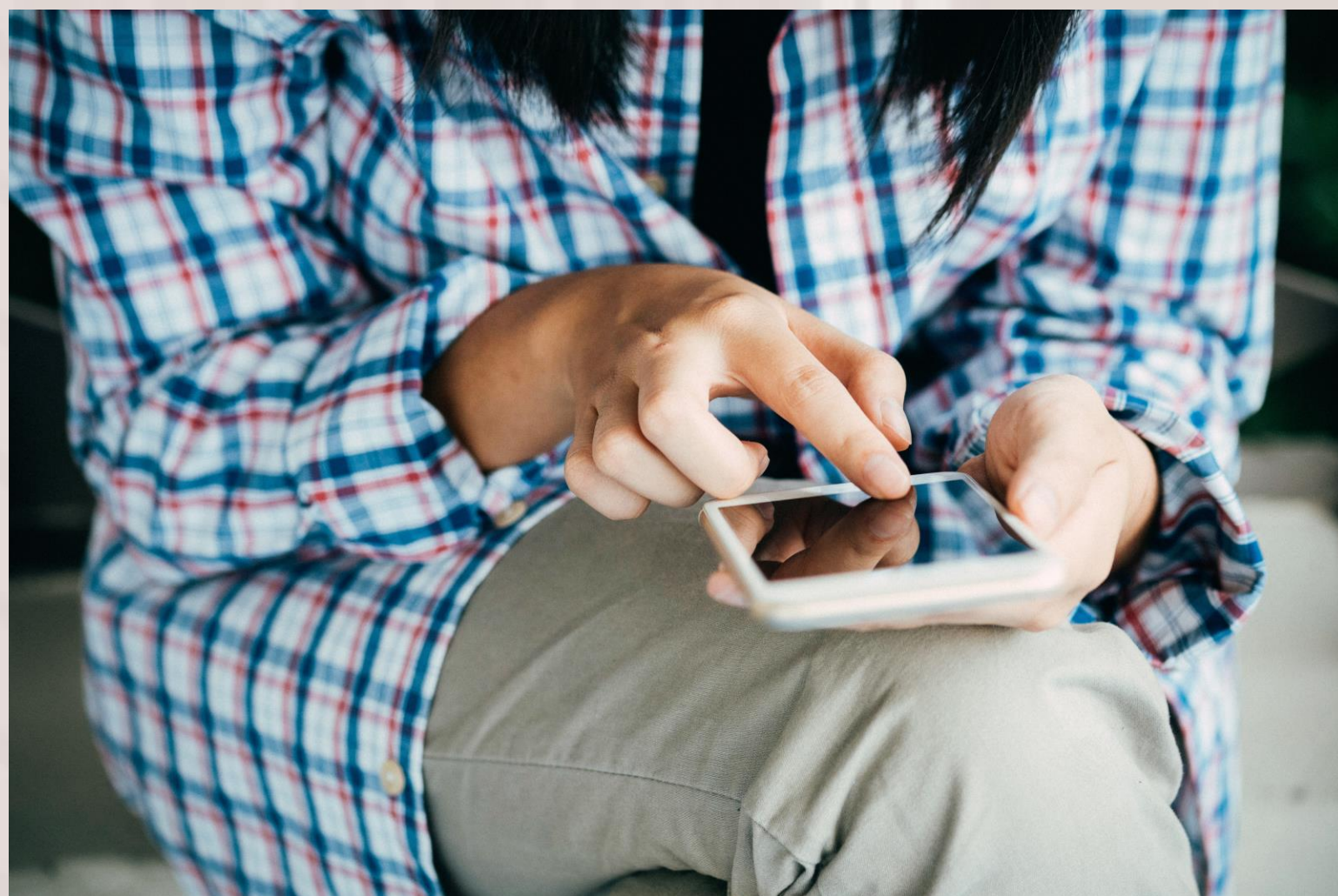


The 25th AEM-Plus Three Consultation, 17 September 2022
Prof Hidetoshi Nishimura, President
Economic Research Institute for ASEAN and East Asia (ERIA)

Mid-term Report on ASEAN Plus Three Research Project for Closing the Digital Divide in MSMEs

BACKGROUND



-
- **The significance of closing digital divide in MSMEs is widely acknowledged for inclusive and sustainable growth.**
 - **The digital divide may appear as gaps in access to ICTs, skills to leverage ICTs, financial capabilities, etc.**
 - **To close the gaps, it is necessary to comprehend the actual status of MSMEs' digitalisation in AMS, identify the obstacles and find how to overcome them.**

