

## Pillar 1: Deepening Economic Integration



### 1. Creative Industries, Creative Economies, and Creative Activities in Japan and their Global and Transnational Linkages in ASEAN and East Asia

According to the World Economic Forum's Future of Jobs report, creativity will become one of the most important skills in the Fourth Industrial Revolution. This revolution is characterised by a fusion of technologies that blurs the lines between

the physical, digital, and biological spheres. In industry and commerce, the term 'creative industries' appeared in the policy circles of the United Kingdom in the late 1990s, and since then has been widely used in other countries, including Japan, the United States (US), Australia, and China.

This project attempts to take a pioneering role in filling this creativity gap, by providing comparative case studies from the Association of Southeast

Asian Nations (ASEAN) and East Asia, and by zeroing in on cooperation and competition in the region. It focuses on the creative industries in Japan, with emphasis on the increasingly transnational flows of goods, services, and industrial personnel within the ASEAN and East Asian regions. Although the spotlight is on Japan's creative industries, we also look at transnational approaches to the creative industries by examining the global networks of production, distribution, and consumption in ASEAN, East Asia, and beyond. We work under a guiding framework comprising the following facets of cultural production: (i) technology, (ii) laws and regulations, (iii) industrial structure, (iv) organisational structure, (v) occupations and careers, and (vi) markets.

The key objectives of this research are to provide answers to the above questions by applying insights from economic and cultural sociology, management and organisational studies, and economics – in particular, new institutional economics and its transaction cost approach and contract theory variants, as well as political science and international relations – including the notions of cultural diplomacy, public diplomacy, and soft power.

During fiscal year (FY) 2019, this project published five Economic Research Institute for ASEAN and East Asia (ERIA) discussion papers on the Japanese creative industries and literature, the next generation of the automobile industry, soft power and popular culture, and the framing and reception of the opening ceremonies at the Olympics.

## 2. Study on the Vientiane–Hanoi Expressway

The Lao People's Democratic Republic (Lao PDR) faces a significant challenge in addressing the development gaps that arise from its geographical constraints as a landlocked nation. To turn this weakness into a strength and become a land-linked country in the Mekong region, the Lao PDR needs to play a greater role as a logistics hub and promote manufacturing exports through enhanced connectivity with China, Thailand, and Viet Nam. *Lao PDR at the Crossroads: Industrial Development Strategies, 2016–2030*, prepared by ERIA and the Lao PDR's Ministry of Industry and Trade in 2016, stressed that such transformation is crucial not only for the Lao PDR's industrial development, but also to accelerate economic growth across the Mekong region.

Following on from that study, this research focuses on how the Lao PDR and its neighbours can benefit from the Hanoi–Vientiane Expressway, a new highway connecting the two cities, by leveraging industrial networks. It analyses the economic and industrial impacts of the expressway from the perspective of global value chains (GVCs) and production networks in the Mekong region.

The *Vientiane–Hanoi Expressway Project* discussed not only what economic impacts the Vientiane–Hanoi Expressway (VHE) could have on the Lao PDR, Viet Nam, and Thailand, but also how these countries could maximise economic benefits and promote industrial development strategies towards building a Bangkok–Vientiane–Hanoi industrial corridor by making better use of the VHE.

This report included the following regional policy recommendations: (i) establish a specific consultation system amongst the Lao PDR, Viet Nam, and Thailand to work on a detailed study of the VHE; (ii) deepen and expand friendship agreements amongst relevant cities and provinces to promote discussion of the VHE; (iii) harmonise transport-related policies in coordination with the relevant countries; and (iv) reduce cross-border transport costs such as non-tariff measures (NTMs).

### **3. Micro-dynamics of Industrial Development and Trade and Industrial Policy**

The broad theme of this research is globalisation and its impacts on East Asian countries, with a focus on microdata analysis. We understand globalisation as a process or an evolution of closer economic integration through increased trade, foreign investment, and immigration. Under this broad theme, authors choose topics that are of specific interest to their countries.

There have been numerous studies of the causes and consequences of globalisation, but we feel that the potential value added of this project comes from the microdata analysis on East Asian countries. Although various aspects of globalisation have been analysed, microdata analyses are relatively scarce. There might be many microdata analyses on other regions – primarily North and South America and Europe – but not many such analyses exist for East Asian countries. This research project tries to fill this gap.

