



**STATEMENT OF THE FIFTEENTH GOVERNING BOARD MEETING
ECONOMIC RESEARCH INSTITUTE FOR ASEAN AND EAST ASIA (ERIA)
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What COVID-19 Revealed – Resilience of Factory Asia and Accelerating Digitalisation

1. It has been over three years since the beginning of the corona disease (COVID-19) pandemic. The threat has not gone away, but countries around the world, including East Asia Summit Member Countries (EASMC), are gradually transitioning to endemic phases and shifting to the new normal after COVID-19.
2. The COVID-19 pandemic caused three types of shocks: (i) negative supply shocks (COVID-19 containment measures (e.g. lockdowns) disrupted supply chains); (ii) negative demand shocks (decrease in total demand due to rise in unemployment and fall in income); and (iii) positive demand shocks (increased demand for healthcare and information and communication technology (ICT) services in response to work-from-home requirements).
3. The Association of Southeast Asian Nations (ASEAN) and East Asia quickly addressed the negative shocks and leveraged the positive shocks. A recent survey by the Economic Research Institute for ASEAN and East Asia (ERIA) on business activities during the pandemic (Oikawa et al., 2021) showed that global value chains (GVCs) in the EAS region, particularly international production networks (IPNs), were robust and resilient.
4. Some sectors (e.g. tourism and on-site services) were severely affected, but ‘Factory Asia’ acted as a built-in stabiliser in mitigating the negative impacts on the economy. Overall, ‘Factory Asia’ remained resilient throughout the pandemic crisis, reconfirming the continued importance of the manufacturing sector at the core of regional economy. Hence, maintaining and strengthening competitive GVCs and IPNs is critical for the growth of the EAS region post pandemic.
5. COVID-19 also accelerated the uptake of digitalisation, mainly in the use of communication technologies. The increasing deployment of communication technology created a positive impact on economic growth. Looking ahead to the post COVID-19 phase, leveraging the acceleration of digitalisation is key to further growth in the EAS region.

Post COVID-19 Pandemic ASEAN and East Asia – New Framework for Asia’s Further Development

6. The EASMC must use the opportunity presented by the pandemic to accelerate necessary economic and social transformation. Now is good time to construct a new framework for Asia’s further development post-COVID-19.
7. The Comprehensive Asia Development Plan (CADP) 2.0 was published in 2015. The concept of CADP 2.0 is still effective because there is ample room to take advantage of international

production networks for the region's development. However, during the past six years, we have witnessed the acceleration of ICT in the EAS region.

8. Another significant change in the EAS region is the increasingly complicated global geopolitical tensions. Countries that formerly supported free trade and investment now seek greater control over their economic activities. This political trend may weaken the rules-based trading regime, which negatively affects production, trade, and investment in the EAS region.
9. Furthermore, The Russia-Ukraine war is resulting in inflationary pressure with food and energy insecurity on the EAS economy which will negatively and unevenly affect people's lives, especially the poorer or marginalised communities. Now, ERIA should compile a new CADP (CADP 3.0) with deep consideration of the COVID-19 experience, the impact of digital technology, and the geopolitical uncertainty that covers the following four pillars: integration, innovation, inclusiveness, and sustainability. In ensuring recovery and resilience to global uncertainty, EASMC should move towards a more integrated, innovative, inclusive, and sustainable economy laid out in the CADP3.0.

Pillar 1: Integration – fully use the new wave of the international division of labour by enhancing connectivity

