



Asia-Pacific
Economic Cooperation

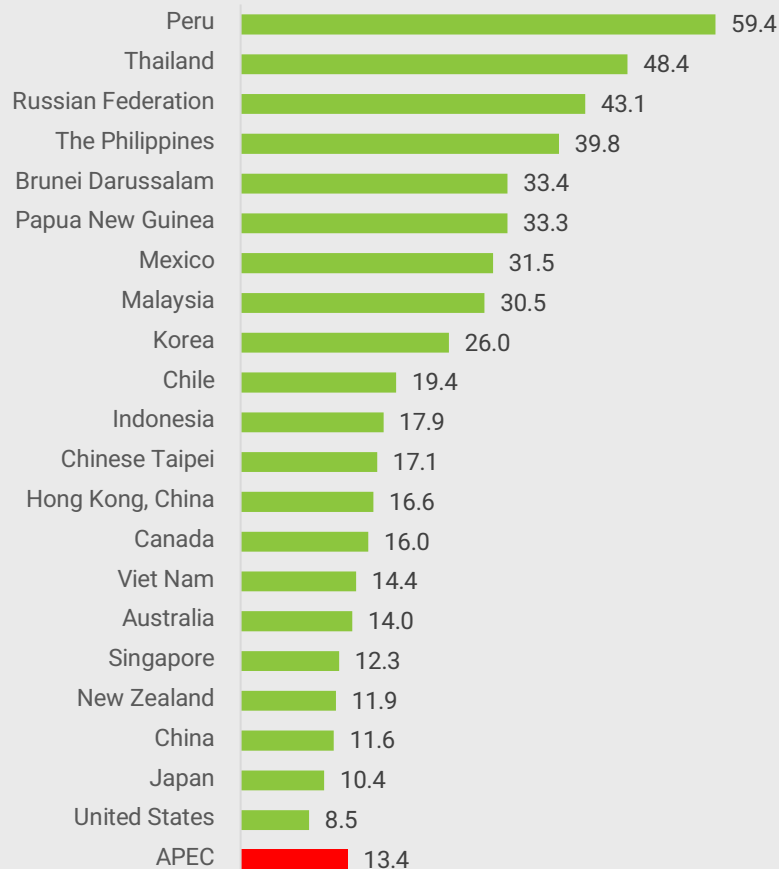
Addressing informality The role of innovation and digitalization

Eldo Simanjuntak, Researcher at APEC Policy Support Unit

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Informality remains pervasive in many APEC economies

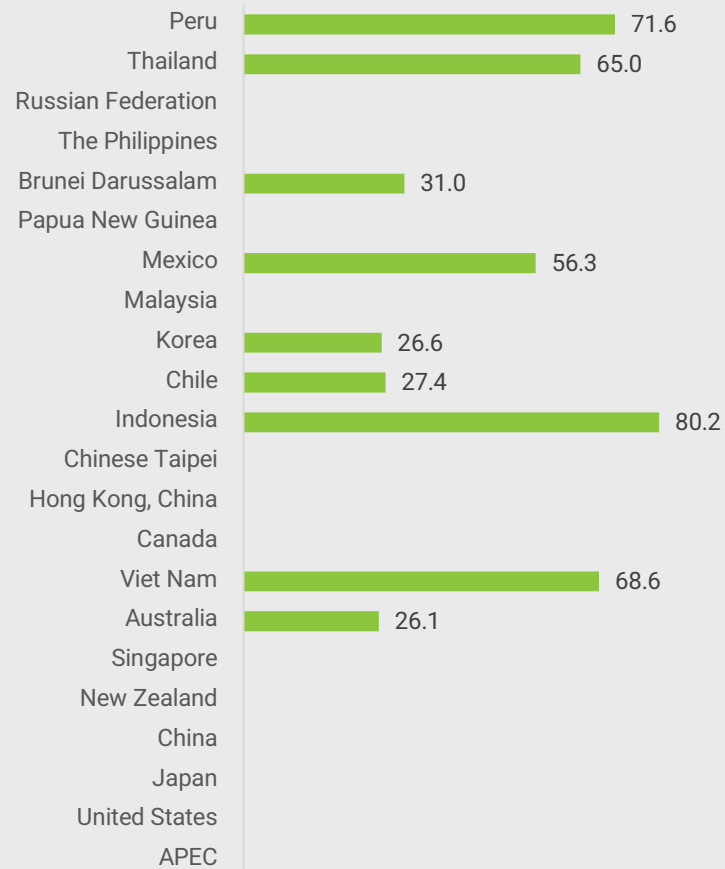
**Fig 1. Estimates of informal output in 2020
(as % of GDP)**



Note: Data for Hong Kong, China; Chinese Taipei, and APEC are estimated by APEC PSU staff.

