

ASEAN Integration Report

2023

Advancing Regional Integration:
Priorities of the Youth in the AEC Blueprint 2025



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List of Terms / Abbreviations

AAMNP: ASEAN Agreement on Movement of Natural Persons	AA: ASEAN Architects
ACIA: ASEAN Comprehensive Investment Agreement	AIIF: ASEAN Insurance Integration Framework
ACMW: ASEAN Committee on Migrant Workers	ASED: ASEAN Education Ministers Meeting
ACPE: ASEAN Chartered Professional Engineers	ATC: ASEAN TVET Council
ACPECC: ASEAN Chartered Professional Engineers Coordinating Committee	BIF: ASEAN Banking Integration Framework
ACPER: ASEAN Chartered Professional Engineers Register	BSBR: Bandar Seri Begawan Roadmap
ADM: Archer-Daniels-Midland Company	CAGR: Compound Annual Growth Rate
AEC: ASEAN Economic Community	CBP: Custom and Border Protection
AFAS: ASEAN Framework Agreement on Service	CEPT: Common Effective Preferential Tariff
AFTA: ASEAN Free Trade Area	CLMV: Cambodia, Lao PDR, Myanmar, and Vietnam
AIA: ASEAN Investment Agreement	CSAP: Consolidated Strategic Action Plan
AIM: Amanah Ikhtiar Malaysia	GVCs: Global Value Chains
AIPF: ASEAN Indo-Pacific Forum	HPA: Hanoi Plan of Action
AJCC: ASEAN Joint Coordinating Committee	ICT: Information and Communication Technologies
AMS: Asean Member State	IDEAS: Institute For Democracy and Economic Affairs
API: ASEAN Prosperity Initiative	IFRS: International Financing Reporting Standards
AQRF: ASEAN Qualifications Reference Framework	ILO: International Labour Organization
ASCC: ASEAN Socio-Cultural Community	LMIC: Low and Middle Income Countries

ASEAN: The Association of Southeast Asian Nations

ATIGA: ASEAN Trade in Goods Agreement

DEI: Diversity, Equity, and Inclusion

GMV: Gross Merchandise Value

GVCs: Global Value Chains

IAI: Initiative for ASEAN Integration

IOM: International Organizations for Migration

IT-BPM: Information Technology and Business Process Management

MOUs: Memorandum of Understanding

MOECRT: Ministry of Education, Culture, Research, and Technology

MSMEs: Micro, Small, and Medium Enterprises

NQF: National Qualification Frameworks

OECD: The Organization for Economic Cooperation and Development

PHEIC: Public Health Emergency of International Concern

SOM-ED: ASEAN Senior Officials Meeting on Education

SOM-ED: ASEAN Senior Officials Meeting on Education

TVET: Technical and Vocational Education and Training

MRA-TP: MRA for Tourism Professionals

MTR: ASEAN Secretariat's Mid-Term Review

NGOs: Non-governmental organization

PE: Professional Engineers

RCF: Regional Cooperation Framework

RPCA: Registered Chartered Professional Accountants

RFPA: Registered Foreign Professional Accountants

ROO: Rules of Origin

RPA: Professional Regulatory Authority

RSO: The Regional Support Office of the Bali Process

SEAMEO: Southeast Asia Ministers of Education Organization

SLOM-WG: Work Plans of the Senior Labour

STEM: Science, Technology, Engineering, and Math

TWG-MAE: Technical Working Group on Mobility of ASEAN Engineers

UNHCR: United Nations Human Rights Council

WEF: World Economic Forum

WRO: Withhold Release Order

Foreword

As we find ourselves amidst this post-pandemic era, ASEAN's response to the 'new normal' will significantly hinge on the pivotal role played by the region's youth. Time and time again, the youth have proven themselves to be dynamic, charismatic, and adaptable to the ever-changing circumstances. Currently, ASEAN comprises 213 million youths aged 15-34, and this figure is projected to peak at 220 million by 2038. Given their sizable population, how we develop ASEAN youths and the opportunities we build for them will define the trajectory of this region moving forward.

While the resilience and ambition of ASEAN youths are commendable, the chaos and uncertainty surrounding the post-pandemic economy still renders them vulnerable, particularly in terms of their education and employment prospects. Coupled with the hastened adoption of digital technologies in response to the pandemic, the preexisting challenges of youth unemployment and the skills gap have also been further exacerbated. In light of these issues, this edition of the API report places a spotlight on the ASEAN youth and their priorities in the AEC Blueprint 2025.

Hence, this year's API report is structured into four chapters, each with a specific focus on: Labour Mobility and Connectivity, Technical and Vocational Education and Training (TVET), Micro, Small and Medium Enterprises (MSMEs), and the Digital Economy. These are four policy areas we believe to be quintessential in the context of improving youth outcomes in ASEAN.

While there are significant differences across ASEAN Member States regarding youth education, employment, and digital progress, there are valuable lessons to be shared and insights to be exchanged. It is important that ASEAN, as an organisation, takes the lead in harnessing the values of cooperation, shared knowledge, and partnership in tackling the significant challenges faced by the region.

ASEAN's greatest strength lies within its unity, and this region holds a wealth of potential if we collaborate as a single entity. Policies pertaining to youth development should have a degree of consistency across the ASEAN Member States to facilitate seamless integration, mobility, and market access.

We hold a strong sense of optimism and confidence in the ability of our youth to navigate the complexities and challenges of the future. Nonetheless, it is our shared responsibility to equip them with the most robust platform from which to showcase their talent and realise their full potential.



Tricia Yeoh,
Chief Executive Officer, IDEAS

Executive Summary

Acknowledging the growing prominence of the youth demographic in ASEAN, this report aims to explore critical domains where youths encounter both opportunities and challenges. The ultimate goal is to foster dialogue and support the development of youths in ASEAN. The report will cover key topics, including **Labour Mobility and Connectivity, Technical and Vocational Education and Training (TVET), Micro, Small, and Medium Enterprises (MSMEs), and the Digital Economy.**

ASEAN's strategy regarding labour mobility aligns with its dedication to open trade and investment, contributing to the realisation of an integrated AEC. Skilled migrants play a fundamental role in tackling the issues of youth unemployment and the growing youth population in member states. From the perspective of host countries, skilled migration contributes to increased market output and productivity, particularly in nations aspiring to be innovation leaders like Singapore, and those transitioning to become innovation-driven nations such as Malaysia, Thailand, Vietnam, and the Philippines. However, it is important to note that intra-ASEAN migration predominantly involves low – and medium-skilled workers in the informal economy, while the mobility of high-skilled workers within ASEAN remains limited. Hence, this first chapter explores the risks associated with labour mobility, particularly concerning poor employment practices like debt bondage and irregular migration trends. Through this analysis, recommendations have been put forth for the improved implementation and enhancement of Mutual Recognition Arrangements (MRAs) and Memorandum of Understanding (MOUs), the establishment of a regional legislative framework to safeguard migrant workers from debt bondage, and the promotion of a proper domestic enforcement framework.

In line with the ASEAN Economic Community (AEC) Blueprint 2025's vision to enhance human capital development, the second chapter delves into the possibilities presented by Technical and Vocational Education and Training (TVET) in addressing the pressing issue of youth unemployment in Southeast Asia. Taking into account the existing barriers that impede TVET's success throughout the region, as well as the emerging prospects that may shape TVET's trajectory moving forward, this chapter puts forth a set of policy recommendations developed based on a sound analysis of TVET's present landscape in ASEAN. These recommendations encompass aligning TVET with labour market demands, rebranding TVET to combat its low public image, enhancing equity and accessibility, and working towards harmonising the interoperability of TVET programmes between AMS.

Through the AEC Blueprint, ASEAN recognises the importance of youth and MSME development, outlining several key initiatives to enhance efficiency and foster a level-playing field for smaller businesses and entrepreneurs. This third chapter aims to identify the challenges that MSMEs encounter within the ASEAN region, with a specific focus on youth-led entrepreneurship. The analysis reveals that MSMEs and youth entrepreneurs continue to face challenges, particularly in securing external financing and facing heightened competition. The emergence of microfinancing and embedded banking provides new opportunities for MSMEs. In this chapter, the policy recommendations are centred on improving microfinancing and embedded banking opportunities (specifically tailored to



SMEs especially youth-led businesses), improving access to information for investor matching, and enhancing human capital development and capacity building.

Additionally, developing the digital economy is a key goal highlighted in the AEC Blueprint, requiring critical understanding of the region's progress in embracing the digital revolution, especially in the context of post-pandemic recovery. This final chapter examines the specific challenges that ASEAN youths face, including the risks of digitalisation and the increasing digital divide, with a particular focus on women and rural youth. While the digital economy undeniably offers vast growth opportunities by breaking traditional barriers and potentially converging living standards with the developed world, the resulting increase in inequality is a cause for concern, thus underscoring the need to prioritise welfare gains. The policy recommendations emphasise the importance of information dissemination, infrastructure development, and aligning educational curricula with industry needs to bridge the digital divide and empower ASEAN youths. To leverage the potential of the digital economy while ensuring equitable welfare gains, ASEAN must strike a careful balance.