10. The EAS region has developed competitive and resilient IPNs by leveraging multinational corporations' strategy of global optimisation of production locations and the relative advantage of economic disparities in the region. The driving force was the reduction in service link costs connecting production units, enabled by early-stage ICT advancement, coupled with a generally liberalised trade environment. For less developed countries, participating in IPNs or Global Value Chains (GVCs), or joining the international division of labour (IDL), became an effective way to develop their economies.
11. Now, the trend of digital technologies such as robotics and wireless broadband networks (e.g. 5G networks) has dramatically lowered service link costs in terms of face-to-face communication, and is unbundling individual production units or tasks performed by a dedicated group of people in a fixed location into subdivided units performed remotely by discrete people in multiple locations. This is the new wave of the IDL, which is not dependent on location. To illustrate, it allows a person in an urban area to run an agriculture business in a suburban area remotely via digital tools.
12. Digital connectivity is key to participate in the new wave of IDL. Upgrading connectivity stands for not only better physical infrastructure, but smooth and safe information flows in cyberspace. Securing free flow of data with trust is indispensable. The public and private sectors of EASMC must work together to improve infrastructure, rules and regulations, and the data usage environment.
13. Efforts to pursue further regional integration are also required given increasing geopolitical uncertainty. The geopolitical tension strengthens the popularity of protectionist policies, weakening the rules-based international trading order which is an essential condition for effective and efficient functioning of IPNs in the EAS region. EASMC should uphold the importance of implementing the trade and investment agenda set by the Regional

Comprehensive Economic Partnership (RCEP) and update other regional integration frameworks under ASEAN centrality.

Pillar 2: Innovation – shift some weight from incremental innovation to disruptive innovation

14. Digitalisation has remodelled the nature of innovation from incremental to disruptive. Digital businesses have shifted their weight from simply providing a market-matching function to helping to upgrade other industries, including traditional industries. Digital technology has generated vast opportunities for new businesses, and the deployment or social implementation of digital technology itself can be a good business. Newly developed countries also have ample room for exploring the ‘advantage of backwardness’ by catching up with and even leapfrogging to a higher development stage.
15. ASEAN can benefit from digital innovation by tapping into the potential of younger generations that have an affinity for digital technology. The growing number of ASEAN start-ups and unicorns led by young leaders is a positive development. The EASMC governments have played an essential role in establishing Factory Asia and accumulating incremental innovation through research and development. Now, the region needs to combine the accumulated incremental innovation with disruptive digital innovation. The EASMC should support the innovative activities of the private sector.

Pillar 3: Inclusiveness – address from three dimensions: geographical, industrial, and societal

16. Digitalisation will impact geographical, industrial, and societal gaps in ASEAN. The geographical dimension includes income and welfare disparity across countries and regions, as well as urban versus rural areas. The industrial dimension includes multinational corporations versus local firms; large firms versus micro, small, and medium-sized enterprises; and manufacturing versus other industries. The societal dimension includes gender, ageing, disability, healthcare, education and human resources development, economic and social resilience, food security, and social protection.
17. As an instance of industrial gaps, digitalisation could rejuvenate traditional industries through productivity enhancement. Furthermore, digital connectivity expands the scope of the supply of goods and services in rural areas, including medical, educational, and government services.
18. The digital divide in the region must be addressed. According to the ASEAN digital integration SME survey (Hoppe, May, and Lin, 2018: 3), the digital economy only accounts for 7% of the ASEAN economy, nearly half of which is concentrated in urban areas. Women have lower smartphone ownership rates than men, and mobile internet connections are limited throughout ASEAN. The digital integration rate of small and medium-sized enterprises (SMEs) is about 16%, which is lower than that of large enterprises.
19. ERIA’s survey during the period from November 2020 to February 2021 (Oikawa et al., 2021) found that only 23% of firms promoted digitalisation to respond to the pandemic shocks to supply chains; the ratio was even lower in SMEs. Strengthening digital skills education and technical and financial support for SMEs will not only contribute to digitalisation in the region but also help SMEs overcome their vulnerability to economic shocks in the post-pandemic era. The digital divide has widened during the pandemic – people who can secure



a computer and internet connection can continue to work and learn, but those who cannot are left behind. The EASMC should cooperate in developing digital infrastructure and digital skills at the individual level.

