



OECD-ASEAN Business Statement

Business priorities and recommendations to promote digital transformation for an enhanced and inclusive business environment in Southeast Asia

August 2017



I. Preamble

Southeast Asia is one of the most promising markets globally. Close to two major economies and at the centre of major trade routes including the Strait of Malacca, \$5.3 trillion of global trade passes through its waterways each year. The region also plays an important role in global value chains, with 4 ASEAN-5 countries becoming important alternative manufacturing destinations and 1 ASEAN hub ranked as a global leader in the Global Financial Centres Index, as well as the most technology-ready nation. At current growth rates, ASEAN is expected to become the fourth-largest market after the EU, U.S. and China by 2030. Real GDP grew at an average rate of 5.4% from 2011-13, and is expected to average 5.1% between 2017 and 2021.¹ This growth is principally demand-driven. The region holds a population of over 600 million people and the share that is able to partake in discretionary spending is rapidly increasing – GDP per capita (PPP) reached US\$11,009 in 2015, up from US\$7,052 in 2007, an increase of 56.1%. It has been forecast that by 2025 more than half of the world's consumers will live within a five hour flight of Myanmar.²

The private sector regards the ASEAN project as crucial to realising the region's potential, and we support the recent commitment to create a "Post-2015 Vision" for further integration. We welcomed the launch of the ASEAN Economic Community and the AEC Blueprint 2025 in 2015, and good progress has been made on integration in the areas of trade, infrastructure and connectivity, as well as implementation of the IAI in order to decrease income disparities between member states. Yet more remains to be done – intra-ASEAN trade remains relatively low at just 25% of total trade turnover, and further harmonisation is required across multiple areas. We encourage continuation of the commendable work already done.

II. Important steps for the development of the digital economy in Southeast Asia

Southeast Asia is one of the most entrepreneurial economies in the world,³ and it is emerging as a strategic battleground for large industry players from other regions, with the ASEAN internet economy already estimated to be worth around US\$50 billion.⁴ Its ICT sector has evolved at a remarkable pace over the past few years, and it has a huge number of digital consumers, with 230 million people in the region now⁵ 'online engaged consumers' – a growth of 50% over the previous year. Southeast Asia has also strongly embraced mobile, with the region⁶ now home to around 854 million mobile subscriptions, covering 133% of its population. For ASEAN too, development of the digital economy could offer substantial windfalls. Industry players such as AT Kearney forecast that ASEAN's digital economy has the potential to add an incremental \$1 trillion to GDP between 2016 and 2025.

¹ OECD, 2016

² McKinsey Global Institute.

³ The GEM survey incorporated 6 ASEAN countries for the first time in 2014. It found that 66% of the population view entrepreneurship as a positive career choice, above the GEM global average of 62.46%. This is largely attributable to a new business rate of 10%, which is the second highest regional average globally and almost double the GEM 2014 average.

⁴ Bain and company (2017), *Digital Acceleration in Southeast Asia: Navigating Tectonic Shifts*.

⁵ 2017

⁶ ASEAN plus Timor-Leste, based on GSMA data (2017).

To realise these gains, business proposes a number of steps.

- **First, steps should be taken to ensure that adequate investment is made into the development of infrastructure.** A number of countries still underperform relative to their income-group peers on the infrastructure pillar of the World Economic Forum's networked readiness index. The availability of secure internet servers remains a particular problem across most of the region's lower-income countries, even in comparison to their income-group peers. Resolving this will be particularly important for encouraging the take-up of certain digital technologies such as cloud computing.
- **Second, regulation of ICT and the digital economy needs to be harmonised across ASEAN.** Currently discrepancies exist on spectrum sharing, spectrum trading, cybersecurity governance and data protection. A concerted effort amongst member states to harmonise regulation in these areas will be critical in ensuring the growth of the digital economy in Southeast Asia.