Introduction to the ASEAN Prosperity Initiative 2023

The ASEAN Prosperity Initiative (API) is a research and advocacy-based project which seeks to highlight the key opportunities and challenges arising within the ASEAN economy up to the year 2025. As one of the flagship projects led by the Institute for Democracy and Economic Affairs (IDEAS), the API is intended to serve as a focal point of reference for development and economic-related issues within Southeast Asia. This project is jointly funded by the Friedrich Naumann Foundation for Democracy. As part of the API project, the ASEAN Integration Report is a comprehensive research study that evaluates the various aspects of integration in the ASEAN Economic Community and the impact of COVID-19 on economic integration, ultimately putting forth policy recommendations moving forward. This study was conducted by IDEAS researchers, with valuable input and insights from a diverse array of stakeholders such as youth leaders, entrepreneurs, experts, and academic institutions from ASEAN.

The ASEAN Economic Community (AEC)

The ASEAN Economic Community (AEC) is the economic pillar of the broader ASEAN Community, alongside other sub-communities for political security and socio-cultural affairs. The AEC provides a consolidated and coherent vision for the region's economic integration, propelling ASEAN towards becoming a highly competitive region with equitable economic development. It also aims to establish a single market and production base that is fully integrated into the global economy. Before the AEC's establishment in 2007, ASEAN's priority on economic integration was marked by a host of other initiatives. In 1992, there was the ASEAN Free Trade Area (AFTA) to intensify the region's economic potential. In 1998, the Hanoi Plan of Action (HPA) was introduced to chart initiatives for economic integration, and in 2003, the Declaration of ASEAN Concord II was established, paving the way for the formation of the ASEAN Community. The first AEC Blueprint was established by the ASEAN Secretariat in 2007. It provided the guiding principles for ASEAN to enhance trade in Southeast Asia through trade liberalisation and trade facilitation efforts, setting the stage for the eventual transition into a fully integrated and competitive region.

Originally set for completion in 2020, the ASEAN Secretariat made the collective decision to accelerate this timeline to 2015. Up until then, four pillars characterised the AEC: (1) A single market and production base to support the free-flow of goods, services, investment, skilled labour, and capital; (2) The creation of a competitive economic region to promote fair competition and consumer protection; (3) Equitable economic development aimed at narrowing the development gap within and among member states and alleviating poverty across all ten member countries; and (4) Integrating ASEAN into the global economy. While 2015 marked an important milestone, in November of that year, the ASEAN Secretariat published the AEC Blueprint 2025 to address unresolved goals in the original framework, as well as renew its focus on deeper economic integration and better connectivity. The current blueprint comprises five pillars: (1) A highly integrated and cohesive economy; (2) A competitive, innovative, and dynamic ASEAN; (3) An ASEAN with enhanced economic connectivity and deeper sectoral cooperation; (4) A resilient, inclusive, people-oriented,

and people-centred ASEAN; (5) A global ASEAN. To support the realisation of the AEC's priority areas, ASEAN has signed several agreements over the last decade. In 1995, the ASEAN Framework Agreement on Services (AFAS) was established. The ASEAN Trade in Goods Agreement (ATIGA) was signed in 2009 and implemented in 2010, replacing the Common Effective Preferential Tariff (CEPT) Scheme. In 2012, the ASEAN Comprehensive Investment Agreement (ACIA) replaced the ASEAN Investment Agreement (AIA).

To supplement these agreements are a set of facilitation measures, including the ASEAN Agreement on Movement of Natural Persons (AAMNP) and Mutual Recognition Arrangements on Services (MRAs) signed in 2012. The Consolidated Strategic Action Plan (CSAP) was also agreed upon by ASEAN leaders in 2017 to tackle the implementation of the AEC Blueprint 2025, detailing over 100 measures with more than 500 lines of supporting actions. The CSAP is reviewed periodically to integrate stakeholder feedback on integration priority areas and was updated in 2018 to include further implementation measures.

Monitoring the Implementation of the AEC

This study monitors the progress in implementing the AEC Blueprint 2025, evaluating the issues and pillars that are relevant and important to ASEAN youths in a post-pandemic setting. These pillars include Labour Mobility & Connectivity, TVET, MSMEs, and the Digital Economy. The report focuses specifically on the latest developments and progress within each of the selected pillars, while emerging challenges associated with these issues are explored deeper by placing considerable emphasis on the perspectives of ASEAN youths. Like other API studies, this report monitored publicly available information on measures and actions taken up until the date of publication, as well as general economic indicators to gauge the stated outcomes of ASEAN integration.

The report also provides policy recommendations on how the ultimate objectives of the blueprint can be achieved, carefully considering the new challenges posed in the aftermath of the pandemic. The research was conducted by including input from a diverse range of stakeholders representing different ASEAN countries. This inclusive process involved roundtables with participants ranging from youth leaders, activists, experts, and representatives from academic institutions and think tanks.

Additionally, this report builds upon previous studies conducted to assess the progress of the AEC Blueprint 2025 as part of the ASEAN Prosperity Initiative project. These studies include IDEAS' ASEAN Integration Reports released in 2018, 2019, 2020, 2021, and 2022, all aimed at providing an external assessment of the extent to which the AEC 2025 was being implemented on the ground. Additionally, the report builds upon the ASEAN Secretariat's Mid-Term Review (MTR) of the ASEAN Economic Community Blueprint 2025, which was commissioned by ASEAN and released in 2021. The MTR assessed the progress made in the first five years of implementing the Blueprint, identified gaps, and made policy recommendations regarding the way forward. While the MTR noted that ASEAN had made good progress, it called for intensified efforts in 'high impact economic integration

initiatives', a focus on the quality rather than the quantity of initiatives, and an acceleration in the pace of implementation. Most importantly, the report also alludes to the ASEAN Work Plan on Youth 2021-2025 and the ASEAN Socio-Cultural Community (ASCC) Blueprint 2025.

Purpose of the Report

The AEC Blueprint 2025 and its aspirations will likely be carried forward and championed by subsequent blueprints that will follow after 2025. Given the steady and incremental progress that is characteristic of the 'ASEAN way', it is important to garner support and buy-in from ASEAN youths to sustain efforts for further integration. ASEAN Youths have an important role to play in championing the pillars and aspirations of the AEC Blueprint 2025, while needing to tackle new challenges brought about by hampered global growth, intensifying trade tensions, and geopolitical complexities.

In monitoring the progress of integration, the authors analysed publicly available data and evidence, both in quantitative and qualitative forms. They also conducted an extensive information and literature review on selected AEC sub-pillars, along with existing and newly introduced programmes and initiatives. To assess the real-world impact of selected issues and programmes on the youths, two roundtable discussions were held in Jakarta and Hanoi to collate views and experiences of youth leaders from ASEAN countries. These youth leaders were made up of students, business owners, researchers, and activists.

This report also focuses on novel challenges related to these pillars that have not been previously explored in other official documents. Building upon the identification of these new challenges in each section, this report offers policy recommendations to strengthen the ASEAN Economic Community over the medium to long term.





ASEAN Prosperity Initiative

LABOUR MOBILITY & CONNECTIVITY

Charting Regional Integration and
Inclusive Growth for ASEAN

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Authors Profile



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Kirjane Ngu was a Senior Research Executive under the Social Policy Unit at IDEAS Malaysia. Kirjane's research interests revolve around poverty and inequality, public health, and education policy. She advocates for a more equitable and inclusive society for women, youth and children through her work. She was the co-author of the ASEAN Integration Report 2022, evaluating the progress of realising a Resilient, Inclusive, People-Oriented and People-Centred ASEAN. She holds a Bachelor of Science in Psychology from the Institute of Psychology, Psychiatry, and Neuroscience, King's College London.



Laura Zhang

Laura is a second-year student at Princeton University, planning to major in Public Policy and International Affairs, with minors in Humanistic Studies, and Values and Public Life. Through her research internship under IDEAS Malaysia's Social Policy Unit, Laura affirmed her interest in policy research surrounding civic issues such as equality, education, and welfare. Laura hails from Sydney, Australia.



