

COVER LEAD

By Naoyuki Haraoka



The Service Sector in Developing Asian Economies — Key to Achieving Asian Structural Reform

Diversity is a key word in describing the service sector. ICT services are closely connected with the manufacturing sector and seem today to almost determine the competitiveness of the sector. FinTech services are very new, one of the products of the Fourth Industrial Revolution. Though growing attention is being paid to services related to ICT, there are many other more conventional services such as tourism, transportation, retail and wholesale, and it is difficult to define the overall implications of the service sector for the economy, as each of these services has its own unique implications. Some services can be easily priced, while others can not, but there will be important common consequences for the economy among all kinds of services, particularly in terms of job growth and total employment among developed nations.

In the case of Asia, the implications are crucial, as the service sector is usually a leading sector for growth. It needs to be carefully examined to see whether it is fulfilling its expected role in Asian economic development. But the service sector's impact is not limited to economic growth, but rather extends to aspects of structural reform, a key means of vitalizing the economy. As the service sector cannot enjoy much higher labor productivity than the manufacturing sector due to its labor intensive nature, many more jobs need to be created in the service sector. Asian countries are today actively promoting trade liberalization by concluding FTAs with many other nations. As a result of this policy, some firms or sectors will lose their competitiveness and be displaced. This is a necessary process of structural reform to maintain the vitality of the

economy. There will need to be labor mobility from the shrinking sectors to the expanding ones, and the service sector could help mitigate the displacement of employment with its significant job absorption capacity. Viewed from this angle, the success of structural reform of the economy is dependent upon the service sector.

In this issue, we first give an overview of the implications of service sector growth in the Asian economy in our leading articles, based on interviews with two distinguished international economists, Dr. Donghyun Park at the Asian Development Bank and Mario Pezzini, director of the OECD Development Centre. The ADB and OECD are both excellent international organizations with remarkable expertise on the issue. Dr. Takanoju Nakajima, an economics professor at Keio University in Japan who has long research experience on the service sector, presents his views in the following interview on the danger of international comparisons of labor productivity in the sector.

Innovation is a crucial element in talking about services. We have two articles on FinTech, one written by Prof. Mark Fenwick and Prof. Erik P. M. Vermeulen, and the other by an Asian financial expert, Roy Teo, director of the FinTech & Innovation Group at the Monetary Authority of Singapore.

India is certainly one of the amazing IT software-producing nations. We introduce two examples of India-Japan collaboration in this area. Dr. Thiru Jeevanandam, who has worked for a Japanese company for many years, relates the history of his collaboration with the Japanese in an interview, while Bhavik Jhaveri and our editorial committee member Sanjeev Sinha talk about the future potential of the two nations' collaboration in this area.



COVER STORY 1

Interview with Donghyun Park, Principal Economist in the Economic Research Department at the Asian Development Bank

Competition Will Enhance Service Sector Growth Potential in Developing Asia

By Japan SPOTLIGHT

The key to expanding the service sector to meet the needs of economic structural reform in Asia must be encouraging competition to enhance the efficiency of the sector.

COVER STORY 2

Interview with Mario Pezzini, Director of the OECD Development Centre and Special Advisor to the OECD Secretary-General on Development

Service Sector Key to Achieving Inclusive Growth in Emerging Asia

By Japan SPOTLIGHT

Further development of the service sector is a key strategy to escape the middle-income trap and turn its growth to one driven by knowledge and innovation.

COVER STORY 3

Interview with Takanobu Nakajima, Professor, Faculty of Business and Commerce at Keio University

What Is the Service Sector & How Can We Strengthen It?

By Japan SPOTLIGHT

We will need to create a market in which we measure the quality of services by price. Then we can realize competition to enhance quality and eventually grow profits in the service sector.

COVER STORY 4

How to Respond to Artificial Intelligence in FinTech

By Mark Fenwick & Erik P. M. Vermeulen

AI is transforming heavily regulated industries such as financial services. Everybody should engage with

this disruptive technology. In financial services, this engaged approach is best facilitated by the establishment of “regulatory sandboxes”.

COVER STORY 5

FinTech Developments & Their Consequences for the Financial Industry in Asia

By Roy Teo

The Monetary Authority of Singapore (MAS) created a blueprint for a Smart Financial Centre, emphasizing that FinTech can improve everyone’s lives and thus promoting transformation of the financial industry by FinTech.

COVER STORY 6

Interview with Thiru Jeevanandam, Chief Technology Officer, Global Business Headquarters, Yokogawa Electric Corporation

Could Japanese & Indian Software Services Promote Connectivity in Asia’s Manufacturing Industries?

By Japan SPOTLIGHT

Cooperation is the key to progress in the software service sector. India-Japan collaboration could have the potential to achieve success in the long run.

COVER STORY 7

India-Japan Collaboration in ICT Software

By Bhavik Jhaveri & Sanjeev Sinha

Japan’s strength in hardware and India’s strength in global software could be a powerful combination.

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