

Digital Economy: A New Prospect for Korea's New Southern Policy

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I. Introduction

Korea's cooperation with Southeast Asian countries and India has been mainly focused on the establishment of manufacturing production networks. That is, it has established production bases in those countries as a part of global value chains. When Korean large companies in the automobile and electronic sectors, for example, established local production plants, it has been common for partner companies to follow suit.

Recently, the need to add a new dimension to the existing framework of cooperation between Korea and Southeast Asian countries and India is being raised. The demand in sectors related to the digital economy of those countries is increasing. Many of those countries are now striving to achieve economic and industrial leaps through implementing digital transformation. They hope to make their economies and industries more value-added through digitalization rather than just serving

as labor intensive production bases. This suggests that Korea's existing view on those countries may face limitations.

The vision of the New Southern Policy (NSP) that the Korean government is pursuing is to establish Korea as a cooperative partner that can contribute to the economic and social leap of the NSP countries (10 ASEAN member countries and India). Considering the mid- and long-term economic development directions of Korea and the NSP countries, it is necessary to pay attention to the digital economy as a new area of mutual prosperity.

II. Digital Economy Policy of Some NSP Countries

Southeast Asian countries and India are aiming for a leap in their economies and societies as a whole through promoting the digital economy. The size of Indonesia's digital economy is the largest among Southeast Asian countries with \$40 billion in 2019, and is expected to grow to

\$133 billion in 2025. The Indonesian government emphasizes e-commerce and digital finance, and especially focuses on the start-up ecosystem that serves as a foundation of digital transformation. For example, it provides support for the establishment of start-ups in the e-commerce sector and simplifies tax procedures for e-commerce companies that have achieved sales above a certain level. In the digital finance sector, regulatory sand boxes are applied to new business models. Indonesia is adopting a method of supplementing detailed ex-post regulations after innovative businesses rise.

Vietnam has the third largest digital economy (about \$12 billion) in Southeast Asia, following Indonesia and Thailand. Its digital economy has recorded an average annual growth rate of 29% since 2015. Vietnam is trying to achieve not only domestic goals such as setting a target for its digital economy share against GDP, dissemination of non-cash payment, operating start-up support service centers, and hosting TECHFEST, but also external achievement goals such as reaching 4th in ASEAN in its national digitalization ranking, 40th in WEF ranking, and ICT Development Index (IDI) ranking 50th. Similar to Indonesia, Vietnam also tends to introduce ex-post regulations after the development of new businesses. The digital economy of Vietnam is expected to achieve a rapid development backed by the government's policies and its high commitment for the digital economy.

The size of Thailand's digital economy is about \$16 billion in 2019, making it the second largest in Southeast Asia after Indonesia with an annual average growth rate of 24%. Thailand's digital economic policy takes a comprehensive industry-wide approach rather than any specific fields. Thailand 4.0 seeks to innovate the economy as a whole and promote the high value-added industries based on the "smartization" of society aimed at realizing a Smart Industry, Smart City and Smart People. Thailand's main industrial digitalization strategy is centered on "S-Curve" industries (next-generation automobiles, smart electronics, medical well-being tourism, agricultural bio, and future food) and New S-Curve industries (robotics, aviation logistics, bio-fuel chemistry, digital technology, and medical hub), which are the main future industries.

India's digital economy has grown significantly between 2013 and 2018 with a rapid increase of Internet subscribers by 2.3 times, social media users 3.2 times, e-commerce users 4.4 times, and digital payments 10 times, backed by the Indian government's efforts to build the digital infrastructure and accelerate innovation in private sectors. India's digital economy policy is represented by the Digital India initiative, which aims to build digital infrastructure, digitize services and develop people's digital capabilities. Key projects promoted through Digital India include Aadhaar: Digital Personal Information Biometric Authentication Platform, Currency reform, Integrated Payment Interface (UPI), etc.

III. Prospects for Digital Cooperation between Korea and the NSP Countries

Southeast Asian countries and India have strong potentials for digital transformation with the high economic growth, large population, high ICT utilization levels, etc. in the region. Conditions for trade and investment are also favorable as economic openness is being achieved.

On the industrial side, ICT manufacturing bases are decent, especially in Vietnam and Thailand, as they have grown into global manufacturing bases. India is characterized by the high competitiveness of its ICT service industries. The NSP countries have motivations to push for digitalization to upgrade the quality of their economies and industries. Also, some NSP countries already have achieved competitiveness beyond Korea in certain areas. Their industrial diversities are bases of cooperation with Korea.

Many NSP countries have high demands for external cooperation centered on the startup ecosystem as their level of entrepreneurship, which is a crucial source of the digital economy, is relatively low. In countries that have already established global startup ecosystems, such as Singapore and India, Korean startups could find chances for growth, while Indonesia and Thailand are also developing their startup ecosystems dynamically. Vietnam, which has the closest cooperative relationship with Korea

among the NSP countries, has a relatively underdeveloped startup ecosystem, and is expected to establish a strong startup partnership with Korea.