Source: World Bank Informal Economy Database (2023)

**Fig 2. Informal employment
(% of total employment, latest period available)**



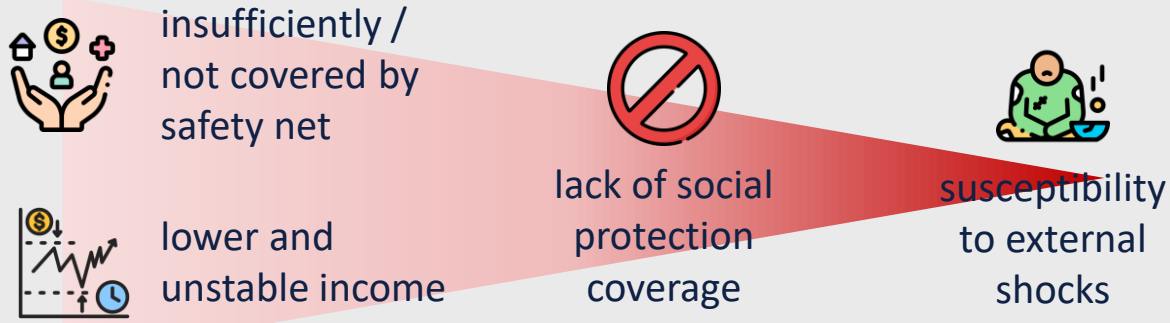
Note: Unavailable survey data for economies with missing information.

Source: ILO (2023)

- Higher share of informal activities in developing APEC economies.
- Trends remain stable in the past ten years but increasing in some economies post-pandemic.
- Different nuances of informality: The share of informal economic activities might mask the true state of informality.

Why is it an issue?

Informal workers are more vulnerable



lower productivity of the economy

Informal firms on average have **79% lower labour productivity** than formal firms (Amin, et. al, 2019)



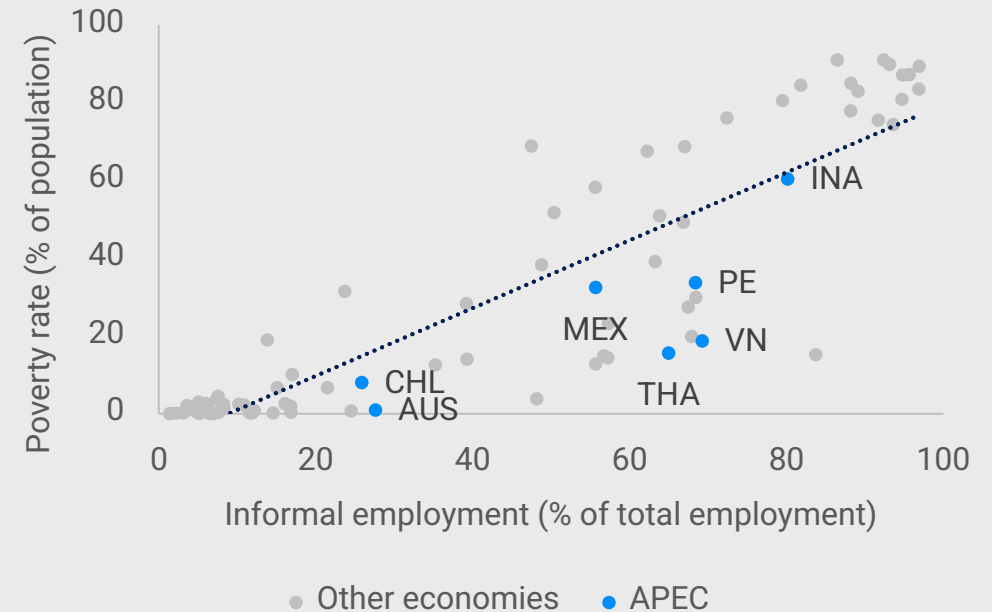
less resources to deliver public goods/services

5.4% of GDP potential loss in tax revenue from informal activities in APEC

Informality and poverty are often intertwined

- *Low pay: 40% - 67% lower median earnings (ILO, 2023)*
- *Lack of opportunity and subsistence issue*

Fig 2. Informal employment and poverty rates (2018-2022)



Note: Poverty as measured by IPL of USD 6.25 per day in 2017 PPP.