Yvonne Tan

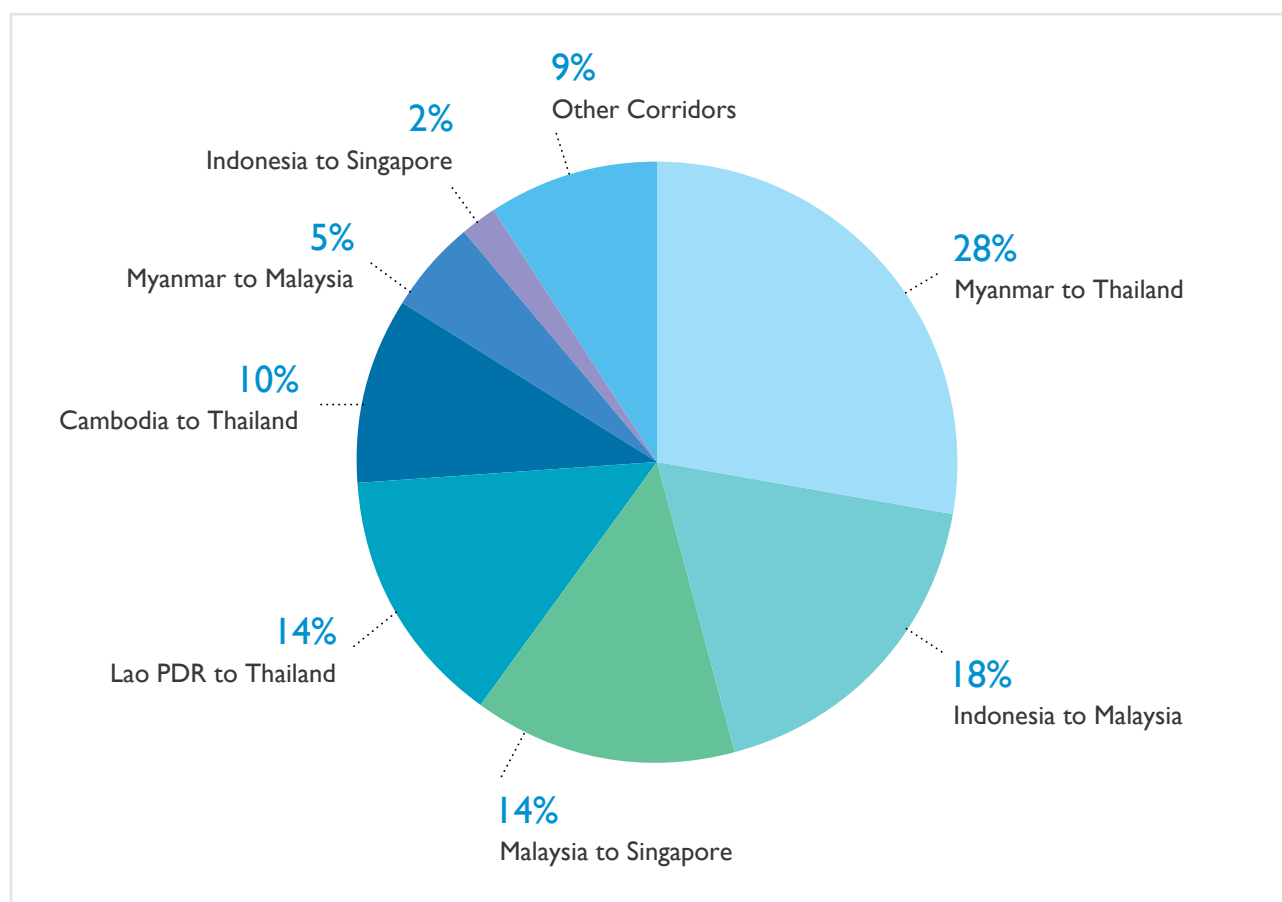
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I. Introduction to Intra-ASEAN Migration

Student and labour mobility serve as strategic vehicles for people-to-people interactions, aligning with ASEAN's goals of integration and connectivity (Kikkawa & Suan, 2019). Labour mobility refers to the short-term movement of individuals for employment purposes, particularly on a regional level (ILO, 2018). ASEAN's approach to labour mobility has consistently been an extension of its commitment to open trade and investment, with the aim of contributing to the vision of an integrated ASEAN Economic Community (AEC). Hence, policy initiatives such as the ASEAN Connectivity Agenda and Master Plan on ASEAN Connectivity (MPAC) 2025 have underscored enhanced skilled labour mobility within ASEAN as a priority area in the coming years (ASEAN, 2017).

Despite the overall upward trend of global migration flows, intra-ASEAN labour mobility patterns have remained relatively stable in the region. Since 1995, most intra-regional migrants have only been hosted by three ASEAN Member States (AMS)—Thailand, Malaysia, and Singapore—making up 90.5% of the total intra-ASEAN migrant population in 2019.

Figure I.1: Proportion of Intra-ASEAN Migration Stock by Corridor, 2019



Source: ASEAN Secretariat, 2022; UN, 2019

The most prominent intra-ASEAN migratory patterns between specific countries—also referred to as migration corridors—are from Malaysia to Singapore, from Indonesia to Malaysia, and from the CLMV countries to Thailand (Kikkawa & Suan, 2019; Papademitriou et al., 2015) (see Figure 1.1). However, intra-ASEAN migration flows mainly involve low- and medium-skilled workers in the informal economy, while the mobility of high-skilled workers remains limited (ILO & ADB, 2014; Papademitriou et al., 2015). For instance, 91.27% of the total migrant worker population in Thailand engages in low-skilled occupations. Similarly, in Malaysia, 45.8% of migrants predominantly work in the low-skilled occupations within the agriculture, construction, and manufacturing sectors (DOSM, 2020). Recent evidence also indicates that OECD countries in North America, Western Europe, and Oceania remain the primary migratory destinations for high-skilled workers in ASEAN.

Intra-ASEAN labour migration is driven by two main factors: (1) Socioeconomic disparities between AMS, and (2) Demographic differences across AMS. Demographic disparities can manifest in the form of a growing youth population—otherwise known as the ‘youth bulge’—in origin countries (e.g., Lao PDR and Cambodia), while declining birth rates and an ageing population occur in destination countries (e.g., Singapore and Malaysia), thus affecting the supply and demand of labour in the region.

Promoting skilled labour migration in ASEAN offers important advantages for both countries of origin and recipient nations. Skilled migrants who acquire a source of stable income overseas can send cash and goods to their relatives at home, known as remittances. In 2022, remittance flows in East Asia and the Pacific, excluding China, have been estimated to reach \$84 billion, with the Philippines being the fourth-highest recipient of remittances globally (Ratha et al., 2022). In ASEAN, remittances are the second largest source of foreign exchange after foreign direct investment (Jintan et al., 2020). These remittances play a crucial role in poverty reduction in low and middle-income countries (LMIC), contributing to improved well-being and reducing the vulnerability of migrant workers’ families (IOM, 2009). Moreover, when skilled migrants return to their countries of origin, they bring back know-how, practical skills learnt through hands-on work experience (World Economic Forum, 2019), along with networks and expertise which contribute to economic development and innovation, also known as ‘brain circulation’.

For host countries, skilled migrants can address the ‘youth bulge’ and high youth unemployment rates in AMS such as the Philippines and Indonesia (Sugiyarto & Agunias, 2014), as well as alleviate skill shortages in growing sectors where labour market demands surpass the supply of domestic human capital (OECD, 2008). This is important given a total of 25.6 million skilled jobs risk remaining unfilled by qualified workers by 2025 (ILO & ADB, 2014). In more advanced economies, skilled migration leads to increased market output and productivity due to migrants bringing diverse skill sets to labour markets (Engler et al., 2020). This benefits countries like Singapore, which aims to establish itself as an innovation leader, and countries like Malaysia, Thailand, Vietnam, and the Philippines, which aspire to transition into innovation-driven nations (WIPO, 2022).

2. The Progress of ASEAN Labour Mobility Initiatives

ASEAN has implemented numerous programmes to facilitate skilled labour mobility (see Box Article 1.1), one of the key frameworks being the Mutual Recognition Agreements (MRAs). MRAs are agreements between governments to recognise and accept some or all of the other's workers' technical qualifications, skills, work experience, accreditations, or test results. Currently, MRAs are in place in seven occupations, including engineering services (2005), nursing services (2006), architectural services (2007), dental practitioners (2009), medical practitioners (2009), tourism professionals (2012), and accountancy services (2014) (see Table 1.1).

Box Article 1.1: ASEAN initiatives on promoting skilled labour mobility

ASEAN Agreement on the Movement of Natural Persons (AAMNP)

AAMNP was signed in 2012 and is a Mode 4 services agreement. Mode 4 is one of the four possible ways in which services can be traded across WTO members, under the General Agreement on Trade in Services (GATS). It refers to where a skilled worker moved temporarily to another country for the purposes of supplying a service. AAMNP specifically aims to help business visitors, intra corporate transferees (ICT), and contractual service suppliers (CSS) apply for temporary entry. The agreement does not provide permanent entry for skilled workers, nor applies to employment measures, permanent residency or citizenship.

ASEAN Framework Agreement on Services (AFAS)

Similar to the AAMNP, the AFAS established in 1995, also aimed to promote the free flow of trade in services by eliminating restrictions to migration and improving the efficiency of ASEAN service suppliers. In 2020, the ASEAN Trade in Services Agreement (ATISA) was signed, building upon and superseding AFAS. Instead of the positive listing approach AFAS, ATISA uses a negative listing approach which all sectors have been liberalised, requiring member states to list sectors which it thinks does not align with the agreement. This was done to provide greater transparency on the details of services regimes in AMS.

ASEAN Qualifications Reference Framework (AQRF)

The AQRF was signed in 2014 and aims to be a tool for comparing educational qualifications across AMS. It does not require a country to change its national qualification framework (NQF), rather wishing to link NQFs across ASEAN. The AQRF is especially useful for ASEAN youth, as it is directly targeted for both skilled labourers and students. In conjunction with MRAs, the AQRF can harmonise the varying education requirements needed to become registered ASEAN professionals.

