

## Pillar 2: Narrowing Development Gaps



### 1. Digital Economy, Innovation, and East Asia's Competitiveness in GVCs, Phase III: E-commerce Enabling Services in Asia

Improving services will be as important an issue as connectivity if East Asia is to reach its full potential in the digital economy. For instance, from the perspective of logistics, service is key to the efficiency of distribution networks – online consumers require high standards of service and information. A logistics

network will not function at its best until it delivers such high-standard services, particularly at critical facilities in supply chains, such as mega e-fulfilment centres (distribution centres), parcel sorting centres, local parcel distribution centres for last-mile supply chains (covering the last part of the journey from hub to final destination), local city logistics depots, and returns centres. From the perspective of trade finance, the existence of a reliable credit guarantee system can effectively stimulate cross-border business-to-business

e-commerce. Online e-commerce platforms can collect and integrate information from various sources and provide users with service packages.

Phases I and II of ERIA research on the digital economy, respectively, investigated the issues of cross-border e-commerce and connectivity. The current study focuses on e-commerce enabling services, and its significance is twofold. First, it explores how digitalisation and service development can reinforce each other and fuel long-term growth in ASEAN and East Asia. Second, it contributes to the literature on globalisation's upcoming third unbundling. The study takes two tracks. Track A focuses on how to develop the service sector to improve ASEAN and East Asia's competitiveness in the digital economy, while track B emphasises how digitalisation can enable new service products/models to unlock the region's development potential.

One of the publications from this project has been published as a book, titled *E-Commerce Connectivity in ASEAN*. This book provided policy insights for ASEAN to realise the potential of fast growth by improving regional digital connectivity, with an emphasis on (i) data connectivity, (ii) logistics to facilitate the free flow of goods and services, (iii) connectivity to facilitate cash flows, and (iv) seamless links between the physical and cyberspace.

## 2. Comprehensive Asia Development Plan 3.0

ERIA published the Comprehensive Asia Development Plan 1.0 (CADP 1.0) in 2010, followed by CADP 2.0 in 2015. CADP 3.0 is due in 2020, when Viet Nam chairs the East Asia and ASEAN summits. In 2020, connectivity and infrastructure development will

remain important factors in realising a 'competitive, innovative, and dynamic ASEAN', as laid out in the ASEAN Economic Community Blueprint 2025.

Within the past 5 years, we have witnessed a radical change in information and communication technology (ICT). Digitalisation of the economy based on ICT has changed the conceptual framework of the unbundlings advocated by Richard Baldwin in *The Great Convergence: Information Technology and the New Globalization*. He stated that the 'third unbundling' has now emerged, following the 'second unbundling' that began in the 1980s.

Further advances in ICT are making qualitative breakthroughs by reducing costs, and a task can be unbundled and taken care of by persons in different locations. This kind of technological change has created opportunities for new businesses in ASEAN and East Asia, such as the e-commerce opportunities (business-to-business and business-to-consumer) provided by platform firms. As a result, we are required to reformulate our development strategies to include the leapfrog (skipping the middle development stages) and feedback (apply the technologies of more advanced development stages back to lower ones) strategies, as well as the existing step-by-step strategy.

CADP 3.0 will guide the policy direction of ASEAN and East Asian infrastructure and industrial promotion. These are both extended from CADP 2.0, which is built on the idea of fragmentation (segmenting vertically integrated production processes and outsourcing them to other countries) and production networks (the international division and integration of production processes). CADP 3.0 will also demonstrate the economic impacts of these policies by using a geographic simulation model.

This project's policy implications are that ASEAN and East Asia countries are expected to gain a deeper understanding of the ICT-led changes in globalisation. Countries will be able to promote infrastructure investment and innovation to take advantage of globalisation.

### 3. Demand and Supply of Long-term Care for Older Persons in Asia

As the world population continues to age, so too does the Asian population. The number of Asians aged 65 and above will nearly triple from 335 million in 2015 to 937 million in 2050. How to promote healthy and active ageing is a critical policy priority, but the burden of long-term care for the elderly will inevitably grow. The need for understanding and action is urgent, as many Asian nations will age faster in the coming decades than those in Europe and North America, and even Japan. The need to promote economic development as the population ages poses challenges to countries that do not have sufficient fiscal strength to support social security costs such as pensions or health insurance systems. Changes in family values and the high level of internal and international migration is resulting in aged parents being left behind and alone. This makes family care more difficult and increases the demand for the social care offered by communities and governments.

