

ASEAN in Practice Ep 6 Transcript

Denis: A very good morning to all of you, and welcome to the 6th episode of the ASEAN in Practice podcast series. My name is Denis Hew and I am a Senior Research Fellow at the Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy, National University of Singapore. In today's podcast, we will be focusing on the wide economic divide among ASEAN Member States and why narrowing the development gap is such an important policy issue for the region.

We are fortunate enough to have an expert to talk to us today about this issue. His name is Dr. Rashesh Shrestha, and he is an economist at the Jakarta-based Economic Research Institute for ASEAN and East Asia or ERIA - for short. At ERIA, he conducts and leads policy-oriented research projects on a wide range of themes, including human capital, labour markets, education, global value chains, trade facilitation, and more. Rashesh, welcome to the show.

Let me start by asking you about the question I posed earlier. Whether you measure by income per capita or other types of economic indicators, there clearly is a wide economic divide among ASEAN Member States. Is this something that ASEAN policymakers should be worried about? Is this really an important issue?

Rashesh: Thank you Denis for having me at the podcast and I am very happy to be here. Yes, as you know, ASEAN is composed of countries that are at very different levels of economic development. And so, it composes of Singapore, which is about the global top developed countries. And also composes of countries like Cambodia, Myanmar, and Laos, who are in the lower-middle income categories as well. So, there is a big divide. Although I must say that over the past 20 years, the less developed countries of ASEAN have grown faster, and they have sort of reduced some of the gap that exists between them and the more developed members of ASEAN. Having said that there is still a big divide. And it is going to be a challenge for ASEAN to see how they can move forward in terms of their integration goals while also managing the divide that exists between the different member states.

And one of the reasons for that is that the kind of issues that ASEAN needs to tackle going forward, including things like technological change, climate change, a demographic transition. These are all issues that are quite important but can also have a negative effect in terms of widening the divide that exists between these countries. So, ASEAN needs to put in place policies and initiatives that would actually address these divides as they go forward with the integration agenda.

Denis: So, given this challenge, what is the current approach that ASEAN is doing to narrow this development divide? You've talk about in your writings the Initiative for ASEAN Integration, IAI - for short. And this has been implemented for many years in terms of trying to narrow the development gap using this initiative, but it has not been very effective. So, what's the problem here? And what should ASEAN be doing about this?

Rashesh: Yes, so basically, the IAI was put in place back in 2000 when Cambodia, Laos, Myanmar, and Vietnam joined ASEAN in the late 1990s. And the primary purpose of the IAI

was to support these newer member states to integrate into ASEAN. So basically, it was a mechanism that was providing the initiatives and support for these countries in terms of capacity-building, knowledge support, and other programs. It has evolved over the last 20 years, 25 years. And so, we are currently in what's called the IAI Work Plan IV; so, each IAI creates work plans, which is a set of initiatives or actions to be taken to support the CLMV countries as they are called - Cambodia, Laos, Myanmar, and Vietnam, the newer member states. The initiatives focus around certain strategic areas that have been identified by the member states themselves. And for the current IAI work plan, they have chosen to focus on five strategic areas. They include trade facilitation, small and medium enterprises, food and agriculture, health, and education. So, these are the areas that they try to focus on, and within each of these areas, they create different programs initiatives. So, one of the challenges of IAI is that the world has changed quite a bit since the program was put in place. So, when, like I mentioned before, a lot of the countries that these programs focus on have grown quite a bit faster than the rest of ASEAN and caught up with the rest of ASEAN – although, as we discuss earlier, there's still gaps that remain.

And the other difference now is that the development divide that is currently in ASEAN is also happening within countries. So, even if they were initially not part of the IAI program, countries like Philippines, Indonesia, and others that have sort of a very big geographic size, they are finding that the growth has been concentrating in certain locations while some of the locations might be left behind.

Furthermore, there are also groups within these countries that are also facing development challenges that might reduce the capacity to benefit from the ASEAN integration process. So, for example, informal sector or people with no digital skills. So, these are some of the challenges that are cropping up even in countries that were initially not part of the IAI mechanism. Given the challenges, I think the IAI needs to be reconsidered and re-thought in terms of how they can be reframed to basically meet the current challenges which includes the challenges of digital divide, of demographic transition, of skills, of informality, of urban-rural divide. These are some of the challenges in the current mechanism that is slightly hard for the IAI to tackle. And then, it is to think about how they can basically approach this narrowing of the development gap that is more suitable for the current challenges that ASEAN is facing.

Denis: Yes, I think you've answered some of my subsequent questions but yes, that's a very good point. And I think today, the development gap is not just between the more developed ASEAN-6 and the CLMV countries, right? And we need to kind of rethink how to address this. You've worked with me on research projects on this and you've made some recommendations on how we need to reframe this narrowing of the development gap. Could you elaborate a little bit about what you have recommended?