Source: ASEAN, 2020a,b,c; 2018; Fukunaga & Ishido, 2015b

The progress in implementing these MRAs differ due to the various challenges, with engineering, architecture, and accountancy going the furthest in terms of the number of registered professionals for intra-ASEAN certification. As of 2023, there are 6,990 Registered Chartered Professional Accountants (RCPA), 6,771 ASEAN Chartered Professional Engineers (ACPE), and 674 ASEAN architects (AA). Notably, there are 25 Registered Foreign Professional Engineers (RFPE) and 7 Registered Foreign Professional Accountants (RFPA) who have completed the registration process and thus are eligible to work in another AMS. On a regional scale, all AMS have submitted a notification of their participation in these MRAs, and national developments have been made (Mendoza & Sugiyarto, 2017).

Comparatively, the MRA for Tourism Professionals (MRA-TP) lags behind the previous three MRAs, with a lower number of professionals registered as Master Trainers and Master Assessors, amounting to 221 as of July 2022 (IDEAS, 2022). Moreover, despite the establishment of five regional bodies including the Regional Secretariat for ASEAN Tourism Professionals, national implementation processes have not advanced as significantly. The MRAs in the healthcare sector, including nursing, medical, and dental, have progressed the least. Although all healthcare MRAs have an ASEAN Joint Coordinating Committee (AJCC), none have established a professional registry or secretariat (Mendoza & Sugiyarto, 2017). At the national level, some AMS have yet to begin implementing the MRAs, with five AMS not having reviewed or updated their national competencies for nurses (Pachanee et al., 2019).

The staggered progress of the MRAs—with engineering, architecture, and accountancy charting the most progress and healthcare lagging behind—are indicative of the broader challenges faced by ASEAN and its individual states in their attempts to promote skilled labour mobility (see Table 1.1). The ‘ASEAN model’, with its unique approach to diplomacy, can sometimes pose challenges in enhancing regional integration and cooperation. This is evident when efforts to harmonise standards related to professional qualifications are faced with challenges across AMS. For instance, the minimum years of education and experience are not standardised across AMS, with professional architects in Myanmar required to complete at least a 5-year architecture degree and 2 years of practical work experience, while architects in Cambodia only undergo a 3-year architecture degree. The standardisation of language requirements also prove to be difficult; foreign accountants need to demonstrate a satisfactory proficiency in Bahasa Indonesia to work in Indonesia (ASEAN CPA), while nurses require English proficiency to work in Malaysia, Myanmar, the Philippines, and Singapore (Mendoza & Sugiyarto, 2017).

Table I.1: Status and Progress of ASEAN MRAs

MRA	No. of Registered Professionals with intra-ASEAN certification (As of 2023)	No. of Foreign Professionals eligible to work in another AMS	Regional Participation Status	National Development Status
Engineering services (2005)	6,771 ASEAN Chartered Professional Engineers (ACPE)	25 Registered Foreign Professional Engineers (RFPE)	All AMS participated	National developments have been made
Accountancy services (2014)	6,990 Registered Chartered Professional Accountants (RCPA)	7 Registered Foreign Professional Accountants (RFPA)		
Architectural services (2007)	674 ASEAN architects (AA)	-		
Tourism professionals (2012)	221 registered Master Trainers and Master Assessors	-	5 regional bodies established (including Regional Secretariat for ASEAN Tourism Professionals)	National implementation processes lack progress
Healthcare – Nursing (2006), Medical (2009), Dental (2009)	-	-	All have an ASEAN Joint Coordinating Committee (AJCC) but none have a professional registry or secretariat	2 AMS yet to implement ASEAN competencies for nurses ¹

Source: IDEAS, 2022; Mendoza & Sugiyarto, 2017; Pachanee et al., 2019

For ASEAN youths, English proficiency requirements may pose less of a barrier to overseas employment. Instead, the minimum years of experience and age requirements, such as the 21-year age minimum to become a professional accountant in Brunei (ASEAN CPA), can impede labour migration (Mendoza & Sugiyarto, 2017). Likewise, youth who are about to enter tertiary education or in the process of completing their degree must be informed of the different educational prerequisites across AMS. This awareness can ensure that they fulfil minimum education requirements before transitioning into the labour force and applying for MRAs.

¹ In the latest report of the 32nd Meeting of AJCC, there was no update on the mapping of 5 ASEAN Nursing Common Competencies (ANCC), with requests for all AMS to update their national mapping in the next meeting, and in particular, for Lao PDR and Vietnam to present their implementation progress (ASEAN, 2021c).

On a national scale, the lack of financial resources, as well as the absence of political and private sector willingness to risk brain drain and invest in foreign worker training impede the progress of MRAs from a top-down perspective. From the bottom-up, the lack of incentives to work overseas, the monetary and time constraints of immigration processes, the lack of social security, and the psychological challenges of migration contribute to skilled workers' reluctance to engage in MRA processes (see Box Article 1.1). These national-level challenges, particularly for youth who are more likely to work in exploitative jobs and have impeded access to financial resources, significantly restrict their ability to freely seek opportunities overseas.

Beyond addressing gaps within existing MRAs, there is a need to establish MRAs for essential service occupations that currently lack such agreements. In ASEAN, the digital economy has been identified as one of the fastest-growing sectors in 2023. The ASEAN Digital Economy Framework Agreement (DEFA) has been officially endorsed by the ASEAN Economic Ministers' meeting this year, offering a comprehensive roadmap to empower stakeholders across the region. To support the growth of the digital economy, labour mobility of skilled workers is key. Amid the Fourth Industrial Revolution, health services, finance, logistics, education, and tourism have also been identified as priority service sub-sectors (ASEAN, 2021b). Consequently, facilitating skilled labour mobility through MRAs in financial services and Information and Communication Technologies (ICT) services will help fill labour shortages as ASEAN transitions into the digital era. For instance, a 2017 survey highlighted a gap of 450,000 ICT specialists in Thailand (ILO, 2022). Meanwhile, in Singapore, it was reported that there were 20,000 unfilled ICT job vacancies in 2018 (ILO, 2020a).

3. Risks of Labour Mobility

Despite the clear objectives set out in the AEC to facilitate the free movement of labour, in particular the professional workforce, it is a known reality that the movement of migrant workers within ASEAN mostly involves low-skilled workers, a significant portion of whom are regarded as irregular migrants. For instance, Thailand has a high influx of irregular migrant workers from neighbouring countries due to job opportunities in the services, agriculture, and fishery sectors that offer competitive wages. Likewise, Malaysia and Brunei Darussalam also rely heavily on irregular migrant workers, primarily from Indonesia, in the farming and construction sectors. Meanwhile, Malaysia and Singapore rely on domestic workers from Indonesia and the Philippines.

With the AEC promoting decent work and enhanced protection of the rights of migrant workers, the ASEAN Socio-Cultural Community (ASCC) Blueprint 2025 is vital to realising the ASEAN Community Vision. The ASEAN Labour Ministers' Work Programmes (ALMM) and its subsidiary bodies have taken tangible steps in advancing regional cooperation aimed at improving labour standards and protection that does touch upon reducing labour mobility risks in the region. It is important to note they are implicit in harmonisation of labour laws and industrial relations which includes social protection (Sale 2020; See Figure 1.2). The 2007 Cebu Declaration is also a crucial framework outlining migrant worker rights and obligations of both labour-receiving and sending countries with ACMW tasked with its implementation. Nonetheless, it is crucial to

Box Article 1.2: The engineering services MRA

The MRA on Engineering Services has received the most engagement (ILO, 2017), primarily because it was the first MRA to be established, taking effect in 2005. All AMS have established the necessary national institutions and procedures to implement ACPE certifications. ACPE certifications enable Professional Engineers (PE) in AMS to gain authorisation from a Professional Regulatory Authority (RPA), thereby becoming a Registered Foreign Professional Engineer (RFPE) eligible to work in another AMS. The ASEAN Chartered Professional Engineer Coordinating Committee (ACPECC), the ASEAN Chartered Professional Engineers Register (ACPER), and the Technical Working Group on Mobility of ASEAN Engineers (TWG-MAE) have been created to administer the MRA.

Since 2018, when the count stood at only 2,876 ACPEs, the number of ACPEs have since increased by 3,895 in five years, with Malaysia and Indonesia recording the most ACPEs. Moreover, in contrast to a 2017 status report where zero RFPEs were registered in their country of destination, five RFPEs have started working in another AMS. This demonstrates clear progress in the uptake of engineers participating in the MRA.