While Southeast Asian countries and India are making rapid progress in urbanization, and conditions in electricity supply, logistics and finance are improving, they are still far behind advanced countries. It is expected that demands will continue to emerge in infrastructure, logistics, and financial improvement combined with digitalization. On the other hand, insufficient human resources are the biggest obstacle for the NSP countries to promote the digital economy, and there will be demands for external cooperation to increase their capabilities in digital technology.

Singapore, a global leading country in the digital economy, is expected to be a partner with Korea in introducing and innovating advanced technologies, establishing a legal system of the digital economy, and collaborating in third countries' projects. Although Vietnam has a decent foundation for ICT manufacturing, its ICT infrastructure, financial accessibility, human capital, and government capacity are relatively weak. Considering its current strong economic ties with Korea, Korea should make an enthusiastic effort to respond to Vietnam's current digital economy-related demands.

In the case of Thailand and Malaysia, innovation bases that can back the digital economy are somewhat weak, and Korea should seek mutual

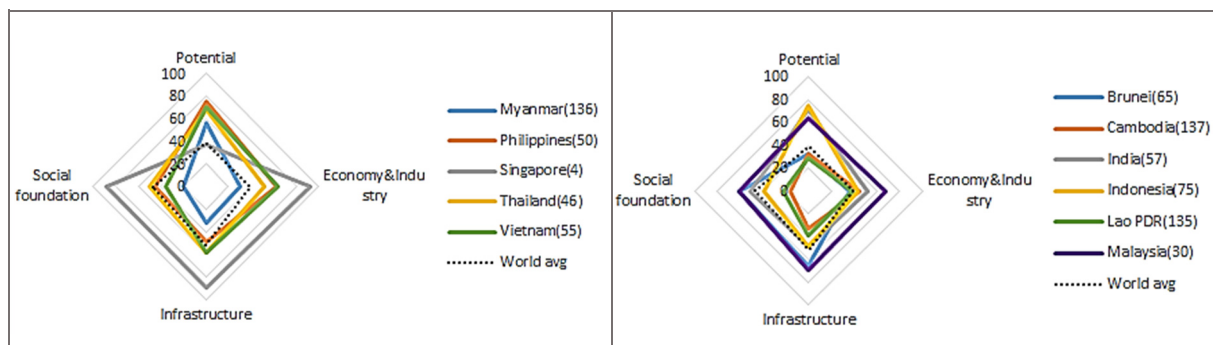
cooperation based on its unique competitiveness that matches for their demands. Indonesia has a strong market potential, while its ICT industries, physical and social infrastructure are not well developed. Efforts are needed to find cooperation tasks in these areas. Laos, Myanmar and Cambodia are the countries with the weakest bases of the digital economy among the NSP countries, and development cooperation centered on basic capabilities and infrastructure is expected to come first.

India has strong competitiveness in the digital economy, such as ICT services, high-tech and

entrepreneurship, while its basic infrastructure should be improved. Korea needs to push for bilateral cooperation with India because India has many advantages over Korea in terms of technologies and human resources regarding the digital economy. On the other hand, we expect Korean companies and the government to build a close partnership with India, for example, in advancing India's digital infrastructure. Support for firms should be provided in order to reduce mutual transaction costs due to cultural distance and lack of information between Korea and India.

Figure 3. Digital Development Index of the NSP Countries

(Unit: Index, 0~100)



Note: The parentheses indicate the ranking of digital economic development in individual countries.
Source: Author's calculations.

IV. Policy Suggestions

Korea and Southeast Asian countries and India need to establish a comprehensive cooperation platform. Through this, they can inform partners of their digital economy-related agenda/interests and discuss ways for cooperation. Especially, it will provide chances for participants to identify

mutual cooperation needs efficiently and specifically. Because cooperation needs in the digital economy are often discovered in unexpected niche areas, a regular dialogue channel is crucial to find specific demands and cooperation potentials. The dialogue platform should include private enterprises as well as policy makers.

Innovative small businesses and startups should be the focus of cooperation. Korean startups' interests in Southeast Asia and India are now growing. Korean startups enter Southeast Asian markets in diverse areas such as manufacturing, audiovisual, broadcasting and communication services, professional, scientific and technical services, healthcare, and cultural services. The NSP countries are active in introducing foreign startups and professionals that possess innovative digital technologies and business models. Singapore, Indonesia and India already have world-level startup ecosystems and are active in investing in foreign startups. Meanwhile, as startup ecosystems of the NSP countries are relatively less known in Korea compared to the United States, Europe and China, there is a high need for information sharing and connection with the NSP countries.

Korea also has to actively participate in multilateral cooperation initiatives. For example, in 2017 the Asia-Pacific Economic Cooperation (APEC) adopted the APEC Internet and Digital Economy Roadmap at the Annual Ministerial Meeting (AMM) for the purpose of sharing basic principles among member countries to respond to changes brought by the Internet and the digital economy. The roadmap proposed 11 cooperation areas. Korea is expected to play an active role in many areas such as “Development of digital infrastructure” and “Promoting innovation and adoption of enabling technologies and services.”

International cooperation in the digital economy is quite different from traditional forms of cooperation. We cannot apply a sector-by-sector approach to the digital economy. Based upon thorough and comprehensive understanding on partner countries' social and economic context, cooperation focusing on their urgent demands is of great importance. **KIEP**