to local financing options (22%).

In addition to the current portfolio of trade and investment, there are a few other strategic opportunities for closer collaboration. One is enhancing trade in food and beverages. The GCC relies on the ASEAN region for just 7% of its total food and beverage imports, which is surprising, given that the region is known for its production of rice, soybeans and tropical fruits, among others. Strengthening supply-chain links could enable a higher level of imports and help the GCC to address challenges around food security.

“There are [also] opportunities in halal food value integration between the two regions,” says Ayman Sejiny, CEO of the Islamic Corporation for the Development of the Private Sector, the private-sector arm of the Jeddah-based Islamic Development Bank. Although currently a small sector, large markets in ASEAN, such as Indonesia and Malaysia, are poised to deliver halal products, including but not limited to food, to the GCC countries. Harmonising halal certification processes and standards and training halal auditors could help to unlock economic gains in the sector.

The evolving field of fintech regulation could be a third area for collaboration. Specifically, the Monetary Authority of Singapore has created a sandbox to enable fintech innovation, supporting the uptake of a range of technologies such as blockchain. Sharing lessons learned with regulators in the GCC markets, such as those in Dubai, Abu Dhabi, Manama and Riyadh, could accelerate innovation and drive success in the sector. And finally there is the Islamic finance subset of the sector: “I’ve seen some engagement in Islamic finance capabilities, [including] ironing out some specific industry challenges in areas such as fintech, [which] is a promising market,” says Mr Sejiny.

Executives in both regions remain positive about the prospect of deeper engagement. “We look forward to the continued expansion of our business in the Middle East,” says Jollibee Group’s Mr. Baysa. “We look forward to being able to serve more of the local consumers in the GCC countries and we’re seeing signs of it.” On the other hand, the experiences of organisations such as Lulu Group are endorsements that GCC companies have much to gain in the ASEAN market too. Mr Aluwi, the CEO of Gojek, attests to this: “I hope that the world wakes up to the fact that [ASEAN] is a really vibrant, exciting region, where a lot of really interesting trends are happening.” The time is ripe for a deeper level of engagement between these two young, vibrant regions.

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