Digitalisation is also an important instrument to progress in two areas that are currently priorities for multinational and domestic firms, as well as the OECD, in Southeast Asia: inclusive business and access to finance. Inclusive business practices are largely realised through transforming supply chains, and digitalisation is one of the most powerful tools to transform business processes and supply chains from traditional models. For instance digital technologies like blockchain can be used to track transactions in the supply chain and so can play a role in supporting responsible business conduct. On access to finance, the private sector is currently developing innovative approaches to enhance financial inclusion through mobile payments, digital currencies, and digital technologies like blockchain.

In order to enable enterprises to adopt digital technologies, we encourage Southeast Asian policymakers to consider a number of programmes and policies.

- **To support firms considering new business models that integrate formerly disadvantaged groups into their supply chains,** we urge policymakers to consider developing new digital literacy initiatives. The 2016 Microsoft Asia Digital Transformation Study found the lack of a digitally skilled workforce to be the top barrier, along with cyber threats and security concerns, to digital transformation in Asia Pacific, as identified by a survey of 1,200 business leaders. Increasing digital literacy programmes and making them national in scale could help to couple digital transformation with new and better jobs, providing new opportunities for those who have formerly had limited participation in economic activity.
- We urge policymakers to consider both demand- and supply-side policies to **encourage the spread of new digital technologies that could increase the availability and quality of financial products.** For instance, digital government-to-person (G2P) payments can reduce the cost and increase the reach and transparency of social transfers, get more consumers into the

system and habit of using digital financial services, and build the critical mass required to enable providers to develop viable business models.⁷ On the supply-side, policymakers could work on developing clear guidelines for fintech at both country and regional level, including regulatory sandboxes that would involve key players in this relatively nascent field to ensure that guidelines are not prohibitive.

Finally, the development of policies to accelerate and harness digitalisation could benefit from increased coordination and knowledge-sharing between ASEAN member states. We support ASEAN-level recognition of this and measures already taken – for instance the recent high-level decision to set up the ASEAN E-Commerce Working Group, tasked with establishing a policy framework for e-commerce, which should result in a more comprehensive and harmonised framework for e-commerce. We would support the more active participation of the private sector in such working groups, and signal our commitment to assist with realising this.

III. Important steps for improving the business environment in Southeast Asia

Southeast Asian economies can reap important benefits from digital transformation, but steps to open up markets and improve business environments will remain key to realising the benefits of digitalisation as well as economic development more generally.

- **To increase investment**, we support the enhancement of an open, predictable and transparent investment regime, as well as regular investment policy monitoring. Southeast Asian economies have had an impressive performance in attracting FDI, managing to attract record levels whilst rates were still plummeting globally. However friendlier investment policies could be adopted, with restrictiveness varying significantly across the region (Singapore continues to account for a large share of FDI inflows), and a more systematic approach to investment policy developed, in order to increase policy and regulatory predictability.⁸
- **To increase trade**, we support efforts to reduce protectionism and overcome market barriers based on strong support for an open rules-based multilateral trading system. Two priority areas can deliver important gains from reform. First, addressing barriers to trade in services lowers costs for all sectors and can help promote digital access. Second, there is a need to address non-tariff measures that unnecessarily restrict trade, recognising that transparent and well-designed regulation can promote trade. Action is also needed to address growing restrictions on cross-border data flows. Given the regulatory barriers that remain in major service sectors, such as telecommunications and air travel, we encourage Southeast Asian countries to work with the OECD to develop accurate, regular and comparable data on the intra- and extra-ASEAN

⁷ ADB (2017), *Accelerating Financial Inclusion in Southeast Asia with Digital Finance*.

⁸ The OECD's FDI Restrictiveness Index found FDI regulations in ASEAN countries to generally be more burdensome across sectors than those in OECD countries.

flows of trade in goods and services. Using such data, the OECD Services Trade Restrictiveness Index (STRI), and the OECD-WTO Trade in Value-Added database, countries should work with the OECD to identify remaining barriers, improve domestic policy environments, and open up international trade in services.

