

Recovery and Resilience: Spotlight on Asean Business

Panel: Web 3.0, Metaverse and the future of blockchain

Joanna Ossinger: Okay. Welcome, everyone. I think we're the only panel standing between you all and drinks, so we'll try to make it worthwhile. I am Joanna Ossinger, I'm Senior Reporter for Crypto at Bloomberg News. Welcome. Glad to see so many people here. We have Surangel Whipps Jr. He is the 10th President of the Republic of Palau, the island nation in the Western Pacific.

We also have Pang Xue Kai, the Co-founder of Indonesia-based crypto exchange Tokocrypto, which started up in 2018, and Nischint Sanghavi who is the Regional Crypto Lead for APAC at Visa. Let's get started. Because it is quite late where President Whipps is, we're going to talk to him first and then to the other guys. Mr. President, thank you so much for being with us. How is your digital asset strategy going? If you want to maybe just tell the audience a little bit about what you're doing and how it's faring right now.

Surangel Whipps Jr.: [00:01:10] Well, first of all, Joanna, thank you for this opportunity to be able to join you virtually. I would've loved to be there in Singapore. However, I have a meeting in Hawaii, so you're right, it's almost midnight here. The Pacific Island Leader's Conference is being held tomorrow and the day after. I had to be here today. In your question regarding how is our digital asset strategy going?

First of all, Palau is a very small country. We only have 20,000 people. One of the things that we quickly realized with COVID and the challenges that we've had to our economy is that we need to diversify our economy. We need to look at ways that we can be more innovative and take advantage of new technologies. We believe that what we've launched is going very well.

This past year, Palau passed the Digital Residency Act, and this really makes the availability for a person to get a digital identity from Palau and available to the global community. Since the time that we launched it, it's been gaining excitement but we know that there's still-- We need to expand the offerings that we have. We need to continue to provide-- If you get this digital residency, what does it allow you to do? We are working through that and trying to add to our regulations and make things more beneficial to our digital residents. Well, one of the things that we wanted to make sure of right off, in the beginning, is that we wanted to do it correctly, we wanted to do it safely, and we also wanted to look at Palau's market size and what would be able to handle. One of the important parts of this digital residency program is that to become a digital resident, we run you through a rigorous know your client process, a KYC process that every participant in Palau's economy needs to go through entirely virtually.

We do a background check. We want to make sure that you don't have any criminal records and also are not on any worldwide sanction list. We're also looking at exploring other features that we could offer like registration of e-corporations so that

digital residents can conduct business globally through Palau's convenient R&S portal. We're hoping that they will be able to manage their identity, contacts, and e-corporations on this portal.

Palau is also taking a step in collaborating with Ripple to explore the creation of national stablecoin, which we hope to launch soon which will help make payments easy and secure. Palau's also been very fortunate to gain recognition from leaders in the blockchain industry like Changpeng Zhao from Binance who was able to visit us a few months ago and we talked about how we can collaborate on the digital residency program, as well as making use of Binance Pay to make digital payments for digital residents, but also even participating in the local commerce. A couple of weeks ago, I also had the opportunity to meet virtually with Vitalik Buterin from Ethereum and to look at opening up the R&S ID ecosystem to the developer community, and to see how Palau's digital residency can engage with the concept of so-bound ID systems. This is a new world for Palau, but we are excited to be part of it. One of the advantages that we have is we're small and hopefully we can mobilize our government and be more adaptive to the changes that need to be made in this fast-changing environment.

At the core of our strategy and digital asset strategy, Palau is essentially a combination of initiatives really to grow the size of our visit digital participants to diversify our economy into FinTech and to attract talents from around the world, to form partnerships and to open our ecosystem to builders and entrepreneurs. We just hope to provide a platform where entrepreneurs can grow up and maybe that's our ultimate goal.

Joanna: Okay, thank you for that.

Surangel: Thank you.

Joanna: Do you think that Central Bank Digital Currencies and government efforts and digital assets generally will be symbiotic with the private or decentralized crypto ecosystem, or will they compete with those efforts?

Surangel: We think that they're symbiotic and they can complement each other. In fact, Central Bank Digital Currencies is an idea that really has come out of cryptocurrencies and blockchain technology. Palau itself, we don't have a Central bank that's established, we use US dollars as an official currency. In developing our collaboration with Ripple, our goal is to have a USD-backed stablecoin, which is really a step toward our own Central Bank Digital Currency, you could say.

We feel that this is important and it will help make Fiat on ramping easier. Our digital residents will also have banking access and through Binance Pay options will make offering easier too. We really believe that they don't compete but they actually are symbiotic and they can help each other and strengthen the crypto ecosystem.

Joanna: Okay, great.

Surangel: Thank you.

Joanna: Thank you so much, Mr. President. I know you have to head off but I really appreciate you being here and for this audience. Thank you.

Surangel: Thank you for the opportunity.

Joanna: Thanks. Okay. Now let's go to a poll actually. Do we have that coming up? If you can get out your phones. Decentralized finance projects pack complex transactions, deals and trades into single applications. How should DeFi be regulated? Should you expand on existing regulatory frameworks, create DeFi licenses, or let DeFi self-regulate? If you want to pull that out, vote. Let's see.

