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Narrowing the Post-COVID Development Gap Within ASEAN

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SYNOPSIS

The economic impact of the COVID-19 pandemic on the ASEAN Member States has been negative and uneven. There is a need to close the development gap within ASEAN in order to accelerate the implementation of the envisioned ASEAN Economic Community.

COMMENTARY

Over the last few years, COVID-19 has adversely affected the ASEAN Member States (AMS). The Asian Development Bank (ADB) found that in Southeast Asia the pandemic increased the number of extremely impoverished people (who live on less than US\$1.90 per day) by [5.4 million](#) in 2020. ADB also found that the disease pushed an additional [4.7 million](#) people in Southeast Asia into extreme poverty in 2021.

Economic Impact of the COVID-19 Pandemic

The negative impact of the pandemic on the population has been uneven. For example, people with [lower levels of education, workers in the informal sector, women](#), and minorities, experienced lower household incomes and higher debt.

Although the pandemic accelerated the adoption of digital technologies such as e-wallets, a digital divide exists in ASEAN. For instance, only a small segment of society has access to three advanced digital products (i.e., credit, investment, and insurance). [These individuals](#) were mostly men who were 21–40 years old, lived in urban areas, and had at least a bachelor's degree or higher education.

Also, [micro-, small-, and medium-sized enterprises \(MSMEs\)](#) which account for 97–99 per cent of all companies in the region and provide 60–80 per cent of ASEAN's

total employment, were behind larger corporations in terms of digitalisation. Several MSMEs, especially those in rural areas, lack even basic internet access.

In terms of economic recovery, government support matters. Countries like Indonesia, Malaysia, the Philippines, and Singapore enjoyed strong fiscal support, which figured at around [15–41 per cent](#) of GDP in 2020. Comparatively, other AMS had much lower fiscal stimulus, on average less than [10 per cent](#) of their 2020 GDP.

As a result, the former group was able to recover faster. In 2021, [Indonesia](#), [Malaysia](#), [the Philippines](#) and [Singapore](#) experienced economic growths of 3.7 per cent, 3.1 per cent, 7.2 per cent and 5.7 per cent, respectively. These figures were either equal to, or above the ASEAN average of 3.1 per cent.

Cambodia, Laos, Myanmar, and Vietnam (CLMV) suffered less from the pandemic than other AMS in 2020. However, they recovered at a slower pace than their ASEAN peers due to factors such as limited fiscal support and/or vaccination access. Economic growth of the CLMV registered at 3.0 per cent, 2.1 per cent, -17.9 per cent, and 2.6 per cent in 2021 – all below the ASEAN region’s average. Thus, the evidence suggests that the pandemic has widened the development gap among AMS as reflected by the different speeds of their economic recovery.

Responses of ASEAN Member States

Despite the knee-jerk reactions of some AMS (e.g., export restrictions on essential goods) at the onset of COVID-19, ASEAN was among the first international organisations to garner collective responses to the pandemic. Its leaders adopted the ASEAN Comprehensive Recovery Framework (ACRF) at the 37th ASEAN Summit in November 2020.

The ACRF, which “[serves as the consolidated exit strategy](#)” from the crisis, pursues five broad strategies:

- i) bolstering the health system;
- ii) enhancing human security;
- iii) maximising the potential of the intra-ASEAN market and broader economic integration;
- iv) accelerating inclusive digital transformation; and
- v) charting towards a more sustainable and resilient future.

The ACRF Implementation Plan contains several measures aimed at galvanising supply chain resilience, promoting a digital economy and sustainable infrastructure, and exploring the development of the ASEAN SME Recovery Facility, which is a financing facility to accelerate the recovery of small- and medium-sized firms.

Also, all ten AMS and five ASEAN Dialogue Partners (DPs) signed the Regional Comprehensive Economic Partnership (RCEP) at the 4th RCEP Summit in November 2020. The world’s largest free trade agreement (FTA) entered into force in January 2022. Greater trade liberalisation through the RCEP can be considered one of the approaches for ASEAN to expedite post COVID-19 economic recovery and resilience.

Closing the Development Gap

However, the worsening development gap observed since the pandemic will hinder the progress of the ASEAN Economic Community 2025 (AEC 2025). The Mid-Term Review of the AEC Blueprint 2025 (MTR) which assessed the implementation of AEC found that initiatives to narrow the development gap in ASEAN made the least headway. The report found that these initiatives remain limited to the promotion of inclusive business practices and was partially supported through the implementation of the Initiative for ASEAN Integration (IAI) work plans.

So, where do we go from here? How can we close the development gap and accelerate the implementation of AEC 2025? Several policies can be considered.

First, the [IAI Work Plan IV \(2021-2025\)](#) focuses mostly on capacity-training for the CLMV countries. However, of the 67 projects listed, 27 (around 40 per cent) are about education, mainly the teaching of English. Thus, the IAI's scope should be expanded, and more emphasis placed on re-skilling and up-skilling of workers. This will not only help to close the development gap and help CLMV countries pursue their post-pandemic recovery but will also better prepare their workforce for a rapidly digitalising world.

Also, more assistance programmes are needed beyond the IAI scheme, which focuses on CLMV countries. According to the current IAI Work Plan, only six programmes are aimed at capacity-building to support MSMEs in the CLMV. To complement the IAI, AMS and ASEAN DPs should develop additional capacity-building initiatives to help MSMEs in non-CLMV countries. This could include programmes like helping MSMEs across the region digitise their businesses.

The [ASEAN SME Academy](#) is a private public partnership project offering free online courses for MSMEs. This is a commendable project. However, an overwhelming majority of these modules are in English. Therefore, to enhance its ability to empower these firms, the academy should offer courses in ASEAN languages.

Conclusion

COVID-19 is not the only factor that can impede the progress of the AEC 2025 going forward. Some other factors like the intensifying US-China competition and the war in Ukraine have created uncertainties and downside risks to the outlook for the global economy. These geopolitical concerns could feed into government policy decision-making. For example, policymakers may begin to think of supply chains more from a security angle rather than from an economic or business perspective.

There are also concerns of rising trade protectionism and other protectionist measures being implemented by individual governments to address domestic problems. Against this challenging environment, the success of AEC 2025 and future post-2025 regional integration efforts must be secured with quick innovative policy initiatives, especially through increased digitalisation and accelerated capacity building.

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