Rashesh: So, I think one of the constraints has been that they have to basically approach it as a project-based initiative. And they have to come up with a list of projects that they want to accomplish within the five-year period, which each IAI work plan covers. Of course, they have to find funding for these projects, so they have to be member states or external partners

who are willing to fund these projects. They also need to have buy-in from the CLMV countries, who are the beneficiaries of these programs. And they have to coordinate with different line agencies within each country to implement the program. So, starting from sort of the project development to sort of implementation, there are areas where further improvements could be made.

So, on the project development, I think the strategic areas that the IAI work plans have been focusing on so far, could be broadened a bit more. Because, as we discussed earlier, challenges like digitalisation, have so far not been part of the IAI work activities. And also, things like climate change or sustainability challenges. So, under the IAI mechanism, I think these new challenges should be covered.

The second one, in terms of programming, the IAI also needs to work sectoral bodies, the ASEAN sectoral bodies. And for different issues, development challenges that the ASEAN is facing, there are different sector bodies that are tasked with sort of working on those areas. And so far, if we look at the programs and initiatives, only very few sectoral bodies are engaged with ASEAN, the IAI process or mechanism. Therefore, I think there is a need to expand sort of the set of sectoral bodies to identify all the relevant sectoral bodies that would be important to collaborate on these different initiatives and programs to support the IAI goals. So, we need basically the sectoral bodies to have a more enhanced understanding of the narrowing development gap (NDG) challenges, and to incorporate that into their sort of work activities as well. Or at least be more involved in sort of addressing the NDG challenges.

And the third one is in terms of the scope of beneficiaries. The NDG-IAI program is currently focusing on Cambodia, Laos, Myanmar, and Vietnam. But of course, as we mentioned before, the set of challenges that are arising right now, also affect the other ASEAN countries. And that might be specifically sub-regions or sort of sub-national units within different ASEAN countries might also need additional support in terms of supporting their narrowing the development gaps with the more developed parts of the country. Of course, not all of the challenges that the sub-national units are supposed to be tackled by ASEAN itself but is a national-level issue. But there are certain things that the IAI program could do, by trying to also expand the scope of beneficiaries to regions within some countries that are not currently part of the IAI beneficiary list to actually support those countries as well. So, the scope of beneficiaries should be enhanced to incorporate sort of more lagging regions in sub-national regions even in other countries, except for the CLMV countries, and including for example the Timor Leste – who has also been admitted in principle into ASEAN. But the development gap between Timor-Leste and the rest of ASEAN is also quite weak in certain areas. Although Timor Leste is currently undergoing the accession process - so they have a list of requirements they need to fulfil before they can be fully part of ASEAN, at least in terms of narrowing the development gap, I think it makes sense for ASEAN to already look at how Timor-Leste can also benefit from some of these initiatives, because eventually the goal is for them to be able to integrate fully into ASEAN and starting early in terms of trying to narrow the gap between Timor-Leste and the rest of ASEAN would also probably help Timor-Leste accede faster and be a full beneficiary of the ASEAN integration process.

So, I think these are some of the ways that IAI could be re-thought in terms of how they cover the scope of the activities that IAI is doing, and of course to be able to fully do that, they also need to think about changing the mechanisms that currently exist and trying to incorporate more of the national development agencies of each countries that are in task with basically helping Sustainable Development Goals in their respective countries. They don't have much role right now, but I think these national planning additional development agencies could play a bigger role in expanding the scope of beneficiaries and sort of strategic areas - was the one point I made earlier. The second point is in terms of the institutional mechanisms. So basically, it would be better if the ASEAN initiatives are well-aligned with the national-level initiatives for Sustainable Development Goals. So basically, the one way to do that would be to have deeper engagement with the national development agencies who are in charge of leading the Sustainable Development Goals, trying to come up ways of achieving the Sustainable Development Goals. So, having a closer cooperation between the IAI process and the national Sustainable Development Goals (SDG) process would also benefit, I think, by creating synergies, as well as by helping to channel the resources into more effective planning and implementation of projects.

Denis: So, that leads to my next question. You talked about the increased role of national-level agencies to help support the IAI initiative. Is there also a role or a bigger role for ASEAN dialogue partners and also international organisations to support the NDG initiatives, including the IAI?

Rashesh: Yes, I think if you looked at the list of IAI programs, many of them are funded by external partners, external donors, developed countries. So, they have a big role to play in terms of providing resources and knowledge support. And of course, they also do some of those activities bilaterally, and therefore I sort of mentioned that there is a closer cooperation between the external partners, the national agencies as well as the ASEAN body. I think those three groups need to work together quite closely in terms of having effective and efficient programs to tackle the NDG challenges.