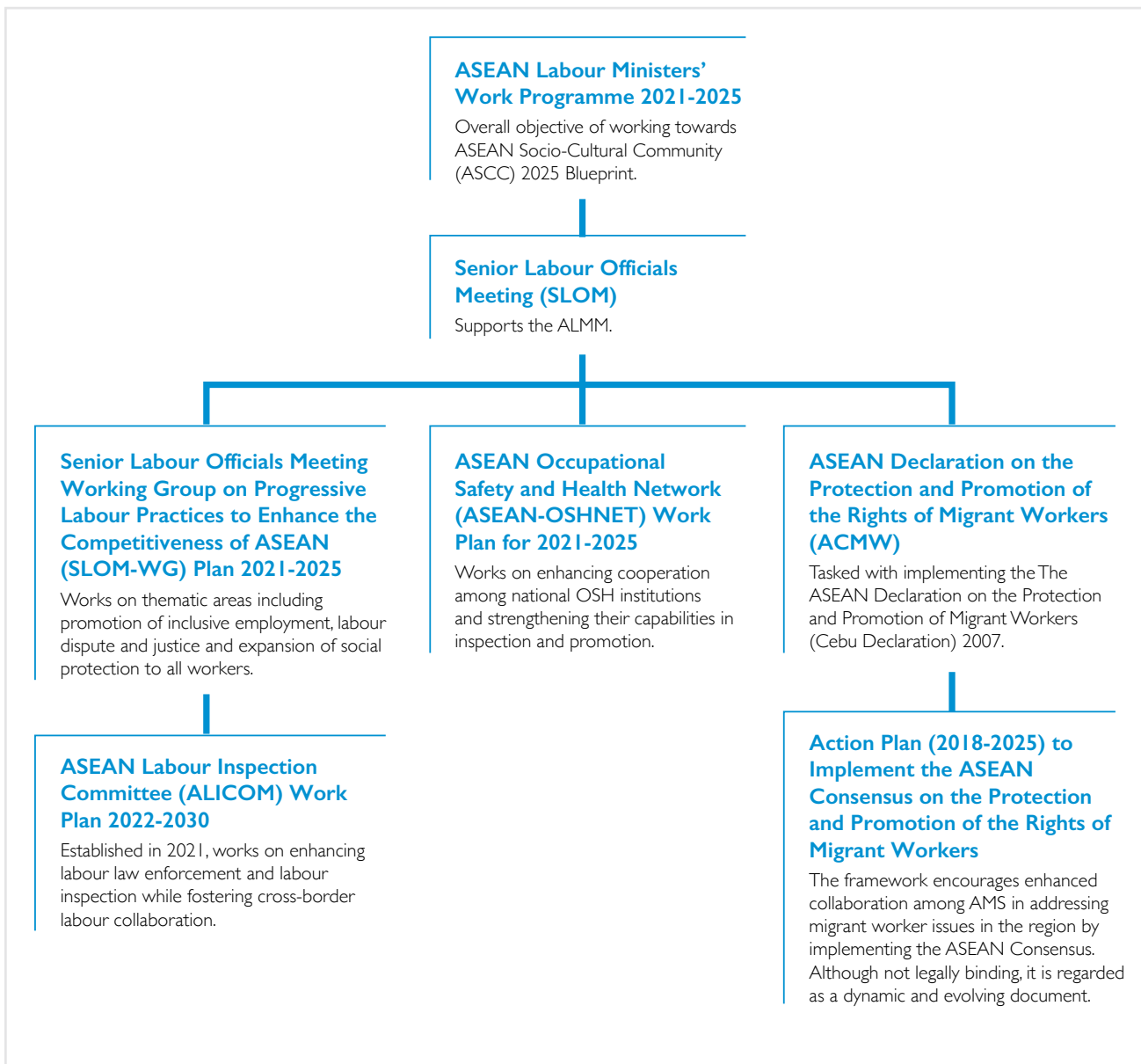
While this model is unique as neither regional nor national mechanisms take precedence, difficulties arise for engineers participating in the MRA. The problems in registration are three-fold: (1) Obtaining a licence in the host country, (2) Securing a recommendation from the PRA to register on the ACPE based on one country's licensing requirement, and (3) Registration as a RFPE in collaboration with local professionals.

Along the way, engineers often encounter double recognition instead of mutual recognition of their engineering licences. Furthermore, approval of applicants for the ACPER engineering registry happens only during quarterly regional meetings, thus leading to lengthy waiting periods and limits the number of approved applicants. Other barriers in the current MRA include language, and the process also lacks provisions for immigration and work permit applications. Thus, while the MRA on engineering services has paved the way for many other ASEAN MRAs, achieving substantial progress in implementation and legislation, there are still major regulatory challenges and procedural complexities that have yet to be streamlined to ensure greater mobility within the region.

Source: ASEAN, 2005; Hamanaka & Jusoh, 2018; Mendoza & Sugiyarto, 2017

acknowledge that national interests take precedence. As AMS are at various stages of development and implementation on the outlined work plans, it is noteworthy that labour-receiving countries are inclined to maintain the temporary status of migrant workers through restrictions such as tying employee to one employer, as migrant workers are considered as an expendable solution for low-skilled sectors, while simultaneously working on reducing reliance on migrant labour. This approach can sometimes lead to the securitising of migrant workers (Auethavornpipat, 2019).

Figure 1.2: Excerpted Overview of ASEAN Frameworks for Mitigation of Labour Mobility Risks under the ALMM



Source: ASEAN, 2021a, 2023a; Authors' own compilation based on ASEAN official documents.

3.1 Irregular migration trends borne out of migration restrictions and complex processes

Irregular migration is often a consequence of migration restrictions and the complex, costly, and time-consuming regulatory requirements. As such, there is a proliferation of deceptive practices by unauthorised and illegal intermediaries that tend to occur during the recruitment stage, such as extorting money in exchange for non-existent jobs abroad, fraudulent employment contacts, counterfeit travel tickets, fake visas, or other services associated with the migration process. In countries such as Cambodia, Lao PDR, and Vietnam, recruitment agencies are typically private businesses that operate under government-issued licences. Such agencies recruit, train, and handle the necessary paperwork, as well as send workers to foreign employers. In Thailand, only 241 licensed recruitment agencies were authorised to bring foreign workers into the country in 2020. They are also known as ‘five million baht companies’, named after the security deposit paid by recruitment agencies as potential compensation for workers and employers. As a result, subcontracting is common despite it being prohibited, as a result of Thai law allowing employers to hire workers directly at a lower security deposit. Many unlicensed firms and brokers engage in illegal subcontracting of workers to other employers, as well as providing ‘assistance’ to workers to navigate the complicated migration regulations and processes (Five Corridors Project, 2021). An IOM survey on the Thai-Myanmar border (2018) estimated that only 26% of migrant workers entering Thailand came through regular channels.

Given that formal migration processes are typically slow and costly, there is a high demand among employers for undocumented workers, as it allows them to hire a desired number of workers without incurring the risk of paying penalties for runaway cases (Loh et. al., 2019). Irregular migration is also the sole viable option for many, particularly those who migrate out of desperation due to economic hardship. Similarly, despite efforts to regulate labour migration, the lack of coordination and clear delineation of jurisdiction and responsibilities between public and private entities in the migration services market has resulted in regulatory violations in pursuit of efficiency and profits. As such, a significant number of migrants rely on unlicensed agents to bypass regulatory loopholes, resorting to illegal practices such as undocumented border crossings and faking documents. A recent assessment of irregular migration in South and Southeast Asian regions reported that, among 13 countries, the top three countries associated with fraudulent travel documents were Indonesia, Malaysia, and Thailand. More than 80% of intercepted travel documents in Malaysia originated from other Asian countries, underscoring its role as a central destination for intra-Asian migration (IOM, 2023a).

Estimating the number of undocumented migrants is challenging as many governments of AMS do not publicly disclose such data, while studies provide little information on their methodologies in deriving these estimates. The IOM (2023b) estimates that there are around 1-3.5 million irregular migrant workers in Malaysia, while another study places the figure at 4.6 million (Low, 2017). Meanwhile, the number of workers with irregular status in Thailand ranges from 1-2.5 million (IOM, 2021). While these are estimates, they underscore the gravity of the situation in ASEAN. The high demand from employers to bypass migration restrictions and processes often results in the exploitation of workers with precarious immigration status, further exacerbating the vulnerabilities of those already in dire economic circumstances.

3.2 *Poor employment practices due to debt bondage for both formal and informal migrants*

The effect of poorly regulated recruitment practices have serious implications for employment conditions, often spiralling into exploitative scenarios. The high and occasionally excessive fees charged by recruitment agencies—be it licensed or unlicensed—put labour migrants in situations akin to debt bondage. It is not uncommon that these migrant workers become indentured labourers for a period of time, due to the need to reimburse recruitment agencies and employers for costs associated with their recruitment and migration. For instance, in Vietnam, the government mandates labour migrants to pay a safety deposit—in addition to the fees charged by recruitment agencies—when migrating to certain countries, only returning this deposit upon completion of the labour contract. Incoming migrants from Myanmar to Thailand were estimated to pay migration costs averaging US\$123. However, this figure can fluctuate depending on varying regions in Myanmar, with migration costs ballooning to US\$300 and above, particularly for those coming from Rakhine. The high recruitment fees contrast starkly with the median minimum wage of US\$8.70 per day (THB 320) in Thailand, which shows that the average migration costs are equivalent to around two months' worth of wages before even commencing work (IOM, 2020). Such situations of debt bondage put labour migrants at greater risk of exploitation and trafficking, as they are more inclined to tolerate mistreatment or adverse work conditions, such as confiscation of documents, non-payment, and contract substitution, in order to liberate themselves from debt (Jespersen, 2022).

