

Transformations to Facilitate the Operation of GVCs in South East Asia: An Anecdotal Account

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Introduction

The post Covid paradigm has wrought major changes in different parts of the globe. The region commonly referred to as South East Asia is no exception to this. These are regions located to the south of mainland China, to the east of the Indian subcontinent and North West of the Australian continent. ¹The region is bordered to the north by East Asia, to the west by South Asia and the Bay of Bengal, to the east by Oceania and the Pacific ocean, and to the south by Australia and the Indian Ocean. The area of this region is approximately 4,500,000sqkm. About 8.5% of the world's population resides here, with the actual figure being around more than 675 million. In terms of population size it represents the third largest part of Asia after South and East Asia. ²It is a culturally and ethnically diverse region, with hundreds of languages being spoken by diverse ethnic groups. Ten of the countries here are members of the Association of South East Asian Nations (ASEAN), a grouping of countries which aims to work for the economic, political, military, educational and cultural integration among its members [1]. Historically South East Asia has been majorly influenced by Indian, Chinese, Muslim and colonial cultures, which went on to become the core components of political and cultural institutions in these parts. Economically this area of the world has had considerable importance since the ancient times. It was a significant part of the trading system in the world, with a variety of commodities originating from these regions [2]. Chief among these were the spices, with the trade being initially developed by Indian and Arab merchants, later bringing the Europeans to these countries. Production of commodities further shifted in colonial times, exemplified by rubber plantations in Malaysia, Java, Vietnam and Cambodia, or the rice fields in the deltas of the Mekong and the Irrawaddy³.

Current Economic Outlook

As per the forecast by HSBC⁴, the six largest economies in South East Asia, viz. -Indonesia, Thailand, Malaysia, the Philippines, Singapore and Vietnam-are expected to grow by 4.2% this year and 4.8% in the next. This is far greater than the 1.1% expansion expected in the developed nations for 2023. While a traditional strength like tourism has been performing below par since the pandemic, it is manufacturing that has come up in a big way with an 8%

¹Klause Kastle (2023) Map of the Southeast Asia Region. Nations Online Project.

²Population of Asia (2018), worldometers.info.

³Baten Jörg (2016) A History of the Global Economy. From 1500 to the Present. pp:287

⁴Southeast Asia's economic outlook is only brightening.

share in global exports. There have also been significant gains from the restructuring of the global supply chain as the region benefits from both the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership [3]. Global FDI is expected to move towards this region with the shifting base of manufacturing. While South East Asia represents a major area of concern due to global warming and rising sea levels, energy demand continues to grow in order to keep pace with increasing development needs.

Digital Transformation of South East Asia

The digital economy is thriving in South East Asia with a valuation of \$200 billion as of 2022 with an active online population of 460 million. The pandemic has heightened the importance of a viable e-commerce presence for organization. One of the major factors underlining the significant growth of the digital economy has been the substantial increase in real time payment systems. The next development that can be expected in this regard is the linking up the various real time payment systems in the region. This could have a multiplier effect in the transaction velocity, including both business-to-business and business-to-consumer systems [4]. In turn this could contribute to greater economic activity in the region.

The Post Covid Situation

Because of Covid 19 and the following healthcare issues there has been disruption in social and economic lives in various places. In addition to fiscal support in this regard, digital remedies have been resorted to on a magnified scale. Such digital development has had a net positive contribution, but it has also increased the already large digital gap between the haves and the have nots. Considering the fragile nature of democracy in most South East Asian countries, this could create a challenging situation. One of the important questions which arise is how to utilize the digital transformation for bringing about gainful changes like poverty reduction, sustainable economic growth and improving social cohesion while guarding against pervasive cyber threats. People in these countries are major consumers of online goods and services. There are also growing numbers of digital start-ups and governments are engaged in devising comprehensive national strategies in this direction. However, digital growth remains uneven, both across the region and within individual countries [5]. Human capital has been recognized as a major element towards poverty reduction, sustainable growth and social cohesion. However, in case of South East Asia, digital literacy and skills are unable to keep up with usage and infrastructure. Technology adoption is improving but there are still issues with regard to affordability, connectivity and coverage. Thanks to weak demand from Micro, Small and Medium-Sized Enterprises (MSMEs) which do not possess the means, skills or opportunities for adopting or integrating digital technologies, there is a limit to the path of growth. This has a substantial impact on the livelihoods of non-metropolitan communities, women, MSMEs and those whose jobs may be affected due to technology and automation.