METHOD, OUTPUT, AND TIMELINE

PHASE 1: INTERVIEW SURVEY

PHASE 2: QUESTIONNAIRE SURVEY

JULY 2022

SEPTEMBER 2022

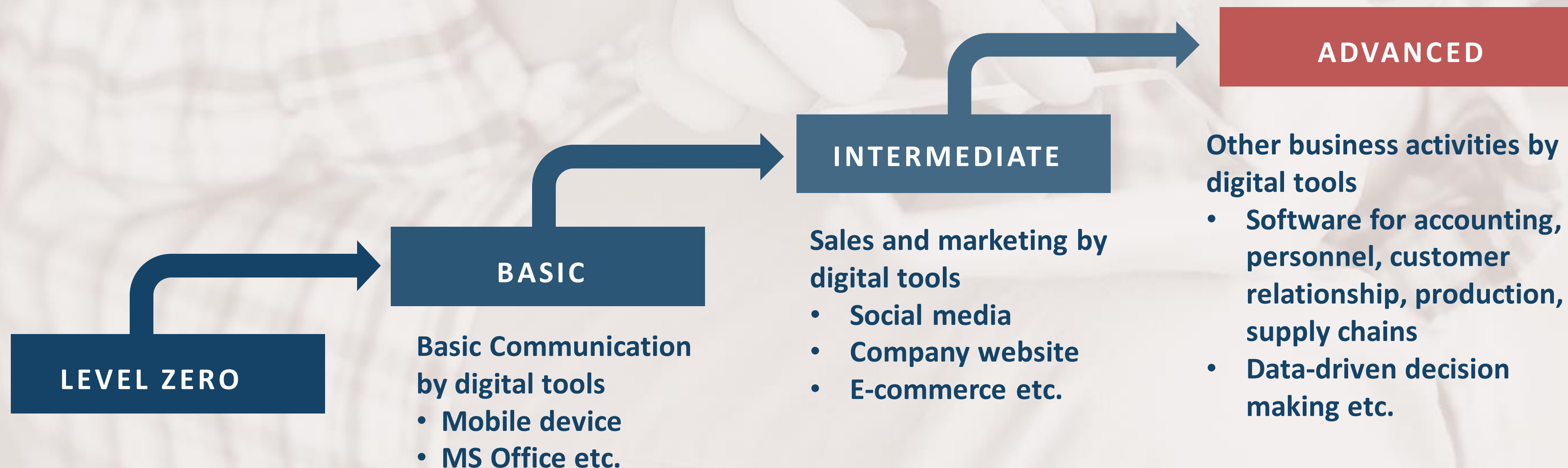
SEPTEMBER 2023

- Interview with digital solution providers including local ASEAN and CJK ICT companies, MSMEs, and ASEAN local governments
- Develop hypotheses concerning the actual state of digital divide and the obstacles

- Implement survey of MSMEs in ASEAN
- Organise the information from the survey and extract policy implications

