

Narrowing Development Gaps



1. A Study on Micro, Small, and Medium Enterprise Participation in the Digital Economy in ASEAN

Partners: ASEAN Connectivity Coordinating Committee (ACCC), ASEAN Coordinating Committee on Micro, Small And Medium Enterprises (ACCMSME)

The digital economy is the greatest and most powerful driver of innovation, competition, efficiency, and growth of economies, sectors, industries and firms – whether large businesses or Micro, Small, and Medium Enterprises (MSMEs). Since digital technology is increasingly becoming

better, cheaper, and easier, MSMEs in developing countries, those in ASEAN included, have much better opportunities to take full advantage of the digital economy. This applies, for example, to those involved in e-commerce including many digitally driven financial technology or fintech businesses, which constitute the main artery of the digital economy itself. However, heavily outdated laws and regulations and, worse, the complete absence of a wide range of facilitating or conducive laws and regulations could create major difficulties in initiating and sustaining the transition to e-commerce in the digital age within the developing region.

The increased efficiency in production and

marketing as well as new products and services made possible by digital technologies and tools in ASEAN could potentially be worth up to US\$625 billion by 2030 (8% of ASEAN's gross domestic product in that year). Capturing such opportunities requires the establishment of regulatory frameworks for the delivery of new digital services (including data management, secure financial services, and efficient logistic services); and the provision of support for the sharing of best practices in equipping MSMEs with the capabilities to access these new technologies and tools. For all practical purposes, the need for such technical support is unlimited in both range and scope at the grass-root (entrepreneur), enterprise, industry, sectors, and policy and regulatory levels. It is also particularly pressing in ASEAN countries which are less advanced in their economic development, to enable them to leapfrog the development process by adopting e-commerce and the digital economy.

It should also be noted that digital technology (including service/e-commerce) platform companies (hereafter 'digital platformers') play the key role in developing an effective digital technology ecosystem for MSMEs. To date, several multinational digital platformers have emerged from the United States and China (e.g. Google, Amazon, Alibaba, Baidu, and Tencent) while regional digital platformers (e.g. Lazada, GO-JEK, Tokopedia, and Grab in ASEAN) are also showing their strong presence. These digital platformers create value externally with digital partners and communities of users. They are providing digital solutions to MSMEs including customer interface, digital marketing, products/service delivery, bookkeeping, and financial settlements. In these new configurations, the platform is the business model. They are developing well-designed e-commerce marketplaces that

address (at least partially) the issue of information asymmetry between large-sized companies and MSMEs through provision of reputation and optimised pricing mechanisms.

A survey is proposed to be conducted amongst digital platformers, MSMEs, and the government agencies in charge of SME/ICT in ASEAN to gain a deeper understanding of the current situation in relation to digital adoption, including the current and planned services to be provided by major digital platformers for MSMEs in the region as well as the key barriers, if there are any, preventing these services from being delivered to MSMEs. The survey findings and recommendations can be discussed amongst relevant committees in ASEAN (e.g., ACCMSME, ACCEC, and TELSOM) and other stakeholders. This work will support the implementation of the MPAC 2025 Initiative 4 concerning enhancing the development of MSME technology platforms as well as 'Strategic Goal A: Promote Productivity, Technology and Innovation' of the ASEAN Strategic Action Plan for SME Development (SAPSMED) 2016–2025.

Geographic scope: ASEAN

2. Digital Economy, Innovation, and East Asia's Competitiveness in GVCs, Phase II: Improving E-commerce Enabling/Supporting Connectivity in Asia

Digital technology has been a defining transformational force of human society, and digital innovations are engines of great prosperity. Supported by new tools and media, information becomes a new and highly valued production



factor. This is going to be a key feature of the future knowledge-based economy and society. Moreover, disruptive innovation, which distinguishes from traditional innovation patterns, provides new opportunities for developing countries to realise increased development.

Connectivity is vital for countries' participation in global value chains. It consists of not only physical connectivity that facilitates the movement of raw materials, intermediate goods, and finished goods, but also virtual connectivity that allows free flow of data, information, and services.

Both AEC Blueprint 2025 and ASCC Blueprint 2025 highlighted the importance of incorporating economic digitalisation into development in ASEAN. The development of digital economy has been an integral component of the United Nations' Sustainable Development Goals as well.

The project will emphasise (but is not limited to) the following four aspects of connectivity:

1. Connectivity for free information flow;
2. Logistics connectivity;
3. Connectivity for free cash flow; and
4. Seamless links between the virtual and physical networks.

Geographic scope: Japan, Republic of Korea, China, India, Singapore, Indonesia, Malaysia, Thailand, Philippines, Lao PDR, Cambodia, Myanmar, Viet Nam

3. ERIA–OECD ASEAN SME Policy Index 2018

Partners: OECD and ASEAN Secretariat

The ASEAN SME Policy Index 2018 is a joint effort between the Economic Research Institute for ASEAN and East Asia (ERIA), the Organisation for Economic Co-operation and Development (OECD), and the ASEAN Coordinating Committee on Micro, Small and Medium Enterprises (ACCMSME).