Pillar 4: Sustainability – three key areas: energy and environment for low-carbon growth, resource and waste management, and disaster management

20. For the EAS region, sustainability is not only a long-term issue but also responds to immediate and urgent problems. The impacts of climate change and natural disasters are more pronounced in ASEAN than any other part of the world. By 2050, climate change is projected to reduce ASEAN's gross domestic product (GDP) by up to 6%. In 2021, ASEAN adopted the Framework for Circular Economy for the ASEAN Economic Community, developed with the support of ERIA, emphasising the role of digitalisation as one of the strategic priorities.
21. Fully utilising digitalisation and creating solutions that complement economic development are key for a region with countries at different development stages. Technologies of the Fourth Industrial Revolution have proven to be effective accelerators for the circular business model or circular supply chains in several industries such as ICT, mining and manufacturing, education, and healthcare.
22. As Parties of the Paris Agreement, ASEAN countries are making vigorous efforts towards low carbon energy transition. Following the Glasgow Climate Pact, the ASEAN region will need to further intensify such efforts to reach carbon neutrality. Pathways towards carbon neutrality could be diverse between countries as one size does not fit all and each country's specific national circumstances must be taken into account.
23. In pursuing respective carbon neutrality goals, ASEAN countries need to explore a variety of options and utilise all fuels and all technologies. Their decarbonisation pathways also need to ensure other policy objectives, namely, availability, accessibility, and affordability. Given the high priority placed on poverty eradication, affordability is of great importance. Technology development (e.g., Carbon Dioxide Capture, Utilisation and Storage, CCUS), international cooperation and technology optimal approach would be needed for minimising the cost of decarbonisation.

Recommendations of the Governing Board Members

24. ERIA should enhance collaboration with ASEAN through much-needed strategic research and analysis as well as capacity building to support a more robust post 2025 vision.
25. Mainstreaming sustainable development goals in the ASEAN post-2025 vision requires a whole-community approach. ERIA's insights could be valuable, especially on how the three pillars of the ASEAN community can reinforce each other toward systemic and more coherent sustainable development.
26. ERIA should undertake additional research assessing the economic and regional benefits of regional Free Trade Agreements (FTAs), particularly RCEP and the ASEAN-Australia-New Zealand Free Trade Area. This can provide support for rules-based trade, domestic advocacy

- processes of countries involved in those FTAs, and potentially support timely ratification of the FTAs.
27. ERIA should continue providing support to the ASEAN Member States (AMS) in terms of policy recommendations and capacity building, focusing on effectively implementing free trade agreements, particularly RCEP. Moreover, attention should be focused on minimising restrictions from non-tariff measures and supply chain bottlenecks.
 28. ERIA should provide input on advancing digital transformation as part of adapting to the new normal by supporting ASEAN's efforts to implement the ASEAN digital economy framework agreement.
 29. Promoting low-carbon and green development are an important foundation to strengthen climate resilience and promote sustainability of long-term socio-economic development. Thus, ERIA should support Cambodia to develop and implement policies.
 30. ERIA should support EASMC in enhancing the new digital trade platform including data security and regional connectivity in cyber infrastructure.
 31. With the Russia-Ukraine conflict, food shortages are not limited to undeveloped areas, but are also occurring in highly developed areas, such as Europe. ERIA can provide research and policy recommendations regarding food security in the EAS region and beyond.
 32. ERIA should provide evidence-based policy recommendations to create more resilient health systems in the EAS region with consideration of how to leverage the strengths of health systems of large and/or more developed countries in the region.
 33. ERIA should provide evidence-based policies to the AMS to address learning losses that occurred during COVID-19 and how to strengthen educational systems going forward.
 34. ERIA should expand partnership and engagement with more universities and research institutes in each EASMC to strengthen the regional academic ecosystem.
 35. After the COVID-19 pandemic, supply chain resiliency has emerged as the most important agenda item for the normalisation of the global economy and global trade and investment. ERIA should study robust supply chains in the EAS region and with a goal of making policy recommendations at the ASEAN Summit and related meetings including EAS.
 36. As the world gradually recovers from the repercussions of the pandemic, RCEP serves as a tool to reinvigorate businesses and economic activities through the reduction of trade barriers. ERIA should play an active role in proposing how businesses can benefit from RCEP, further boosting domestic businesses as they enter global trade.
 37. In order to ensure ASEAN centrality in the rapidly changing regional architecture, ERIA should conduct research on the Indo-Pacific Economic Framework as well as the economic impact of national security policies in East Asia.



References

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