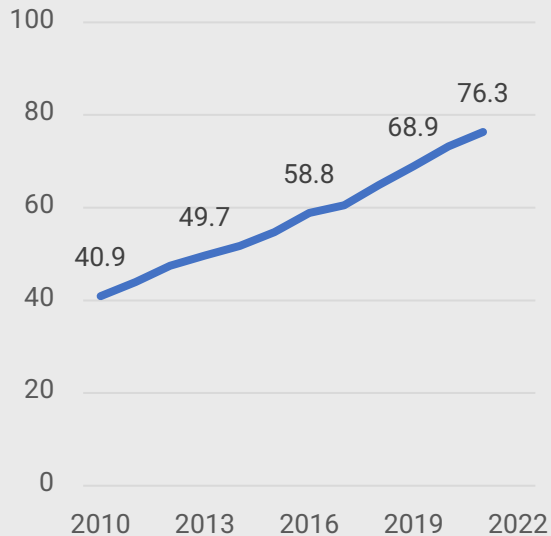
Source: World Bank and ILO (2023)

A more digital APEC and the transition to formal economy

More people are gaining access to digital infrastructure

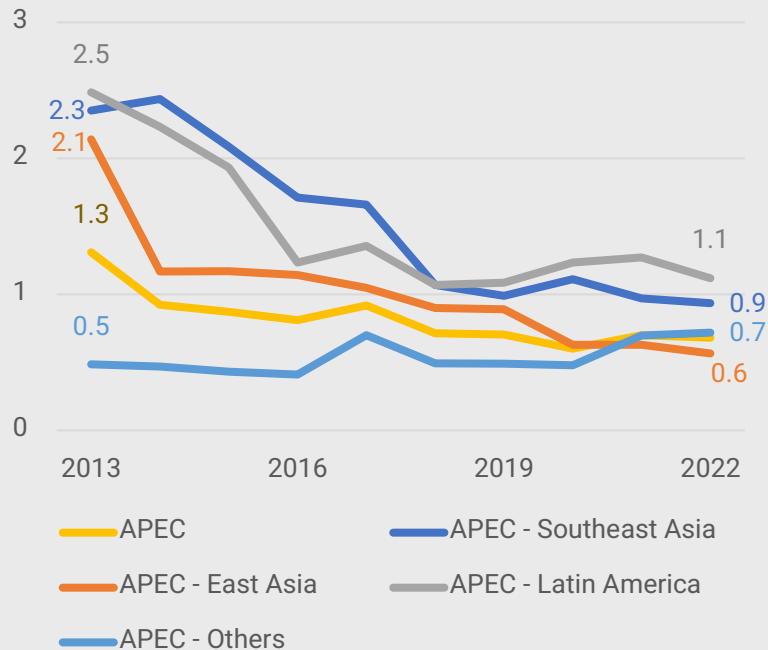
... which brings opportunities and challenges to the labour market

Fig. 3 Internet penetration in APEC (% of population)



Source: StatsAPEC (2024)

Fig. 4 Cost of data-only mobile broadband (% of GNI per capita)



Source: Calculated by APEC staffs based on data from ITU (2024) and World Bank (2024)