The project is expected to contribute to a better understanding of whether and how globalisation has affected the performance of firms, using case studies from East Asian countries. These outputs are expected to provide insights for policymaking.

### **4. Services Supply Chains – Implications and Opportunities for the Regional Comprehensive Economic Partnership**

Services supply chains are becoming an important driver of trade and growth in the ASEAN and Asia regions. In particular, the value chain activities within the supply chain are critical if we are to fully exploit the potential of supply chains. There are ample opportunities for countries at various stages of growth to participate in the production value chain. It is important to examine the key fundamentals that might be needed for these countries – in which there is also a growing services sector – to participate effectively in the services supply chain.

The concept of ‘servicification’ (manufacturing becoming increasingly focused on services) covers three different types of services in manufacturing, which increasingly depends on servicification to drive growth: (i) service value added in manufacturing exports; (ii) in-house services within manufacturing firms; and (iii) services that are sold bundled with goods and commodities.

At the same time, services are value-creating activities along the GVC. Literature on trade in value added (TiVA) shows that the share of service value added in manufacturing exports accounts for more than one-third of total value added. In textiles and apparel, and food and beverages, service value

added contributes as much as 40% of exports. Thus, servicification leads to higher value creation and shifts production towards more productive models.

The servicification of manufacturing firms has several impacts on productivity improvements. Service activities help firms to become more productive, e.g. the use of services in logistics, management, or engineering can save time and materials and improve coordination. Manufacturers also use services to differentiate their products from competitors and to take advantage of production in GVCs. Services are also enablers of such networks and value chains. The project examines if servicification in the Chinese manufacturing sector improves firms' productivity. This has important policy implications as the role of the service sector increases in terms of trade and investment, and thereby drives the economic growth of the Chinese economy. This implies that the free movement of services and persons (service trade liberalisation) is essential to manufacturing.

## **5. Non-Tariff Measures in ASEAN (Phase III: Renewal of Database and Country Report Design Phase)**

With tariffs constrained by the World Trade Organization, we expect countries to use an increasing number of NTMs to protect domestic firms and industries. This trend is particularly likely in ASEAN, one of the fastest growing regions in the world in terms of economic and trade growth.

From 2008 to 2011, the number of NTMs rose substantially across the globe. However, this increase is not necessarily a bad sign for the economy. As global consumer wealth goes up, the demands on

governments for health, safety, and environmental protection rise as well.

In the case of ASEAN, the latest official data on NTMs (from the ASEAN Secretariat) are for 2009. A number of surveys have been conducted to fill the gap, but more work is needed. In this context, the project seeks strong multi-agency collaboration between ERIA and the United Nations Conference on Trade and Development (UNCTAD), supported by experts on NTMs, to (i) collect, validate, and classify NTM data from official government sources; (ii) improve the general understanding of these measures and their impact on world trade; and (iii) provide insights on policy recommendations for streamlining NTMs and trade regulation reforms.

This project published *Non-Tariff Measures in ASEAN – An Update*, which launched a database on NTMs in ASEAN with UNCTAD at the ASEAN Economic Ministers' Meeting in September 2019.

The report observed an increase in NTMs across all 10 countries. Over the past 3 years, the total number of NTMs has risen by about 15%. Technical measures account for the majority of NTMs, which is in line with the pattern observed in developed countries. Sanitary and phytosanitary (SPS) measures are highly targeted at agricultural and food products, whilst Technical Barriers to Trade (TBT) are often used for non-food manufacturing products. Export-related measures and quantity and price controls also contribute to a significant fraction of NTMs. Given the complexity of NTMs, their increasing use should be interpreted with caveats. The increase in NTMs reflects the dynamics of regulatory reform in ASEAN Member States (AMS). In certain circumstances, however, NTMs have also served as

disguised barriers to international trade and become a convenient tool to provide undue protection to certain products or industries.

More importantly, regardless of their objectives, NTMs can contribute significantly to increasing trade costs, thus reducing an economy's competitiveness. Addressing NTMs, especially in the context of declining tariffs, should therefore be a priority in national competitiveness agendas. ASEAN, through various frameworks, principles, and agreements, has taken steps to address and manage NTMs. Although initiatives are region-wide, harmonisation and enforcement of NTMs require strong institutional commitment at the national level. Whilst significant progress is not yet observed, effective implementation of existing initiatives could produce promising results.