Speaker 2: [unintelligible 00:09:11]. She didn't ask the second.

Joanna: Let's see. More people are saying DeFi licenses, at this point, but existing regulatory frameworks coming on strong, but self-regulation not so much. That's interesting. There we go. We've got an even split on the existing and the DeFi licenses and then less for self-regulation. Very interesting. Kai and Nischint, onto you. Kai, I love the, batik. I just have to say representing here. What do you see in the crypto landscape right now? Where are we in the cycle? Summer, winter? Is all the fallout done? Where are we going?

Pang Xue Kai: Based on our observation, at least what we're looking not only in Indonesia, but globally, on previous trend, there's always been four-year cycles that trends across the cryptocurrency or crypto asset markets. There's the accumulation phase. There's a markup phase where demand exceeds supply, and then usually there's the distribution phase where typical buyers start converting into sellers where they start realizing their gains, and then you have the markdown phase where supplies exceed demand.

Based on the past few months that we have been observing, I was also sharing at the backstage right now, is that it shows signs of us experiencing a crypto winter. I think that is also elevated based on the current global market conditions that's happening across the world. However, my take on this, or at least from the exchange perspective, is that ultimately this winter will essentially allow us to- Because after winter, usually, in Chinese term, you say it's spring cleaning. There have been a lot of companies that have overextended their risk portfolio and caused great issues to the industry in general.

To sum it up, I think, yes, the market is showing signs of crypto winter based on observations, based on people we've spoken to, based on what we see in observant markets, but yes, we're still looking forward to what's going to happen, and definitely everything happens in a cycle, so it's going to pass and looking forward to what's going to come next.

Joanna: Okay. Nischint, what do you think?

Nischint Sanghavi: I guess we're in the business of predicting cycles and seasons, but apart from that, I think the fact of what Kai said in terms of cycles it's true. We've seen multiple cycles like that in the crypto market. Most of us have been through most of them, but what we've seen in the cycles is when there is an upcycle, we see

a lot of people come in the market and that includes speculators, that includes developers, that includes entrepreneurs.

As these cycles peak up and start falling down, we see a lot of these speculators come out of it, but most of the time, the developers and entrepreneurs stay. Our goal is to follow the developers and where they are going and see what exciting applications and protocols and stuff that they're building and how we can help them with the early stage of their businesses.

That's the way Visa also thinks about this and follow the developers wherever they're going. We've actually seen in spite of what we're calling is it winter or bear market, we've seen that the number of developers who are active right now is probably at the highest, and they've been reports which show that these developers are staying in spite of the prices. I think it's a good sign that this is happening in the market. Anyone can probably see the best products are still yet to come.

Joanna: Okay. Nischint, what do you see is the most important developments coming for consumers in crypto, Web3, Metaverse? What do we need? EM, for instance, is often considered one of the big use cases in bringing people up. What are you looking at in the next year, two years is a really important things for a consumer.

Nischint: There are a lot of things happening at this time, but if you see, we've seen a winter reality and embedded finance go up in a lot of ways, and that is actually contributing to the growth of Metaverse. Now, again, Metaverse is going to be a place where we see users interacting with a lot of content and with each other as well, and we are here to support that kind of payment mechanism.

Again, whether it uses traditional payment mechanisms or the new forms of money whether it's stablecoin, CBDC, it's still to be seen, but that is one area that we're definitely looking at. Another one is DeFi. Now, within DeFi, we did a recent survey and we've seen that 21% of people in Asia Pacific have said that they are currently using DeFi, and the number which said that they're interested is probably double of that, which means that there's a huge consumer appetite for DeFi.

Obviously now for DeFi to come into mainstream, there are multiple factors that will come into play, but over time we see this merger between traditional finance world and DeFi world coming together in some way. I think those are things that we do see coming up in the future.

Joanna: Okay. Great. Kai what are you seeing?

Kai: I think that one of the most possible collaboration between Visa and Tokocrypto I don't know, in Indonesia or something over the near course of the future. Something that I want to point out and something that we've been observing in Indonesia is the sheer interest that the governments and regulators, just like how His Excellency of Palau has also indicated.

Definitely, within Indonesia, there has been a lot of interest. I'm pretty sure you guys have heard that President Jokowi has mentioned of moving the new capital over to Kalimantan. They have spoken about wanting to creating it on the metaverse. How

can they look at putting blocks of land in the new capital on the metaverse? There has been metaverse that was announced with some of the listed companies in Indonesia. There's been metaverse that's been announced with some of the big telco companies in Indonesia. Web3, metaverse, GameFi, these are three most talked about keywords within the VC space, within regulators in Indonesia.

To see these things come into fruition, of course, whether is it just on the surface, because in the metaverse, you have the front end and you have the back end. The front end is everything that you see in virtual. In order for it to get implemented, I think some of the speakers before was also saying that there have been a lot of plants, but what we need is implementation.