Given this context, the study focuses on the present status and future trends of demand and supply of long-term care for the elderly in the Asia-Pacific region. Demand will be measured by the number of older persons who need care and by the living arrangements of older persons, particularly those living alone. Supply will be measured in terms of

the human resources available to provide long-term care, and the long-term care facilities. Along with national level measurements and international comparisons, this study will address the importance of subnational differences. This is important as the size of the countries included in the study varies greatly. Comparing China, which has 1.4 billion people, with Japan (128 million) or Thailand (69 million) might lead to incorrect conclusions. Observing subnational level data is also important due to internal migration, whereby some rural areas lose a high proportion of their young people, and thus have a proportion of older persons that is much higher than the national average.

This study focused on Southeast Asia and East Asia in its first year, and will expand the target area into South and West Asia and the Pacific region in the second year.

An ERIA research report titled *Demand and Supply of Long-term Care for Older Persons in Asia* was published in August 2019. The report noted that the care industry has been growing in the region and the workforce is increasing substantially. However, compared with the health sector, the social work sector is still underdeveloped. Since public long-term care insurance systems were established in Japan and Korea in 2000 and 2008, respectively, the long-term care workforce has increased but is considered to be in shortage. For China and Southeast Asia, the workforce engaged in social work is increasing but in absolute shortage. The role of domestic workers is limited in Japan and Korea, but they will certainly play a role in China and Southeast Asia in the future. The Online-to-Offline (O2O) business model has developed rapidly in China and is already offering a considerable amount of long-term care services. To

cope with the sharp increase in care demand in the region, systems providing quality service should be created using new technology.

The stigma regarding long-term care facilities might not be persistent in the face of surging demand. In some countries, hospitals provide long-term care; in others, social welfare facilities might evolve to cope with the care demand of older persons. Data comparison amongst countries highlights the existing challenges. Rapid increases in care needs should be addressed through a system providing long-term care, and policy dialogue should be encouraged.

#### **4. Longitudinal Study of Ageing and Health in the Philippines and Viet Nam**

At the 20th ASEAN Plus Three Commemorative Summit, leaders reaffirmed their commitment to promote active ageing – whereby people remain physically active as they age – and the empowerment of older persons. In particular, leaders sought to advance regional cooperation on ageing-related challenges amongst AMS and the development of a regional plan of action to implement the 2015 Kuala Lumpur Declaration on Ageing: Empowering Older Persons in ASEAN.

The first step towards sound and sustainable policies is to collect evidence on the health status of older persons in the region. Being active in old age is closely linked to health and social security systems, including healthcare and long-term care systems. Health is also one of the most important factors for overall well-being. The concept of health expectancy is a useful indicator of healthy and active ageing, and can be computed as the number of years of expected good

health. In an extreme example, if health expectancy is equivalent to total life expectancy – an outcome known as ‘rectangularisation of the survival curve’ – all people will live in good health until the exact time of death.

This longitudinal study tracks individuals aged 60 and above for multiple years, and analyses the factors contributing to longer, healthy lives. In the AMS, few such studies have been undertaken, and the factors for healthy ageing have not been investigated well. In this study, about 6,000 people aged 60 and above will be selected randomly from the Philippines and Viet Nam. A baseline survey was completed in the first half of 2019, and a second wave of surveys will take place in the latter half of 2020. The survey was developed in line with the health and retirement survey promoted by the US National Institute on Aging. The survey has been used in many countries, so its results can be easily compared with others.

The project will describe the current health of older persons in FY2019, based on the data collected through the baseline survey. It will also investigate associated correlates of the current health status of older adults in both countries.

#### **5. Labour in East Asia**

Due to the fragmentation of production processes across borders, it has become necessary to use the TiVA concept to analyse trade. The main advantage of a TiVA perspective is that it clarifies a country’s forward and backward linkages to the global production process. A country’s exports may include inputs sourced from other countries, or those exports may be used in producing a partner country’s exports. As

such, the Organisation for Economic Co-operation and Development (OECD)–World Trade Organization definition of participation in the GVC is the sum of foreign value added in gross final exports and the share of domestic value added in exports of intermediaries. TIVA analysis also reveals the degree to which employment in various industries in one country is related to final consumption in other countries.

For this project, 15 original research papers were commissioned. These papers are designed to shed light on various labour market issues by studying the experience of East Asia, a region with highly developed inter-country production networks that serve as a production base for developed countries.