- **To ensure that regulation does not discourage private enterprise**, we support the enhancement of good regulatory tools and practices in Southeast Asia. One way of enhancing regulatory quality is through developing comprehensive frameworks for regulatory impact analysis (RIA). Most ASEAN economies have adopted this in some form, but more work must be done in certain countries to ensure that these are conducted systematically and comprehensively, and applied to all major new regulations, as well as existing regulations that may have become obsolete. We support reforms which ease unnecessary or burdensome travel restrictions for business travellers.
- **To ensure that adequate infrastructure is in place to allow businesses to operate**, we encourage substantial infrastructure investment. The ADB has projected Southeast Asia's infrastructure investment needs over the next 15 years to amount to \$2,759 billion, or 5% of the region's projected GDP. This includes improving logistical infrastructure, with important transport corridors between trading ASEAN nations still missing, as well as transport infrastructure in cities, where private vehicle use, and consequently congestion and pollution, has ballooned – by as much as 600% in one case. We support the priorities outlined in the 2025 Masterplan on ASEAN Connectivity and encourage ASEAN policymakers to cooperate in implementing its proposals. PPPs are a way to achieve substantial investment without creating an unsustainable strain on public finances, but must be carefully devised, governed and monitored.
- **To ensure that the Southeast Asian workforce has the appropriate skills for industry**, we support measures to increase participation in secondary and higher education in Southeast Asia, as well as policies and programmes for skills development. Many Southeast Asian economies that are currently becoming important manufacturing destinations will have to invest in upskilling their workforces if they are to transition to higher value-added manufacturing. This means more investment in Technical and Vocational Education and Training (TVET) as well as increasing enrolment in primary and secondary education. It also means a more comprehensive approach to identifying skill shortages, as well as policies and programmes to address them over the medium- to long-term. Various ASEAN economies are best practice examples at doing this, so can be great sources for peer learning.
- **To boost MSMEs**, we support policies targeted at them through measures already outlined in the ASEAN Strategic Action Plan for SME Development 2016-2025, and aim for further regulatory integration and harmonisation. . Across ASEAN, SMEs account for the largest share of enterprises and the largest share of employment. We support policies that increase their access to markets and factors of production and reduce unnecessary red tape that limits

their entry and exit. We support the collaboration between Southeast Asian governments and the OECD to develop SME policy reviews and the SME policy index, as an important step in identifying priority areas for future reform and intervention. Access to suitable funding instruments plays a decisive role in SME development. Therefore, we encourage all ASEAN countries to implement the G20/OECD High Level Principles on SME Financing, and for still more ASEAN countries to join the OECD SME Financing Scoreboard, as an important tool for mapping the types and volumes of finance available to SMEs.

Many of these actions will also require a coordinated effort between ASEAN states, and we support these efforts here, too. The ASEAN institutions can play a role not only in providing fora for policy dialogue and negotiation between ASEAN member countries, but also in promoting new policy areas and initiatives that may not currently be prioritised by or familiar to domestic policymakers but which could bring important benefits to those countries or to the region as a whole. Inclusive business is one such area. It is an area where the private sector can contribute to the Sustainable Development Goals, but where risks are high and a great deal of policy uncertainty still remains. We support ASEAN-BAC's initiative to increase the policy discussion around this issue, notably its decision to launch a Declaration on Inclusive Business at the next ASEAN Leaders Summit in November 2017.

IV. Conclusions

The private sector strongly believes that digitalisation can offer substantial windfalls for increasing inclusion and economic growth in Southeast Asia, as well as substantial market opportunities for the private sector, and that policymakers could turn to the OECD as a knowledge base for developing policies in this area. To improve the business environment in Southeast Asia more broadly, the OECD is in a unique position to work alongside national policymakers in providing analysis and tools to enhance macroeconomic growth, investment policies, SME development, high growth enterprises, integration into regional and global value chains and the development of human capital, amongst other aspects. Such analysis could be used to inform policy discussions in a wide range of areas. Accordingly, we reaffirm our commitment to working with the OECD and regional policymakers on the development of policies that will mutually benefit the public and the private sector, whilst, most importantly, enhancing the lives of citizens in Southeast Asia.