Deceptive labour practices can leave migrant workers unaware of their existing debt until they try to leave, placing them in situations of forced labour. The proportion of Cambodian migrant workers experiencing coercion in Thailand's fishing sector was nearly three times higher than that of their local counterparts. This includes almost half of the Cambodian workers assessed reported having carried out involuntary work (ILO, 2020b). Migrant domestic workers in another survey reported conditions of forced labour in Malaysia, Singapore, and Thailand. In Singapore, employers were reported to have made salary deductions of US\$140 for security bonds, accommodation, and food which strongly links to instances of forced labour (Holliday, 2023). Domestic helpers are susceptible to being entangled in the cross-border, debt-financed regime, which burdens workers with substantial financial obligations before even commencing their employment, leaving them exceptionally susceptible to forced labour conditions (Goh et al., 2016). National or regional law and legislation that conforms to international labour standards can play a part in addressing these issues. For instance, consider the case where the US Customs and Border Protection (CBP) put out a Withhold Release Order (WRO) against Malaysia's Top Glove Corp Bhd due to concerns regarding debt bondage and exploitative working conditions in 2020. In response to these allegations, Top Glove compensated more than US\$30 million to workers trapped in debt bondage, satisfying their obligations regarding labour violations. The CBP eventually lifted import restrictions of Top Glove products in 2022 (Krishnan, 2022).

Without strong governance structures as well as a cohesive and comprehensive legislative framework to protect the labour rights of migrant workers, particularly irregular migrants, the pursuit of intra-ASEAN labour mobility could compromise the lives and human rights of many. To realise a rule-based, people-oriented, and people-centred ASEAN community, we must not promote labour mobility at the expense of violating the fundamental human rights of migrants. Hence, ASEAN's efforts to promote

labour mobility must go hand in hand with investments in strengthening migration governance at the regional and domestic levels. The ILO Private Employment Agencies Convention (No. 181) of 1997 states that 'private employment agencies shall not charge any fees or costs to workers', yet it is worth noting that none of the AMS are parties to this convention.

4. Policy Recommendations

4.1 *Continuously implement existing MRAs and expand new MRAs and MOUs*

As mentioned earlier, ASEAN skills mobility initiatives have faced challenges in implementation, yet intra-regional migration within the region has continued to grow. It is important to note that ASEAN's multilateral trade agreements are widely adopted. However, skilled and unskilled labour migration comes under the purview of bilateral arrangements between countries of origin and destination. This is often informed by the immigration laws of host countries, rather than ASEAN-wide initiatives (Gentile, 2019).

The establishment of a regional collaborative mechanism that promotes clarity and harmonisation of existing MRAs could streamline the complexities of migration processes, address its gaps, and foster greater transparency. This mechanism should also focus on setting up new MRAs and MOUs, taking into account the varying levels of readiness among AMS. Strengthening regional coordination committees and platforms can assist in capacity building and promote mutual assistance, particularly with the help of organisations such as the ILO to ensure compliance with international labour rights standards. The ASEAN MRA has the potential to set regional standards and enhance the quality of professionals through collaborative training and education programmes. By expanding the coverage of skilled labour mobility towards more sectors such as financial services and ICT, the region's demand for highly migrant-dependent services can be met, whilst moving closer towards economic integration.

For instance, ASEAN can build upon the ASEAN Banking Integration Framework (BIF) that was introduced in 2014, as well as the prospective ASEAN Insurance Integration Framework (AIIF). By implementing complementary MRAs that enable the free flow of bankers and insurers across the region, the integration of financial services can be promoted. The ASEAN MRA on Tourism Professionals is a prime example of a comprehensive MRA which successfully bridged and harmonised national education and training pathways, along with achieving automatic regional recognition. Although there are parts of the MRA that are yet to be completed, it is one of the more developed pathways that allows each country to tailor its implementation according to their own national standards and curricula based on the ASEAN standard.

Beyond service sectors, labour mobility programmes may also consider focusing on non-service sectors, including agriculture and manufacturing, which account for 21.2% and 16.3% sector share respectively in youth employment (ILO, 2020). Whilst most jobs in these sectors are low-skilled, the advent of automation in the 4IR has led to the creation of technologies such as additive manufacturing and vertical farming practices, which require high-skilled workers for management. Thus, only focusing on selected categories of skilled workers for limited periods of stay will restrict growth of those sectors in the long run.

4.2 *Develop an ASEAN regional legislation dedicated to regulating recruitment agencies and protecting migrants from debt bondage*

Debt bondage continues to be a pervasive way to trap vulnerable migrant groups in forced labour exploitation in Southeast Asia. Approximately 23.6 million Southeast Asian migrants live outside their country of origin in 2020, while an estimated 27.6 million people worldwide are trapped in forced labour (ILO, 2022; Migration Data Portal, 2023). This underscores the need to tackle the prevalence of the issue to maximise the benefits of youth migration and employment, while also mitigating risks and life-threatening scenarios.

AMS hosts many variations of national institutions, labour law systems, and industrial regulations that render the harmonisation and monitoring of such complex issues a tall order. Thus, a regional committee and legal architecture that oversees and ensures effective migration governance and action is vital to hold private agencies, brokers, and recruiters accountable. The scope could include: (1) Regional labour laws which apply to all workers, especially those in the informal sector, to ensure social protection of migrant workers and reduce their vulnerability to forced labour; (2) Legislation which bans recruitment agencies from charging workers; and (3) Building accountability and enhancing regulation of recruitment agencies.

ASEAN has taken steps to promote further regional cooperation on labour issues, through the renewal of commitments to the ASEAN Labour Ministers' Work Programme and Work Plans of SLOM-WG, ASEAN-OSHNET, ACMW, and ALICOM (see Figure 1.2). This demonstrates a shift in ASEAN's approach towards labour market regulation, which now takes into account both job creation and worker protection (Sale, 2020). Regional cooperation on labour mobility cannot be confined to skilled and professional migration but also account for the youth who tend to start out as low and unskilled migrant workers.

Issues pertaining to labour and mobility flows are currently addressed in a fragmented manner, with different committees working in silos in various areas such as youth employment promotion, labour market trends, addressing debt bondage and trafficking, as well as national security. Yet, these issues are inextricably linked within the same ecosystem. Thus, the problem of private recruitment agencies, safeguarding against debt bondage, as well as social protection provisions should be addressed collectively. By collaboratively defining partners and stakeholders while taking into account the involvement of private recruitment agencies and employers, this helps to establish a lead organisation with a mandate to build consensus and establish a regional legislative framework. Such an initiative will assist in safeguarding migrants working in other AMS from debt bondage. An example of harmonisation between recruitment agencies, workers, and employers driven by regional cooperation is the European Union's Temporary Agency Work Directive 2008 which guarantees that temporary and agency workers enjoy the same rights as full-time permanent employees. The directive, through its strategy of soft law provisions in establishing a system of 'flexicurity', aimed to reduce levels of precariousness for 'atypical' employment, a category in which migrant workers were often employed.

4.3 ASEAN to promote a proper domestic enforcement framework

With the development of ASEAN MRAs, MOUs, and other regional frameworks, there is a need for these agreements to translate into practical effects on the ground. To ensure the effective implementation of regional cooperation and legislation, domestic ratifications of conventions such as the 2007 Cebu Declaration could serve as a path to harmonisation while preserving the autonomy of national labour law systems. In early 2023, the ASEAN Declaration on the Placement and Protection of Migrant Fishers was announced with the aim of implementing and developing regional guidelines. This initiative was also meant to fill in the coordination gaps within the ASEAN Consensus, which did not address specific vulnerabilities of migrant fishers. Under the purview of ALMM, this is a key initial step, but it is too premature to gauge how the declaration will directly impact migrant fisher communities. The same can be said with the recently adopted ASEAN Declaration on Portability of Social Security Benefits for Migrant Workers in ASEAN and the ASEAN Declaration on the Protection of Migrant Workers and Family Members in Crisis Situations.

Thus, ASEAN's action plans should establish a domestic enforcement framework with clear pathways for implementation. This framework should forge a network of regional, national, and sub-national regulatory authorities, coupled with monitoring committees to ensure domestic institutionalisation and compliance with regional conventions. Besides putting forth recommendations and engaging with key actors within legislation, judiciary, and statutory bodies, there should also be various follow-up strategies like monitoring mechanisms and the use of indicators set up by an integrated system of regional and national organisational committees. While ASEAN itself is not an independent body responsible for monitoring implementation and enforcement, the Bali Process has structures in place for follow-up monitoring and implementation guided by a steering committee composed of the governments of Australia, Indonesia, New Zealand, and Thailand, as well as IOM and UNHCR (Lavenex et al., 2016). The Regional Support Office of the Bali Process (RSO) was also set up according to the Regional Cooperation Framework (RCF) concept, working to strengthen cooperation across Member States.