This report documented the trend and pattern of NTM utilisation in ASEAN based on the updated ERIA–UNCTAD NTMs in ASEAN database, and discusses ongoing regional and national efforts in addressing NTMs. We recommend four areas of focus in addressing NTMs: (i) enhancing the capacity of issuing and enforcing agencies; (ii) establishing an inter-agency committee to oversee and manage the use of NTMs; (iii) strengthening engagement and consultation with the private sector and research institutions; and (iv) applying regulatory practice core principles.

## 6. International Regulatory Cooperation for ASEAN

In a world of cross-border value chains, international regulatory cooperation (IRC) is an important initiative for two reasons: (i) to reduce international trade costs arising from differing national regulations; and (ii) to ensure that regulations are effective. IRC can help address these twin concerns by improving regulatory coherence amongst countries through improved design and execution of regulations on goods and services as they cross national borders.

Although not explicitly indicated in the ASEAN Economic Community Blueprint 2025, IRC as a means of engendering regional regulatory coherence largely falls within the ambit of Section B.7 on effective, efficient, coherent, and responsive regulations and good regulatory practice. This project will explore the extent of and barriers to the development of IRC in ASEAN. The primary focus is on identifying the enablers and facilitating factors in effective IRC and outlining the main barriers and constraints that must be overcome. The secondary focus is on the pervasiveness of IRC in the region.

The project is a seminal work on IRC for ERIA, although it follows on from the earlier ERIA project with the New Zealand Institute of Economic Research on regulatory management systems in East Asia. The first phase of the project will (i) develop a framework for IRC; (ii) survey the pervasiveness and persuasiveness of various forms of IRC in ASEAN; and (iii) work in parallel with the New Zealand Institute of Economic Research's case studies on IRC in the region.

The project report will be published in 2020. The growth of IRC over the last 40 years has been driven by the combined impact of (i) globalisation, (ii) technological change, and (iii) geopolitical developments. Looking ahead beyond the coronavirus disease (COVID-19) in the next decade, the first two of these drivers will continue to operate: (i) economic – growth in global supply chains, globalisation, growth in multinational corporations, and pressure for businesses to reduce technical barriers to trade; and (ii) technological change – the Fourth Industrial Revolution, driven by the combination of digitisation, artificial intelligence, cloud technology, big data analytics, and high-speed mobile networks.

However, on the geopolitical side, there is significant potential for discontinuity with IRC, given the slowdown in international economic integration, ongoing US–China rivalry, and the loss of US leadership/momentum in multilateral initiatives. As a result, there will be less impetus for IRC from the multilateral agreements that provide for the widening and deepening of regulatory cooperation.

In East Asia, a number of overlapping regional trade and regulatory initiatives might help drive the future of IRC in the region, including the ASEAN Economic Community Blueprint 2025, regulatory provisions in free trade agreements between ASEAN and other countries in the region, the agenda on structural reform of Asia–Pacific Economic Cooperation (APEC), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership (RCEP). However, US–China tensions will inevitably

spill over into engagement between second tier nations, making collective agreements harder to achieve in regional forums such as ASEAN and APEC.

## 7. Human Resources for Healthcare and Elderly Care in Asia

The movement of people across borders in Asia is a key component of deeper economic integration in the region. The effort to facilitate the seamless movement of skilled labour in ASEAN started with mutual recognition arrangements on several professional services. These allowed professionals to practice in other ASEAN countries through mutual recognition of their qualifications. However, the ASEAN mutual recognition arrangement on nursing services, which was signed and came into force in December 2012, has facilitated the mobility of nurses in only a few countries. While some countries are actively recruiting foreign nurses and care workers, others are regulating foreign workers.

This study examines the case of Filipino, Indonesian, and Indian nurses and care workers to better understand the flow of human resources in the nursing and elderly care sectors. In some Asian countries that have experienced rapid population ageing, older people are traditionally expected to be cared for by their families. However, the current demographic, economic, and social transformation hinders some families' availability and ability to take care of their senior dependents. Countries that currently receive foreign nurses, such as Japan and Malaysia, will be compared by analysing those who are engaged in nursing and elderly care in each society. Thailand's elderly care is also examined, as the country is now ageing rapidly.

