

# The Digital Economy in Southeast and South Asia: Towards Mutually Beneficial Cooperation with Korea



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The digital economy is emerging as a trend of the world economy. The digital economy is narrowly defined as online platforms and activities through them (IMF, 2018).<sup>1</sup> In other words, the entire value, for instance, created by e-commerce and sharing economy platforms can be referred to as the digital economy. However, in a broader sense, the digital economy goes beyond the realm of certain industries and enterprises. Digital technology is a general-purpose technology, like the internal combustion engine, that brings into force industry, economy, and society-wide innovation. For example, in China, if ICT production and the other kinds of digital inputs into the entire industries are included, the digital economy is estimated to account for about 30% of overall GDP.<sup>2</sup>

The reason why industries and policy makers pay attention to the digital economy is more related to the broad concept of the digital economy. That is, as new products and services backed by the Internet, data, and artificial intelligence technology are spreading, the expectation for the whole

<sup>1</sup> IMF, 2018. "Measuring the Digital Economy". Staff Report February 28.

<sup>2</sup> Zhang, Longmei and Sally Chen, 2019. "China's Digital Economy: Opportunities and Risks". IMF Working Paper. WP/19/16

economy and industry-level innovation becomes higher. For Southeast Asian and South Asian countries, mainly composed of developing countries, the broader concept of the digital economy seems to be even more important because they endeavor toward the leapfrogging of the economy and society as a whole.

A number of Southeast and South Asian countries are actively promoting digital economy policies and strategies, and their motivation can be roughly summarized as follows:

- ① Enhancing industrial productivity and securing new growth base through digitalization
- ② Securing manufacturing competitiveness and position in GVC (Global Value Chain)
- ③ Promoting economic and social welfare
- ④ Creating jobs
- ⑤ Improving infrastructure, etc.

The digital economy is proving its potential as a source of economic and social “leapfrogging.” For instance, car hailing services such as Grab and Gojek have become widespread in Southeast Asia; OYO, the hotel booking service, is a big success in India. These cases are important from the perspective of realizing innovative businesses as well as responding to social demands and improving quality of life. They also play a crucial role in creating jobs.

Southeast and South Asian countries have a great potential in the digital economy: they generally maintain high economic growth rates, have large markets, young population, and decent ICT utilization levels, etc. The conditions for trade investment are also being improved. Though there are deviations between countries, they have strong incentives to promote digital innovation in order to achieve the qualitative advancement of industries and economy as a whole. Moreover, some countries already possess great competitiveness in digital innovation.

Demands related to the digital economy are expected to grow in Southeast and South Asian countries. For example, these nations are undergoing rapid urbanization and experiencing a sharp increase in demand for electricity supply, logistics, finances, etc. with the combination of digitalization. Some countries are struggling with a lack of digital skills and technologies, and looking for cooperation with external partners.

Under these conditions, Korea is a potentially intimate partner that can contribute to substantial leapfrogging in Southeast and South Asian countries. Korea, in terms of both businesses and government policy (e.g. the New Southern Policy), is now trying to diversify its areas of cooperation with these countries beyond the manufacturing sectors. Geographic and cultural proximity, as well as the various bilateral economic relationships already established, is the foundation for cooperation in the digital economy. Because the digital economy bears relation to society and culture as well as economic and industrial areas, cooperation in the field of the digital economy can supplement the typical pattern of relationships between Korea and South East and South Asian economies, mainly centered in manufacturing production networks.

Korea and Southeast and South Asian countries need to establish a comprehensive cooperation platform. Through this, they can inform partners about their various agenda and interests in digital economy-related areas and discuss ways for cooperation. Such a platform would, in particular, provide chances for participants to identify specific mutual cooperation needs in a more efficient manner. Because cooperation needs in the digital economy are often discovered in unexpected niche areas, a regular dialogue channel is crucial to identify specific demands and cooperation potentials. The dialogue platform should include private enterprises as well as policy makers.

Innovative small businesses and start-ups should be the focus of cooperation. Korean start-ups are showing an increasing amount of interest in Southeast Asia. Korean start-ups and venture companies are entering Southeast Asian markets in diverse areas such as manufacturing, audiovisual, broadcasting and communication services, professional, scientific and technical services, healthcare, and cultural services. Southeast and South Asian countries are keen to welcome foreign start-ups and professionals that possess innovative digital technologies and business models. Singapore, Indonesia and India all possess world class start-up ecosystems and are actively investing in foreign start-ups. Meanwhile, as the start-up ecosystems of Southeast and South Asia are relatively less known in Korea compared to the United States, Europe and China, there is a great need for information and connections with local support organizations.

Korea has to actively participate in multilateral cooperation initiatives covering Southeast and South Asia. The digital economy is an essential element for the sustainable growth of this region, and a major task of external cooperation. For example, in 2017 the Asia-Pacific Economic Cooperation (APEC) adopted the “APEC Internet and Digital Economy Roadmap” at its

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 a large role in areas such as “Development of digital infrastructure” and “Promoting innovation and adoption of enabling technologies and services.” In addition, the area of “Development of holistic government policy frameworks for the internet and digital economy” requires urgent discussion among APEC member countries. “Facilitating the free flow of information and data for the development of the Internet and Digital Economy, while respecting applicable domestic laws and regulations,” and “Facilitation of E-commerce and Advancing Cooperation on Digital Trade” are core issues for trade and investment in the era of the digital economy. “Enhancing inclusiveness of Internet and Digital Economy” is an area where Korea has to pay great attention to, considering the philosophy of long-term cooperation within the New Southern Policy.

International cooperation in the digital economy will likely differ in many aspects from that in traditional manufacturing sectors. We cannot apply the traditional elements of industries to the digital economy. Based upon thorough understanding of the partner country’s social context and characteristics, it will be essential to forge new directions of cooperation that focus on the local society’s demands. **KIEP**