More economic activities are now done digitally

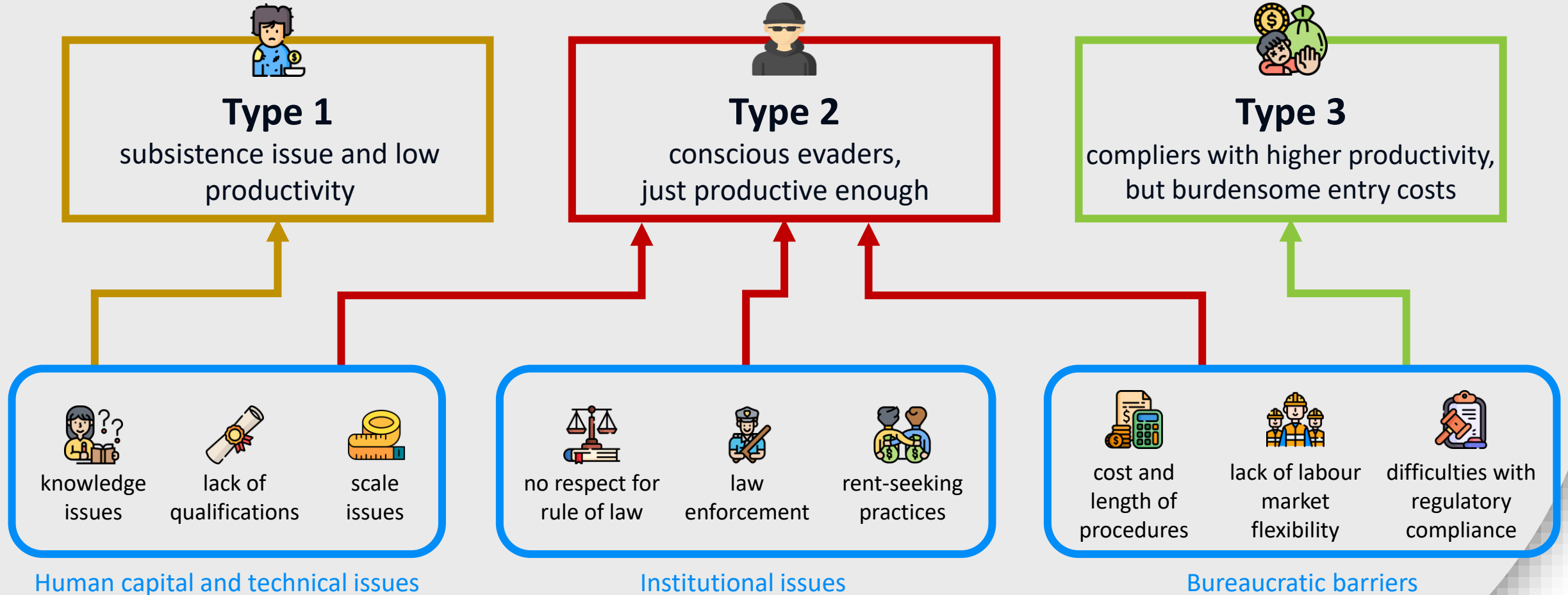
20% of interregional trade in 2018 (APEC CTI, 2023)



Digital transformation brings new forms of employment

45.1% of employees working in fully remote or hybrid arrangement by 2026 (APEC EC, 2021)
→ some of which could be informal

Addressing informality requires careful identification of the root causes



*Adapted from G. Ulysea, "Firms, Informality and Development: Theories and Evidence from Brazil," 14 January 2015.

How digital solution could help promoting the transition to formal economy?



Facilitate the formalisation through simplification of paperwork

(e.g., online business registration and digital identification systems)



Expand market reach (e.g., e-commerce and social media platforms)



Improve access to financial services (e.g., digital onboarding and digital payments infrastructure)

There are good examples to learn from APEC and Southeast Asian economies!

While digitalization could help to address aspects of informality, it is not devoid of challenges



Digitalization vs. Formalisation
No direct positive causal relationship



Access divide
(infrastructure, affordability)



Other forms of digital divide
(i.e., skills, usage, motivation)



**Cybersecurity, data privacy,
and exposure to digital fraud**



**Competition, data portability,
and platform dominance**

Addressing informality through digitalisation

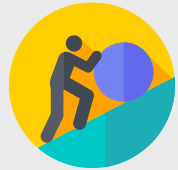
Policymakers need to contextualize interventions based on their circumstances



#1: Promote the digitalisation of the public sector



#5: Create a supportive regulatory environment for innovation



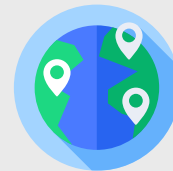
#2: Overcome the different forms of the digital divide



#6: Promote public-private partnerships



#3: Increase trust in digital solutions



#7: Leverage regional cooperation



#4: Address competition concerns



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