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Can the ASEAN Economic Community Succeed in a Two-Tier ASEAN?

By Denis Hew

ASEAN aims to integrate the economies of its ten member states and realise the ASEAN Economic Community (AEC) by 2025. This ambitious project will create a regional economic space that is not only highly integrated, inclusive and resilient but also plugged into the global economy through its free trade agreements and supply chains.

In our previous Counterpoint Southeast Asia **webinar** back in March 2023, many challenges to realise the AEC by 2025 were discussed (see also **Counterpoint Southeast Asia publication issue No.6**). One of the challenges identified in that webinar was how to address the wide

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economic development gap that exists among ASEAN's ten member states. This is an important strategic issue as equitable economic development is one of the main pillars of the AEC.

The development gap within the region is often referred to as a "Two-Tier ASEAN" in which there exists an economic divide between the older, more developed member states of Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (ASEAN-6) and the newer, less developed members of Cambodia, Myanmar, Lao PDR and Viet Nam (CLMV).

According to most recent ASEAN statistics, in terms of GDP per capita, the top two richest member states are Singapore (US$72,400) and Brunei Darussalam (US$32,383). At the other end of the income spectrum, the GDP per capita of the poorest member states are Cambodia (US$1,603) and Myanmar (US$1,314).

This wide economic disparity is also reflected in other development indicators covering sectors such as education, health, human capital, as well as financial and legal infrastructures. Unlike the ASEAN-6, the CLMV are classified as "transitional" economies that are essentially making the transition from a centrally planned economic system to a more market-oriented one. In this context, a "Two-Track or Two-Speed" modality has also been adopted in ASEAN in which the CLMV are normally given more time to implement economic initiatives, particularly those related to trade and investment liberalisation.

To narrow the economic development gap, the Initiative for ASEAN Integration (IAI) was launched in 2000. There have been a number of work plans since then with the deadline of its most recent IAI work plan (2021-2025) coinciding with the deadline of the AEC by 2025.

It is worth noting that the devastating impact of the COVID-19 global pandemic over the past few years may have made the economic gap even worse. Many economies in Southeast Asia—as well as the rest of the world—fell into deep recession during this difficult period and poverty levels rose significantly, setting back years of poverty alleviation programmes, particularly in lower income developing countries. Given that the CLMV have less financial resources at their disposal to address the pandemic, their economic recovery would have been at a slower pace than the ASEAN-6.

In the short-term, the outlook for the global economy remains uncertain due to persistently high inflation, the prolonged war in Ukraine, US-China trade tensions and other geopolitical concerns. Against this backdrop as well as the many challenges faced by the region to narrow the development gap, can the AEC succeed in a two-tier ASEAN?

The Centre on Asia and Globalisation (CAG) invited three analysts from Southeast Asia to address this pertinent question. They

presented their arguments in a webinar on May 22, 2023 (view the video **here**).

Jayant Menon, Senior Fellow at the ISEAS-Yusof Ishak Institute, argues that ASEAN's economic diversity can be turned into an advantage. The differences in factor endowments and factor prices among ASEAN member states have allowed global supply chains to flourish in the region, particularly in the manufacturing sector. Nevertheless, Jayant notes that the widening of ASEAN membership has the potential to either slow down the process of deepening in the AEC, or further fragment ASEAN, or both.

Jayant points out that intra-country inequality can be a threat to ASEAN's growth. He finds that the distribution of the gains from rapid economic growth in the CLMV have been uneven and income inequality within these countries has remained high or worsened. Jayant believes that this increase in polarisation is more worrying than the slow pace of economic convergence among member states.

Kaewkamol Pitakdumrongkit, Assistant Professor at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University, finds the COVID-19 pandemic has indeed widened the development gap among ASEAN member states and the pace of the recovery process among CLMV has been relatively slower. She also finds that the latest IAI work plan's capacity-building activities are too narrowly focussed on language education. Kaewkamol recommends that the scope of the IAI be expanded with more emphasis placed in the re-skilling and up-skilling of workers to better prepare them for the digital world. She also suggests that capacity-building activities under the IAI support micro, small and medium-sized enterprises (MSMEs) in all ASEAN member states and not just the CLMV.

Quynh Huong Nguyen, Economic Affairs Consultant at the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), takes a different perspective and finds that ASEAN is far from achieving one of the AEC's goals of "free movement of skilled labour." In fact, there is a significant shortage of skilled labour in many ASEAN member states, especially in the CLMV. Nonetheless, Quynh finds evidence of movement of skilled labour among ASEAN countries driven by the foreign direct investment (FDI) strategies of Japanese firms operating in the region. She argues that the private sector can play an important role in promoting and facilitating the free movement of labour in the region.

Jayant and Kaewkamol both agree that ASEAN also faces other serious challenges besides the development gap. For example, rising trade protectionism and domestic reform fatigue could slow down the implementation of the AEC Blueprint. Meanwhile, Quynh finds that the free movement of skilled labour is a very difficult and complex policy issue that requires mutual recognition and harmonisation of standards

in the labour market. This important AEC goal cannot be achieved without better coordination with the private sector.

Over two decades have passed since the launch of the IAI. But the economic divide among ASEAN member states remains significantly wide. This seems to indicate that the IAI workplans that have been formulated over the years have not been very effective. Hence, it will be crucial to redesign future IAI work plans to ensure that economic integration efforts like the AEC will benefit all member states and not just the few.

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