During FY2019, six ERIA discussion papers were published as part of this project. Each paper contributed to an understanding of trade and employment using GVC analysis, an emerging literature that still needs in-depth study. The papers presented macroeconomic analyses of GVCs and employment in East Asia, with microeconomic and country-specific quantitative analysis to uncover the nuances of country-specific contexts.

## **6. Realisation of Higher Value Added of Agricultural Products**

Despite several positive market indicators, including steady population and economic growth and deeper regional and international economic integration, the agro-food market in Southeast Asia faces several unresolved issues, such as the low income of small-scale farmers. However, these challenges can be partially addressed by making improvements to

food value chains (FVCs), including the production, processing, circulation, and trade of agro-food products, from both institutional and technical aspects.

ASEAN has recognised that poverty reduction and food security are critical issues related to the agro-food sector. In fact, the improvement in FVCs is an important measure for both poverty reduction and food security. There is a wide range of potential strategies to improve FVCs even if they are only applied at the domestic level. While the term 'FVC' is widely used, its evaluation scale is ambiguous. A series of studies on global commodity chains and GVCs since the 1990s has provided analysis of governance or non-market coordination of economic activity. The evaluation method of value chain analysis has obtained various analytical footholds, including the distribution of profit, non-economic values, and sustainability – especially in the context of agricultural value chains and value chain development. This project aims to contribute to economic development and poverty reduction, particularly in rural areas, by providing practical information to policymakers based on FVC assessment in ASEAN countries, with a focus on FVCs around small producers. The analysis will clarify the current situation of FVCs, and identify specific obstacles to, and appropriate measures for, the development of efficient FVCs in selected ASEAN countries.

Three reports from this project have been produced as ERIA research project reports and were highlighted by ERIA's President at the 41st ASEAN Ministerial Meeting on Agriculture and Forestry events in October 2019. Prof. Nishimura delivered a presentation to explain several key points of these three reports: 'In the country review, ERIA analysed the exports of each

agriculture and food product toward ASEAN Member States, and based on the list of competitiveness of each product we can obtain the evaluation of individual products which give rise to the question of how to efficiently increase productivity in the context of economic integration in the region’.

## **7. Understanding the Economic Effects of Financial Inclusion in ASEAN and East Asia**

This project examines the causes and consequences of inequalities in financial inclusion, and the concomitant policy implications, paying particular attention to the effects of financial inclusion on economic prosperity and well-being. Recent scholarly work has examined the determinants of financial inclusion, but the focus of this project is firmly on understanding the economic consequences of expanding financial inclusion and its relationship to the key policy challenges of poverty reduction and income growth. The project will also consider the effect of financial inclusion on other development indicators such as health and education, gender issues, and social capital.

In a relatively short period, financial inclusion has become a dominant issue in financial development, economic policy, and inclusive growth. The world has made some progress in enhancing access to formal financial institutions. Globally, in 2017, 69% of adults had a bank account, an increase from 51% in 2011. The number of automatic teller machines per 100,000 adults globally increased from 41.6 in 2011 to 53.5 in 2017. Despite substantial gains, barriers to complete financial inclusion exist. Globally, in 2017, a significant number of adults did not have access to a bank account because financial services were

too expensive (18%) or too far away (13%). Despite advances in the degree to which financial services were provided digitally, and through the internet, only 25% of people aged 15 years and above used a mobile phone to access a bank account, 22% used the internet to pay bills, and only 4% used mobile money services.

The objective of promoting greater levels of financial inclusion has been embraced by many nations across the development spectrum. The World Bank considers financial inclusion as an enabler for at least seven of the 17 United Nations’ Sustainable Development Goals. Financial inclusion and its associated policy implications are an important issue for ASEAN. They are explicitly presented as a key element (element A4) of the ASEAN Economic Community Blueprint 2025 and are related to some of the strategic measures in the ASEAN Socio-Cultural Community (ASCC) Blueprint 2025. More than 60 countries have implemented or are seeking to implement national strategies for financial inclusion that are designed to expand opportunities for financial inclusion through policies and regulations that support financial development, the provision of digital financial services, and financial literacy while being mindful of issues around consumer protection and the stability of the financial sector.

In light of growing interest on the topic, there is a need to explore issues surrounding the measurement and impact of financial inclusion, as most of the current work has focused on its determinants. Due to the wide availability of survey data, it is now possible to explore these issues quantitatively to inform policymakers.