OVERCOMING THE DIGITAL DIVIDE IN MSMEs

There are gaps in utilisation of digital tools among MSMEs which must be closed



KEY HYPOTHESES FROM INTERVIEWS

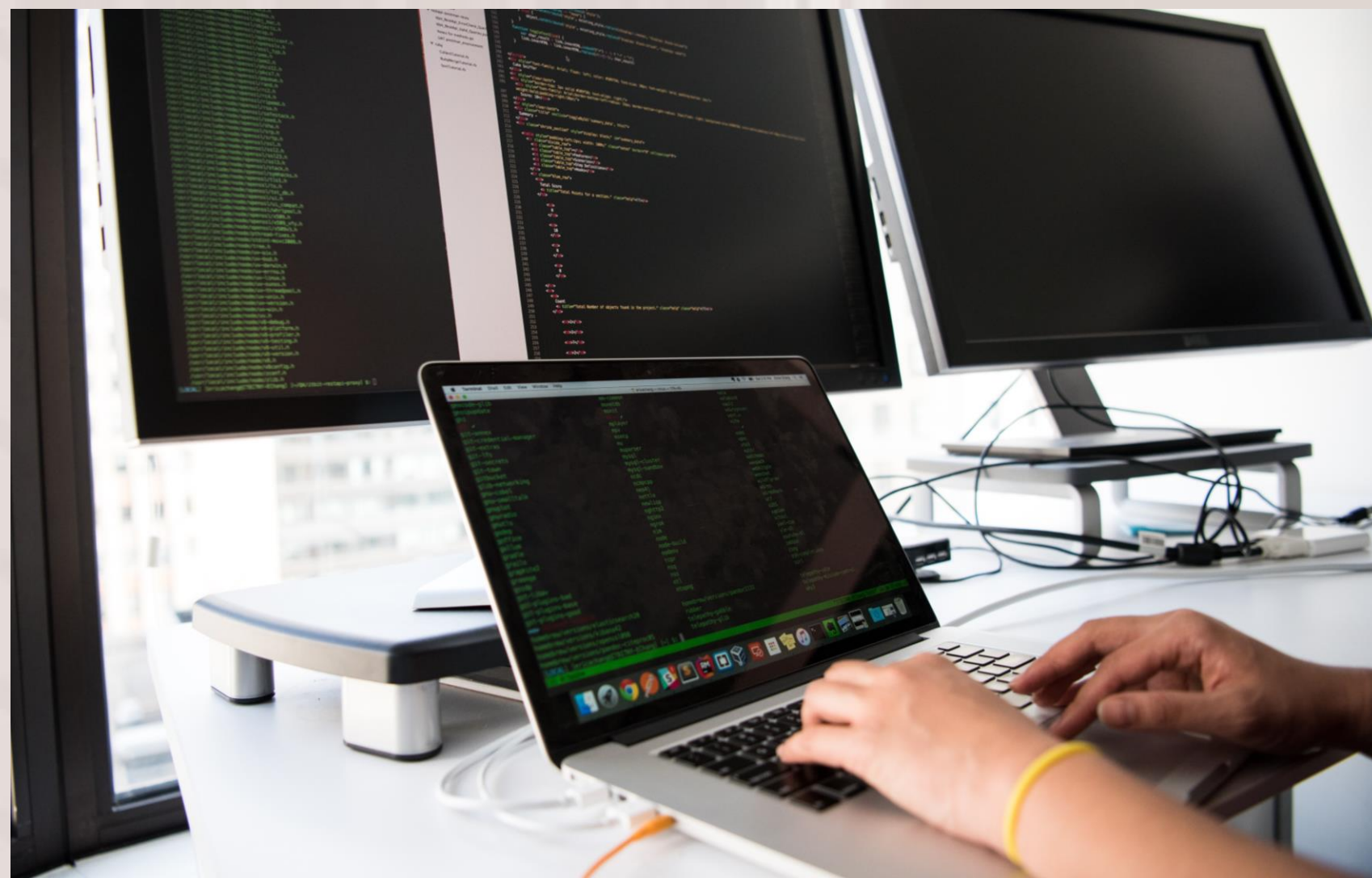
- **Gap 1: ICT Infrastructure Gap (Country, Urban/Rural)**
- **Gap 2: Financial Gap (Country, Scale)**
- **Gap 3: ICT Skills gap (Country, Urban/Rural, Industry, Scale)**
- **Gap 4: Business Knowledge gap (Scale)**
- **COVID Effected Digital Technology Adoption**
- **Cybersecurity Concerns**
- **Governments' and CJK's role to close the gaps**

GAP 1: ICT INFRASTRUCTURE GAP (COUNTRY, URBAN/RURAL)

- **There is still a lack of internet infrastructure and supporting services in lower income countries and rural areas.**
- **ICT infrastructure is a prerequisite for MSMEs' digitalisation which must be addressed.**