This study aims to explore a wide range of features of human resources development and employment in the nursing and elderly care sector. It will focus on foreign nurses and care workers; and is expected to identify the problems, obstacles, and challenges which limit the movement of nurses and care workers in the region. Study areas consists of data collection and analysis as follows: (i) analysis of national data and policies for nursing and elderly care; (ii) visits to hospitals/nursing homes, relevant administrative offices, and training institutions; (iii) questionnaire surveys on foreign nurses and care workers; and (iv) in-depth interviews with nurses and care workers. Both quantitative and qualitative techniques are used in data collection and analytical methodology.

## **8. Russia–ASEAN Trade and Economic Relations: Prospects and Pathways**

The Russian Federation, a member of the East Asia Summit (EAS) since 2010 and a full dialogue partner of ASEAN since 1996, marked the 20th anniversary of its dialogue relations with ASEAN in a commemorative summit held in Sochi, Russia, on 19–20 May 2016. The summit adopted the Sochi Declaration, charting out the future direction of the ASEAN–Russia relationship and cooperation.

Given the economic and geographical importance of ASEAN and Russia, trade and economic relations between them are expected to grow beyond current levels. More integrated trade and value chain connectivity between ASEAN and the Eurasian Economic Union should be considered, as this grouping and Russia have similar principles of economic relations.

ERIA and the Center for Strategic Research, Russian Foreign Trade Academy have explored new value chains of production between ASEAN and Russia and between ASEAN and the Eurasian Economic Union. A joint report evaluating the various dimensions of economic cooperation between ASEAN and Russia was prepared in 2018–2019 and was acknowledged by the ASEAN–Russia Senior Economic Officials’ Meeting and the ASEAN–Russia Economic Ministers’ Meeting.

The report of this project was published in October 2019 together with the Russian Foreign Trade Academy. The study revealed that current trends in trade and cooperation between ASEAN and Russia, and further cooperation in areas of mutual interest and expertise, will ensure that trade and economic relations continue to grow beyond current levels and that there are huge opportunities and avenues for economic cooperation, institutional connectivity, and people-to-people cooperation. The complementarities in ASEAN–Russia economic relations set out important avenues and measures to improve and facilitate trade, investment, and bilateral cooperation. These avenues and measures, when taken further, will enhance and deepen trade, investment, and economic cooperation between the two regions. The findings of the study were presented at the ASEAN–Russia Senior Economic Officials’ Meeting to deepen ASEAN–Russian dialogue on mutual cooperation.

## 9. The Role and Impact of E-Commerce in Formalising Businesses: The Case of Southeast Asia

E-commerce markets have grown significantly within ASEAN in recent years. Since 2015, the number of internet users in the six largest economies in ASEAN has risen from 244 million to 283 million, according to Statista. Despite this high growth, there remains room for expansion in e-commerce markets across ASEAN. Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam all generated less than 4% of their retail sales online, a much lower proportion than other e-commerce markets such as the Republic of Korea (henceforth, Korea) (16%) and China (7%).

E-commerce platforms are making waves globally, but regulations have not yet firmly addressed their legal obligations or the tax regimes that apply to them, meaning that they effectively fall into the informal sector. That fact is intriguing, as payments made via these platforms can be monitored and managed.

In e-commerce environments, payments by the consumer are processed under a 'one roof system' –i.e. the payments are transferred to the e-commerce platform's bank account. The system then forwards the payment to the merchant when the consumer receives the goods. Hypothetically, if a government were to regulate for value-added tax to be automatically deducted within the payment system, this would boost government revenue significantly.

This study aims to estimate the potential impact of using e-commerce to formalise unregistered businesses and merchants, taking into account the applicable regulations in each country. We will also explore e-commerce regulations in selected South Asian countries, as e-commerce usually involves businesses and consumers from different jurisdictions and countries. We will focus on the tax and consumer protection aspects of the regulations. Tax regulations affect business owners' willingness to register or formalise their businesses, while consumer protection questions arise more often with e-commerce platforms – given their nature – than traditional platforms. Consumer protection is also heavily affected by the formal or otherwise status of businesses and existing regulation.