I think, those are things that we're looking forward to see implemented. Especially, G20 is coming up in Indonesia. A lot of these plans, a lot of these projects will be built, not secretly, but they are being built and they will be announced during G20. I think that's something that Indonesia is very proud to be able to showcase and also something that we can expect to see what exactly has been built. There's a lot of promises on crypto, but now it's time to see the real products that can actually be brought in.

I think there was also mention about commodities in Indonesia that's coming up. Indonesia is a country that is not very well-known for its strict processes, its supply chain, so having block chain come in to see how it could make things a bit more efficient in this space is also some of the things that I think is very key and crucial in terms of that people are expecting.

Joanna: Kai, what do you think will spur more adoption in digital assets, both on the retail and the institutional side?

Kai: A couple of things. Number one, partnerships. We need Web2 companies, we need traditional companies, finance companies to take that step. Just having this session itself is very promising. It gives a very positive outlook in this space because everyone here is a season-experience person that has been working with many years of experience in the traditional finances, and to have that interest, I think that's the key thing.

The next thing would be to see how we can partner up to deliver and offer some of the things that I mentioned earlier and how do we offer them to the people to actually be implemented. The third thing would be regulations. That is very key and crucial. At least from what we are observing in Indonesia, that has been very sound policies that we put in place, crypto is being taxed. Crypto transactions are taxed in Indonesia. There's a regulatory body that is governing the industry, that's reported 15 million retail customers in Indonesia. How do we take the next step, I think, to expand more on these these things that I mentioned, is my part.

Joanna: Nischint, what do you think?

Nischint: I think two things are really key for the next mainstream adoption. First of all, there's user experience. We've always seen in the crypto industry, probably 10 years back also, it's very, very complex mechanism of doing anything in the crypto site. Over time, we've seen those user experiences become much better and it's

more seamless, but I think, for the next generation of people to come in, it has to be as seamless as-- knowing that there's probably nothing be in crypto right now, it could be something like crypto in the back which is powering, which could be blockchain, but doesn't have to be something which is full of jargons, something which is full of multiple hoops to jump.

I think that user experience becomes a critical aspect of it. The second part is security. We've all seen in crypto and security's been one of the biggest concerns whether it's on smart contract hacks, exchange hacks, a lot of other phishing attempts, and all of the things which are happening right now. Now for that, the industry will really need to mature and come up with newer security measures, especially in things like DeFi.

That's where I think a lot of the traditional institutions and financial institutions, which have been doing this being certified for years, can come and give the expertise to the crypto players and the crypto native players. I think that talking, again, of that whole merger between the traditional financial institutions and the crypto world becomes even more important at this point.

Joanna: Thank you. I guess quick answers on the last two if you can, but what do you see as particularly promising or challenging in ASEAN since we're an ASEAN Conference Mission?

Nischint: I think, in terms of ASEAN, and particularly again, because there's a different multiple of geographies, it's very hard to give a particular answer specific only to ASEAN, but I think we've seen this growth of CBDCs and stablecoin regulation coming in and I think that can become a very critical factor of how this market grows, so we have to see like how each of different regulators look at this and look at stablecoins in general.

Joanna: Okay, and Kai?

Kai: Some of the challenges that we see and face right now is, I think, everyone thinks everything needs to be tokenized or you need to create a crypto token out of it all. I think, fundamentally, we need to go back to what processes cannot fundamentally be not tokenized, but looking at adopting blockchain technology into those processes.

I think in general it's to make people understand that blockchain technology is not all about cryptocurrency and going to the moon. Fundamentally, like what Nischint mentioned, it's also about how the technology can fundamentally power services that we are so used to and aware to, but not actually knowing that what we are using is actually powered by this technology.

Joanna: Last question, two minutes each. What does the future of money look like? Is it Central Bank Digital Currencies? Is it crypto? What's going to survive out of all the stuff that's happening right now, Kai?

Kai: Definitely, I think CBDC is something that will come up and start to show itself more in the next couple of years with the growing interest definitely from-- I think the last was Governor of Bank Indonesia actually stepped up and was talking about

CBDCs in Indonesia. With G20 coming up, I think that some shape and form of it will be starting to come up in something that we can start seeing what exactly have they been planned?

We've been involved in a lot of focus group discussions with **[unintelligible 00:22:43]** as well, OJK has also come up and mentioned-- the new chairman of OJK also came out and mentioned about crypto. My perspective is that CBDC will definitely lead the charge in the next wave of cryptos.

Joanna: Okay. Excellent. Thank you. Nischint, what do you think?

Nischint: I think the future of payments is definitely digital. We've seen massive adoption through the pandemic. I think in terms of stablecoin and CBDC, I would definitely see regulated governed stablecoins. Those that can almost become like an alternate payment real to what other systems are today, whether it's an RTP system, whether it's a card system, they will definitely be an alternate rail. CBDCs also will probably take a little bit more time to mature, but that'll also come eventually to solve all the Web3 ecosystem. I think both of those are pretty likely to succeed.

Joanna: Excellent. Well, I appreciate both of you making the time to do this, and thank you to you all for being here. Actually, if we can thank the panelists, and then I think we're going to have some words from Mark Miller who is our global editor for B Live. First, thanks to these guys for their thoughts.