5. Conclusion

The youth play a pivotal role in intra-ASEAN labour migration, serving both as a talent pool in the workforce and contributors to the economy. Thus, their involvement is crucial for the successful realisation of the next stage of the AEC Blueprint 2025. AEC aims to create a more integrated and cohesive ASEAN community, with one of its key objectives being facilitating the movement of skilled labour and business visitors. This achievement hinges on optimising the use of MRAs and tackling policy constraints within AMS, while also addressing the issues linked to labour mobility, including debt-financed migration regimes.

Labour migrants, encompassing a broad spectrum of skill sets, are essential to the labour markets of Southeast Asia as the region continues its economic integration and trade expansion. While there has been some progress on ASEAN's labour mobility initiatives, these advancements are limited to specific

worker categories. There is also a lack of comprehensive policies that address labour shortages while providing essential support in terms of education, training, social protection, and immigration policies. The barriers to regional professional migration and the irregular influx of migrant workers, with high risks of debt bondage, have hindered ASEAN from achieving dynamic and unrestricted migration which was envisioned as a component of enhanced trade integration in the AEC Blueprint. As a growing number of young people are entering Southeast Asia's labour market in search of productive employment opportunities in higher-income countries with ageing populations, it is in ASEAN's best interest to develop a more inclusive and interconnected approach to labour and migration governance. This is of heightened importance considering the way in which the Southeast Asian region has historically approached labour mobility and migration risks, through a national security lens, will be an unsustainable approach in the long term.

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ASEAN Prosperity Initiative

TVET

Redefining Education –
Pioneering Reforms Towards
a Regional TVET Revival

Melanie Chan
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Authors Profile



Melanie Chan

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Julia Merican was a Senior Research Executive at IDEAS Malaysia. She believes that by depolarising political discourse and renouncing ethnonationalism in public policy, Malaysia has the potential to become an unequivocally inclusive multicultural society. Her interests lie in unlikely spaces of reconciliation; she is particularly drawn to how countries can preserve their cultural integrity while effectuating socio-economic progress. Julia holds a Master of Studies in post-1900 English literature from the University of Oxford, where she was a Merdeka scholar.

I. Introduction to TVET and the Southeast Asian Labour Market

Technical and vocational education training, commonly known as TVET, is a core component of secondary and tertiary education, encompassing both formal and informal learning methods aimed at developing hands-on, practical skills for various types of employment. At its most successful, TVET is intended to equip individuals with skills adaptable to diverse work environments throughout their careers while remaining responsive to significant shifts in global and national economic landscapes.

Often considered an alternative to the more traditional, academic pathways of higher education, TVET offers an occupation-focused and typically trade or industry-specific approach for those who want to delve into specialised fields and careers as quickly as possible. By gaining skills that are immediately transferable, along with shorter course lengths, graduates are able to enter the workforce directly in a chosen field. With TVET typically incurring lower tuition fees, a regional focus on TVET can serve as a more inclusive and accessible tool to equip ASEAN youths for the workforce due to its affordability.

In light of this, a regional emphasis on TVET could potentially address the prevalence of youth unemployment in Southeast Asia. A major contributor to youth unemployment in ASEAN Member States (AMS) has been the 'triple shock' of COVID-19: the direct effects of the pandemic, the economic consequences of containment measures, and the repercussions of the global recession triggered by the crisis. These shocks reverberated as disruptions in education and work-based training, a decline in job opportunities at the regional level, a substantial loss of jobs and incomes, and a deterioration in job quality (Dasgupta et al., 2021).

Furthermore, an emphasis on TVET reform is also especially pertinent given that the pandemic has ushered in a rising participation in the gig economy, driven by consumers' reliance on doorstep delivery amid lockdowns and the reorienting of livelihoods due to economic turmoil. This transformation in the world of work can be attributed to the increased flexibility offered, both in terms of working hours and job options, coupled with the potentially lucrative pay. Yet, this may present detrimental effects in regards to youths forgoing education and alternative education as a path towards full-time employment, instead taking up precarious gig work where job and financial security, career progression, and legal protection are not guaranteed. Given the faltering interest in education, and by extension TVET, this calls for a timely reform of national and regional systems to rekindle youths' interest and buy-in to secure their path towards stable and professional employment.

1.1 ASEAN's Existing TVET Landscape

The ASEAN Work Plan on Youth 2021-2025 sets forth a strategic direction for the region's youth, guiding the implementation of policies and programmes in alignment with the broader ASEAN Community Vision 2025. Its first of five priority areas is education, with the intended outcome of 'strengthened youth participation in regional platforms for human resources development that fosters future-ready ASEAN youth' (ASEAN, 2022a).

Within this area, the ASEAN Secretariat has developed three separate programmes, each with its own set of activities: (1) Engaging national youth councils and youth organisations in reviewing policies and programmes on human resources development; (2) Developing youth’s capacity to promote inclusive, safe, and innovation-friendly education systems, as well as lifelong learning systems; and (3) Fostering 21st-century skills and digital skills among the youth.

TVET would be a useful priority area to develop in order to meet these goals. In an ever-unpredictable post-pandemic labour market, the regional upskilling of this alternative form of education can equip ASEAN youth with the requisite 21st-century skills that address specific and collective post-pandemic gaps in both national and regional labour markets. Currently, existing regional TVET programmes are helmed (with additional support from regional organisations) by three ASEAN bodies: the ASEAN Education Ministers Meeting (ASED), the Southeast Asia Ministers of Education Organisation (SEAMEO), and the ASEAN TVET Council (ATC) (Schröder, 2023). The table below elaborates their roles and responsibilities.

Table 2.1: Description of the three ASEAN bodies overseeing regional TVET programmes

Name of Body	Description
ASED	<ul style="list-style-type: none"> • Chief entity that is comprehensively responsible for ASEAN’s education sector (of which TVET is just a minor component) • Works alongside the ASEAN Senior Officials Meeting on Education (SOM-ED) and the Education, Youth, and Sports Division of the Human Development Directorate of the ASEAN Secretariat
SEAMEO	<ul style="list-style-type: none"> • Not established as part of ASEAN, but is an important educational organisation in Southeast Asia that functions as one of ASED’s operational arms • Hosts specialist institutes dedicated exclusively to TVET in Brunei Darussalam and Phnom Penh, Cambodia: namely the Regional Centre for Technical and Vocational Education and Training, established in 1990 (SEAMEO VOCTECH, 2023), and the Regional Centre for Technical Education Development, established in 2017 (SEAMEO TED, 2023)
ATC	<ul style="list-style-type: none"> • Established as the first ASEAN institution with sole responsibility over TVET in 2020, following a regional increase in TVET initiatives • Cross-sectoral aims include ‘intensify convergence among ASEAN Member States on TVET and workforce development efforts with a view to developing a world-class ASEAN labour force’ (ASEAN, n.d.)

Source: ASEAN, n.d.; SEAMEO TED, 2023; SEAMEO VOCTECH, 2023

1.2 Progress of ASEAN's TVET-Related Initiatives

As stated within the AEC Blueprint 2025, one of its many aims for the region is to 'foster robust productivity growth through innovation, technology, and human resource development' (ASEAN, 2015). In line with the goal of human resource development, the ATC was established to realise the commitments of the AEC Blueprint 2025, among a wealth of other declarations and statements (ASEAN, n.d.).

Table 2.2: Six outcomes within the Work Plan of the ASEAN TVET Council (2021-2030)

Outcomes
1. Strengthened labour market orientation through effective use of labour market information and institutionalised cooperation and leadership of business and industry in TVET
2. Improved digital readiness, resilience to disruptions, and ability of TVET systems and TVET institutions to adapt and respond to emerging trends
3. Enhanced capacity of TVET personnel (political decision-makers, managers, teachers, instructors, and trainers at schools, centres, and in companies)
4. Improved image and status of TVET and increased demand for initial and continuous TVET programmes in and across AMS
5. Sustained and effective ATC as an institution in the region
6. Harmonised TVET policies/frameworks to improve the whole ASEAN TVET environment

Source: ASEAN, 2021

Numerous action items have been scheduled under each of these outcomes with an overall time frame of 10 years, within which the ATC is currently prioritising the implementation of projects and activities for the first five years from 2021 to 2025. In 2025, a mid-term review of this Work Plan will be conducted to assess the progress of these initiatives.

In response to these commitments, below are a list of regional initiatives and their progress that have been instituted by ASEAN in regards to TVET.