Divided into eight policy dimensions, the study builds on the previous edition of the ASEAN SME Policy Index 2014. The current project presents an updated methodology which makes this document a powerful tool for assessing the strengths and weaknesses in policy design, implementation, and monitoring and evaluation for SMEs, and allows for a benchmarking of the level to which the ASEAN Strategic Action Plan for SME Development (SAP SMED) 2016–2025 has been implemented. Its objective is to enhance the capacity of policymakers to identify policy areas for future reform, as well as implement reforms in accordance with international good practices.

The report provides a regional perspective on recent developments in SME-related policies in Southeast Asia as well as in individual ASEAN Member States (AMS). Based on this analysis the report provides a menu of concrete policy options for the region and for the individual countries.

Geographic scope: ASEAN

4. Indonesia Manufacturing Review

Partner: The Ministry of National Development Planning/National Development Planning Agency (Bappenas)

Intensive research and public consultations were carried out within a 6-month period from July to December 2018.

- The research covers various relevant topics, e.g. technology adoption, global value chains, new sources of growth, export.
- As part of the research 14 focus group discussions and two high-level policy dialogues were conducted.
- The Minister of National Planning/Bappenas, the Minister of Industry, the President of ERIA, and several international experts (e.g. Hal Hill, Premachandra Athukorala, and Chin Hee Hahn) participated in one of the high-level policy dialogues (5 December 2018).

The project produces a number of comprehensive update on issues affecting Indonesian manufacturing, such as energy supply for industry, mapping of technology adoption by industries, export determinants, and Indonesia's participation in international production networks, etc.

- Many of these updates are used as material for an academic paper on the medium-term development plan.
- The project is able to contribute directly to the almost-final draft of the medium-term development plan.

- Ministry of Planning/Bappenas adapted the framework for revitalisation of Indonesian manufacturing. The earlier version of this framework was proposed by ERIA.

Geographic scope: Indonesia

5. Innovation in ASEAN

Innovation is a primary source of sustainable economic development and inclusive growth. Nonetheless, innovation data shows that it may not be easy for AMS to quickly achieve a significant level of innovation capability. Observations of innovative activities indicate that AMS need to greatly enhance their innovation capability and there remains much room to do so. In addition, since AMS are at very different stages of innovation, it is important to move up the 'technology ladder', step by step, with the help of effective strategies and systemic innovation policies.

In particular, AMS such as Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam, which are concerned about falling into the 'middle-income trap', need to develop multifaceted dimensions of their national innovation systems, including research and development (R&D) incentives, human resources development, and industrial and trade policies. Policymakers need to strike an appropriate balance between market-oriented and government intervention approaches, depending on their country's situation. Finally, ASEAN also needs to consider what kinds of region-wide innovation systems to implement and how to synergise them with each member state's national innovation system.



The key message for AMEs is not only to increase investment in R&D and innovative activities, but also to enhance innovation capability and improve the environment in which innovation occurs.

Geographic scope: China, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam

6. Joint Feasibility Study on an ASEAN–Canada Free Trade Agreement

Partners: Global Affairs of the Government of Canada, Indonesian Ministry of Trade, ASEAN Secretariat

ASEAN and Canada have a long history of cooperation. The bilateral relationship has grown steadily since 1977, when Canada became an ASEAN Dialogue Partner. As a group, ASEAN is the sixth largest economy in the world and one of the largest drivers of growth in the Asia–Pacific region. Canada is the 10th largest economy in the world, a strong and stable economic partner, and a leader in global trade, services, investment, and research and development. Both ASEAN and Canada have identified economic cooperation and trade and investment as necessary elements in further growing and developing their respective economies, as well as the ASEAN–Canada bilateral relationship.

In August 2016, at the ASEAN Economic Ministers (AEM)-Canada Consultations (Vientiane, Lao PDR), ASEAN and Canada's economic ministers agreed to co-create a feasibility study to explore the potential for an ASEAN-Canada Free Trade Agreement (FTA).

The in-depth study was conducted jointly by the Government of Canada's Office of the Chief

Economist and ERIA (on behalf of ASEAN), and provides the following:

1. An overview of the ASEAN and Canadian economies, including key bilateral trends in terms of trade in goods, trade in services, and two-way investment;
2. An outline of Canada's and ASEAN's respective approaches to free trade agreement negotiations; and,
3. An evaluation of the potential economic gains for both Parties of an ASEAN–Canada free trade agreement.

Geographic scope: ASEAN and Canada

7. State of ASEAN 2017

Partner: NEOMA Business School

With ASEAN's 50 years of regional cooperation and around 40 years of pursuing regional economic cooperation and integration, it is time to assess the state of ASEAN's socio-economic cooperation in the development of regional business, not only from Asia's perspective, but also from broader comparative viewpoints.

ASEAN's regional integration and that of Europe and America are very different processes. Since its establishment in 1967, ASEAN has grown into a vibrant and increasingly integrated economic region, an increasingly strong socio-cultural community, and a significant force in international diplomacy. The story of ASEAN is one of facilitating regional governance, regional economic integration and cooperation, and regional community building.

It needs to be remembered that economic integration is not a goal in itself. After half a decade of development, ASEAN now faces the challenge of deeper embedding into regional and global governance. In the long term, the challenge in terms of monitoring ASEAN's process and progress of integration is to assess its impact in terms

of achieving the ultimate goals of the ASEAN Community. To the extent that economic integration contributes to the achievement of such goals, then seeking to deepen the process is warranted and should be further pursued.

Geographic scope: ASEAN, RCEP countries