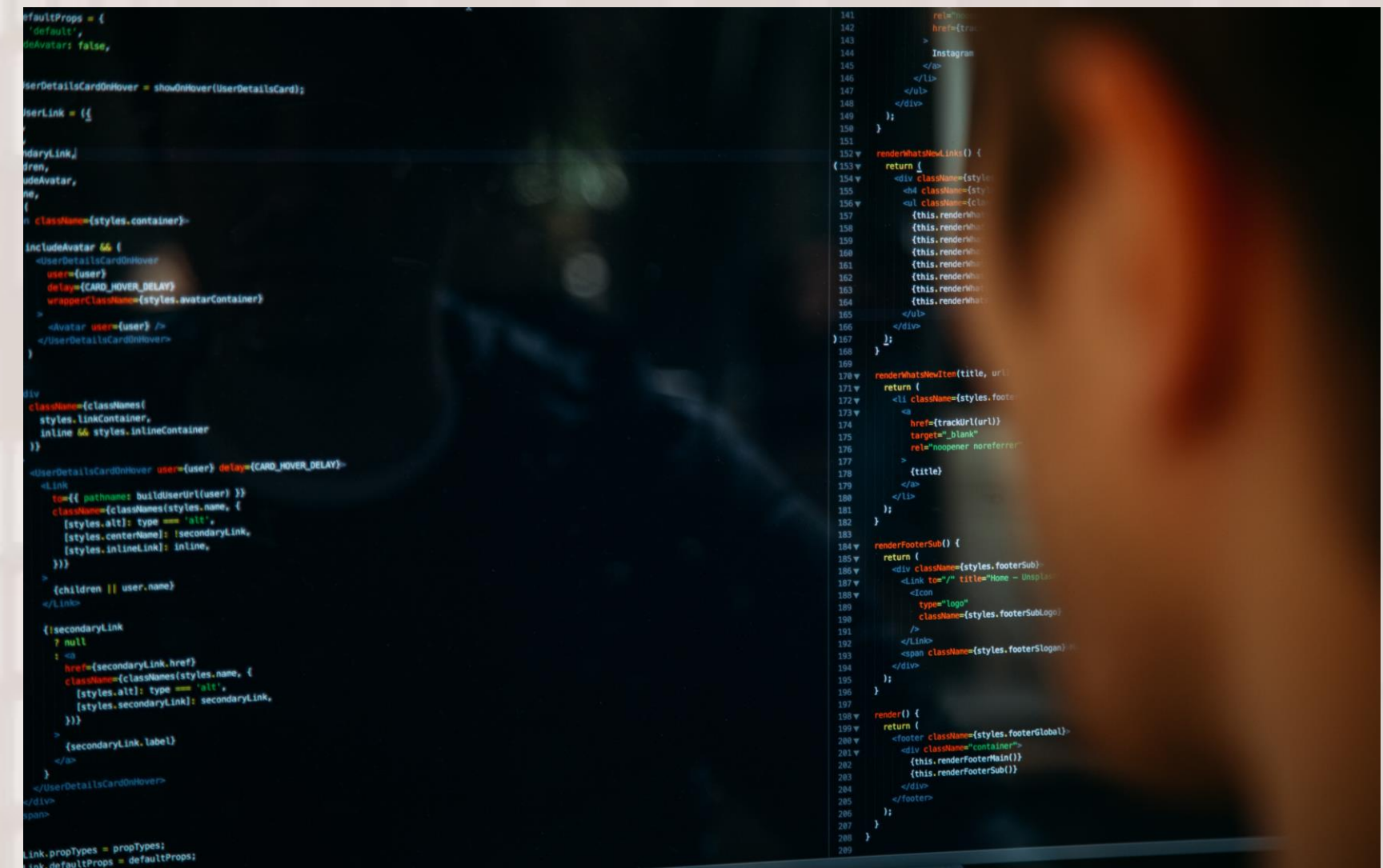
GAP 2: FINANCIAL GAP (COUNTRY, SCALE)



- MSMEs often have difficulty in hiring skilled IT personnel due to low salaries. Also, the financial support for MSMEs is not adequate in lower-income countries.
- Cloud computing services are helpful for MSMEs' digitalisation because they can use advanced digital technology without large-scale fixed investment.

GAP 3: ICT SKILLS GAP (COUNTRY, URBAN/RURAL, INDUSTRY, SCALE)

- Manufacturing sector needs IT experts familiar with manufacturing businesses and technologies because IT experts prefer to working for services sector such as IT solutions, banking, and EC platforms.



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1097     );
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```

GAP 4: BUSINESS KNOWLEDGE GAP (SCALE)



- **Many MSMEs are lacking business knowledge to articulate their own issues and needs, hence cannot clearly explain their needs and difficulties to enable solution providers to offer the solutions.**

GAP 4: BUSINESS KNOWLEDGE GAP (SCALE)



-
- **Decision-making on ICT investment is often done by individual MSME owners. It is necessary to support MSME owners to understand ICT merits.**

COVID EFFECT ON DIGITAL TECHNOLOGY ADOPTION

- **Covid-19 expedited the adoption of digital sales and marketing functions**
- **3rd party platforms, which do not require much investment, allow MSMEs to utilise digital tools**



CYBER SECURITY CONCERNS



-
- **Cyber security risk is not a barrier for MSMEs to adopt digital tools because cyber security is not their priority issue.**
 - **Cyber security risk will not stop MSMEs from digitalisation, but risk will grow with time.**

GOVERNMENTS' AND CJK'S ROLE TO CLOSE THE GAPS

- **Local governments must play a fundamental role in complementing the private sector because each MSME is too small for ICT solution providers to do business with them.**
- **CJK's IT solution companies hope to collaborate with local governments/experts to support MSMEs' digitalisation.**



CONCLUSIONS

- **Interview survey suggested that there exists (i) infrastructure gap, (ii) financial gap, (iii) ICT skills gap, and (iv) business knowledge gap.**

CONCLUSIONS

- **It also implied that COVID-19 expedited digital technology adoption by MSMEs, while cybersecurity concerns increased.**

CONCLUSIONS

- **CJK's ICT solution providers can help ASEAN MSMEs' digitalisation in collaboration with ASEAN local governments.**

CONCLUSIONS

- **ERIA will move on to the second phase of the project to quantitatively analyse the actual digitalisation status and propose relevant policy implications.**



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