The widening digital divide has had a disproportionately large effect on women, many of whom are employed in the informal and gig economy, both of which had been significantly affected by lockdowns. In addition, the pandemic exposed more users to cyber security and online safety risks considering that practices of cyber hygiene are generally poor. Thus, the region is confronted with a dual challenge: how to stimulate further digital development while ensuring inclusive future growth. The present paper looks into the issue of digital payment systems for mitigating the financial needs of the people of South East Asia in this scenario. We look at some of the instruments available in this regard, and their impact on the global value chain.

Observations on the South East Asian SMEs

A report by the OECD South Asia Regional Programme on the integration of SMEs in ASEAN with the global value chain in the backdrop of the pandemic had the following advice to offer:

- a) The degree of integration varies greatly across countries. This is because of factors like differences in sector specialization, economic size and extent of development of the country.
- b) Exports and imports play an important but indirect role which constitutes the first step towards the global integration of small firms. Data indicates that the number of firms that import and export increases proportionately with size.
- c) There are additional constraints in case of SMEs in the form of limited experience, low returns to scale and inferior access to finance relative to larger firms. Informal competition and political instability are also commonly encountered.
- d) Barriers dealt with by SMEs are dependent on their degree of integration with international markets and also on firm size. For smaller importing firms the barriers can comprise access to finance and customs regulations, with regard to larger firms the problems stem from issues with political stability and an insufficiently educated workforce.
- e) Among the ASEAN countries it was found that the share of female entrepreneurs was larger than that witnessed in high income countries. This was partly ascribed to the lack of alternatives. Gender parity was more prevalent among the younger generations. On the other hand, global integration is hampered due to gender specific constraints.
- f) During the course of the pandemic it was found that female dominated sectors like retail and service activities faced bigger trade barriers and were more seriously hit.
- g) The SME entrepreneurship gap was revealed to be lower in ASEAN countries than their international peers.
- h) One of the fallouts of the pandemic was that access to finance and obtaining liquidity became significant issues. Governments have a role to play here in terms of facilitating access to formal financing and removing administrative barriers to raising the competitiveness of SMEs.

i) A digital presence has been shown to have multiple positive effects on the growth of the firm. Here again the governments can provide a helping hand.

j) Lack of awareness was cited as the reason for firms not going for government assistance during the pandemic. It was also a major factor withholding the march towards digitalisation.

Policy Implications

Accordingly, the following policy implications have been suggested:

a) Following the pandemic experience, enabling better access to formal financial services through the removal of regulatory barriers can allow firms to be better prepared for future crises while also helping in the process of integration with the global value chain.

b) The pandemic and the accompanying lockdowns obviously provided an impetus to the digitalization of businesses. The problem of integration of digital solutions in the business activities of SMEs originates from lack of appropriate skills. Training and public support programmes can help to address such knowledge gaps.

c) While both male and female led businesses have to deal with similar difficulties, these are obviously more for women because of cultural and institutional barriers. One step in dealing with this is a gender sensitive ecosystem that promotes women entrepreneurship.

d) In order to counter the lack of awareness regarding government efforts better dissemination of information is a low-cost measure that can yield major benefits for SMEs.

e) Creating linkages with other similar countries has led to the creation of value. Greater harmonization is necessary vis-à-vis standards and decrease in trade barriers for integrating SMEs with the global value chain.

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