Of course, international bodies like ERIA, who are more of a knowledge partners in this process are also important because a lot of these challenges do require a lot of interventions that are new or may not be sort of tried out before. So, a lot of this is experimentation as well in a lot of the areas. For example, how do you reduce the digital divide? Or how do you address the challenges of aging population? These are new challenges that also require a lot of research and studies in order to come up with effective solutions to them. So, having a good knowledge partner support from external organisations will also be important. And also, as you may know, that ASEAN is also working closely with the United Nations (UN) bodies in terms of alignment of the Sustainable Development Goals with the ASEAN activities. So, that kind of cooperation is also important because there is a lot of overlap between what ASEAN wants to do in terms of its NDG goals and what the UN has come up with in terms of sustainable development. Of course, some of those have to be modified for the local context, but there is room for further collaboration and alignment of ASEAN NDG goals with the more global framework, which is the Sustainable Development Goals framework.

Denis: I think we know that the COVID-19 pandemic over the past few years has, in a way sort of widened that economic divide among ASEAN Member States. We've seen some of the poverty numbers going up, perhaps it's just temporary, since most economies have already recovered from the pandemic. Do you think this is something that is a setback in terms of narrowing the development gap in ASEAN?

Rashesh: Yes, I think the post-pandemic recovery has been uneven across ASEAN, especially in the less developed countries which relied a lot on sort of tourism, for example. And tourism, as you may know, has not recovered back to its pre-pandemic levels yet. There have been improvements over the past one or two years, but the initial few years of the pandemic were quite severe, especially for countries that were relying on movement of people in terms of their growth sectors. Of course, some of the countries like Laos, also facing macroeconomic challenges now - in terms of high inflation and sort of depreciation of their currency, and so there are a lot of variations across ASEAN on how severe the effect of the pandemic was, and how that might have affected the economies.

And to add to that, there are also long-term effects of the pandemic, for example. So, the learning loss due to closures of school for example, and that affects some countries more than others, given the different policies that were put in place by the different countries. Given all of these effect of the pandemic across many dimensions, even though the economic indicators might show recovery, but there are some underlying development challenges that might have been severely affected by the pandemic, which might exacerbate some of the development gap going forward. And therefore, I think, it is going to basically be a big challenge for the individual ASEAN countries, as well as ASEAN as a whole, to try to address some of these challenges that emerge because of the pandemic.

Denis: I think you know that ASEAN policy makers are in the midst of drafting a new post-2025 ASEAN Economic Community Strategic Plan. So, what would be your wish list that should be included in that strategic plan with regards to narrowing the development gap?

Rashesh: I think for me, the ideal case, would be that the NDG challenge would be more central of all ASEAN activity. Because, I think, the last 20 years, the global environment has been quite different. There's a lot of investments in Global Value Chains (GVCs) happening, especially before the financial crisis. And a lot of the investments have not been recovered, even now. Services are now more important part of trade. Digitalisation has accelerated, and therefore the need for digital skills have expanded quite a bit. So, all of the challenges are creating the development divide issue and exacerbate some of the challenges. So, I think for ASEAN to meet its goal of having a common production base, and a common market or a single market, I think they do have to make NDG or the development divide challenge quite a central focus of their initiatives.

And like I mentioned before, I think all sectoral bodies, or all relevant sectoral bodies need to come up with or need to address or try to contribute to the challenge of NDG. Although, there has to be a central agency or central mechanism that would be in charge of addressing these challenges. All sectoral bodies would have to somehow be addressed because they are the experts in their particular areas, and different areas have different challenges in terms of

development divide, and therefore, having a more cohesive approach to the NDG within ASEAN would actually help to address some of the challenges that the region is facing.

I think the other one would be specific challenges that they need to address, which includes for example, the human capital challenge. We're basically trying to ensure that the people are equipped with the right kind of skills that help them navigate the current economy, especially given the challenges from things like automation and robotics that might reduce the availability of jobs in the region. Therefore, they have to ensure that they accelerate the skills in ASEAN. And there is room for ASEAN to work together in this. For example, in the case of digital skills, where it's quite standardised across countries, and even countries that are at different levels in terms of the capacity to increase or train their workforce in digital skills, working together to figure out how they can meet the skills challenge together so that every has the opportunity to benefit from the current economic trends would be quite important.

The second one is in terms of sustainability challenges. Given that the global market, especially the developed countries in EU are moving more aggressively towards sustainability and putting in place a lot of policies that would affect ASEAN's way of producing the output for those developed countries. So, there is a need to make sure that ASEAN businesses are ready to meet the challenges that are emerging as well in terms of updating their production or improving the sustainability of their production process. So, ensuring that especially the small businesses in ASEAN are able to adapt to those requirements by ensuring that they have access to technology, as well as the know-how in terms of how to ensure the sustainability of their processes. So, those are some of the specific challenges that ASEAN is to make the front and centre of their agenda going forward.

Denis: Thank you so much Rashesh for taking the time today to speak with us. From this podcast session, we have certainly learned a lot about ASEAN's efforts to narrow the development gap and the need to re-think or re-frame the existing framework, such as the IAI, the Initiative for ASEAN Integration, to ensure more equitable economic development. It's important that no member state is left behind as ASEAN advances its economic integration agenda. Thank you again for taking part in the podcast episode, and I hope that all of you will look forward to the coming episodes ahead.

*The podcast was recorded on September 23, 2024.