Table 2.3: Progress of regional TVET-related initiatives

Initiative	Progress
TVET Exchange Programme	<p>The 1st Virtual SEAMEO TVET Student Exchange was held from May to October 2022, aimed at students from the diploma, higher diploma, or bachelor levels.</p> <p>74 institutions from Indonesia (35), Malaysia (18), Philippines (17), Thailand (2), Brunei Darussalam (1), and Vietnam (1) participated in the exchange programme, totalling over 800 student participants across more than 12 study areas.</p> <p>A hybrid TVET Student Exchange is in store for the year 2023.</p>
Quality Assurance	<p>Four initiatives that support the development of quality assurance:</p> <ol style="list-style-type: none"> 1. East Asia Summit-TVET Quality Assurance Framework, June 2012 2. ASEAN Guiding Principles for Quality Assurance and Recognition of Competency Certification Systems, August 2016 3. Guidelines for the Quality Assurance of TVET Qualifications in the Asia-Pacific Region by UNESCO Bangkok 4. Quality Toolbox for Better TVET Delivery: Practical Instruments for TVET Teachers and Managers, December 2019
Regional standards for TVET personnel	<p>Two initiatives completed for TVET teachers and in-company trainers:</p> <ol style="list-style-type: none"> 1. First edition of Regional TVET Teacher Standard completed in July 2017 (revised in March 2020) 2. Standard for In-Company Trainers in ASEAN Countries completed in March 2019
Regional knowledge sharing platform for TVET	<p>The online platform SEA-VET.net was launched in 2018, having since introduced new priority areas such as 'IR4.0 & Digitalisation' and 'Private Sector Engagement'. It acts as a knowledge hub, training centre, as well as a platform to forge connections with TVET stakeholders across ASEAN.</p>
ASEAN Qualification Reference Framework (AQRf)	<p>The referencing process for AMS is still in progress; 4 countries (Malaysia, Philippines, Thailand, and Indonesia) have completed the Referencing Report.</p>

Source: Paryono, 2021; SEA-TVET, 2023; SEAMEO VOCTECH, 2017

2. What's stopping an ASEAN-wide TVET implementation?

As the previous section delineates, numerous TVET-related initiatives exist within the region, most of which are still ongoing hitherto with varying levels of progress. Taking the subpar uptake of the referencing report under the ASEAN Qualification Reference Framework as an example, this section will delve into the underlying challenges that are impeding the realisation of an ASEAN-wide TVET revival, despite the presence of regional initiatives.

2.1 Fragmented TVET Governance Amid ASEAN Sovereignty

TVET governance is overseen by several regional ministries and sectoral bodies across ASEAN, with input from various other stakeholders. The ATC's terms of reference acknowledge this fragmentation of TVET governance and aim to promote better coordination and information sharing to address this issue (ASEAN, n.d.). Even at the national level, as exemplified by Malaysia, TVET governance tends to be fragmented with numerous providers and certification pathways, thus the resultant lack of clarity and redundant duplications nationally further impedes the possibility of a harmonised TVET ecosystem regionally (Azahar, 2022). Moreover, the broader 'ASEAN way' of non-interference in the internal affairs of its member states, grounded in the association's fundamental principle of 'mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations,' makes joint governance extremely difficult (ASEAN, 2020). Given its 'sovereignty-reinforcing regionalism' style, where joint resolutions are impossible without diplomatic consensus (Ginsburg, 2005), adopting an integrated regional approach to TVET would be very difficult to achieve.

2.2 Negative Public Perceptions of TVET

Within and beyond ASEAN, negative public perceptions surrounding TVET as being inferior and less prestigious than traditional academic pathways have long cemented themselves as a prevalent mindset. This poor image has even been termed a 'universal concern' by UNESCO (Aziz & Subramaniam, 2023; Billett, 2018). Seen as a route that is 'not respected' and, worst yet, a 'last resort', this perception can foster a deficit discourse that adversely affects both TVET students and teachers, leading to lower levels of motivation and diminished quality in the delivery of TVET.

“Many people think of it as a last resort, but it's actually not; many people go to culinary and fashion school to upskill.”

– A roundtable participant, also ex-TVET student, from Indonesia

“Frankly, TVET is not a respected route in Vietnam.”

– A roundtable participant from Vietnam

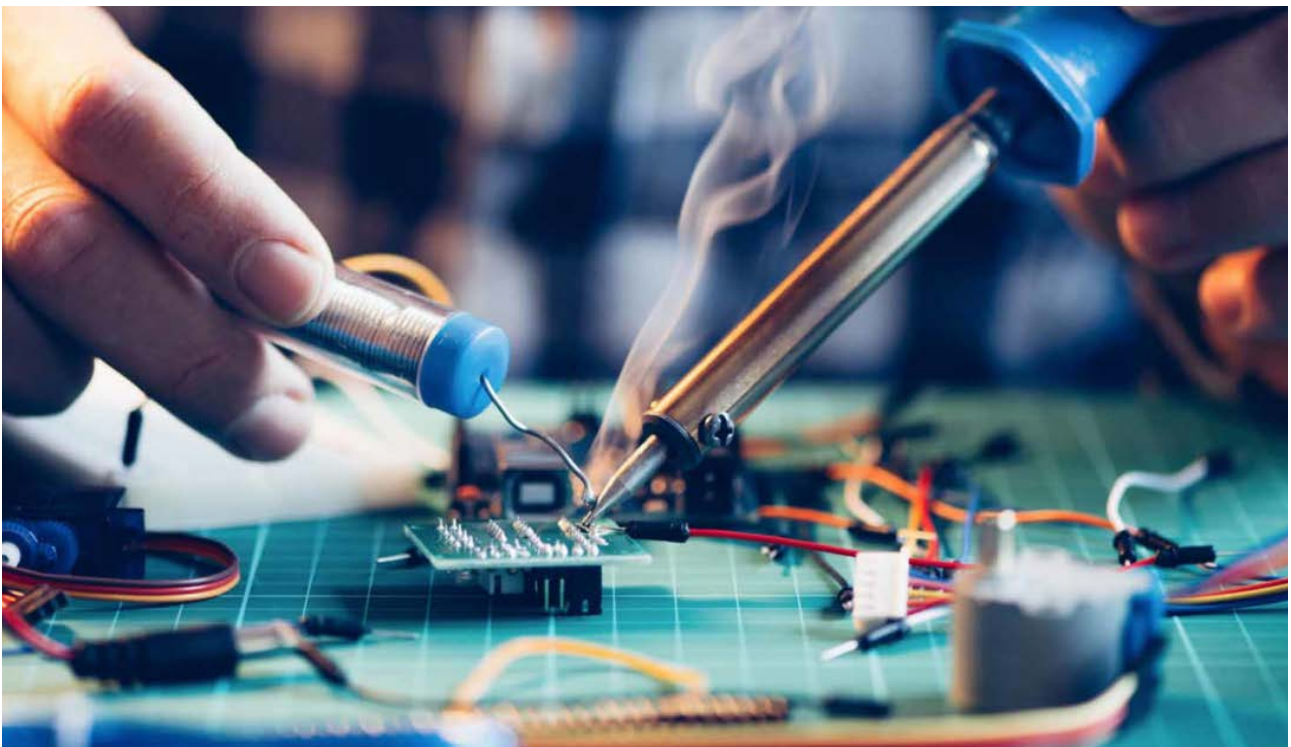
“TVET is usually for free, and that's where the stigma and idea of privilege comes into play.”

– A roundtable participant from The Philippines

Based on our roundtable discussions, participants from several AMS noted from personal experience that many who choose the TVET route often experience rampant discrimination both in the workplace and schooling environments. Many employers underestimate those with TVET qualifications, while peers at learning institutions shun TVET students, causing detrimental implications on their mental health. Additionally, as TVET is also typically free of charge, one participant commented that the stigmatisation at times carries the additional weight of socioeconomic disparities.

2.3 Disparities Between ASEAN Countries

Given that ASEAN states are far from a homogenous group of nations, differing across a myriad of aspects, such disparities may hamper a concerted regional effort to upskill TVET. Most notably, the glaring socio-economic development gap both within and between ASEAN states poses a unique challenge. With Singapore, a pinnacle of wealth on one end, and the developing CLMV countries on the other, the tension resulting from such economic dynamism has direct implications for the capacity of states to standardise TVET-related efforts and initiatives intra-regionally due to the creation of an uneven playing field (Schröder, 2023). Beyond economic competence, there also exists seemingly irreconcilable differences in TVET governance across ASEAN states. For example, Singapore's TVET system spans various educational levels, from lower secondary to tertiary education, and is inextricably linked to numerous policy initiatives such as the SkillsFuture Singapore Agency Act 2016 (UNESCO-UNEVOC, n.d.-b). This contrasts starkly with the high degree of fragmentation in Myanmar, where 15 line ministries and other entities are involved in the delivery of formal and non-formal TVET (UNESCO-UNEVOC, n.d.-a).



Furthermore, the significant cultural and political disparities between states stand as a further impediment towards achieving intra-regional TVET integration. The political systems of ASEAN states, with Brunei's sultanate, Singapore's parliamentary democracy, Lao PDR's communist governance, and the existing military leadership in Myanmar, vary vastly, making it challenging to reconcile and establish a centralised system overseeing regional TVET (Schröder, 2023). This complexity is further exacerbated by the varying levels of political commitment to prioritise TVET among AMS, as evidenced by the national variations in government budget allocations for education, and specifically vocational education (UNESCO-UNEVOC, n.d.-c).

3. Emerging Prospects: Is it TVET's time to shine?

3.1 A Future of TVET-Embracing Youths?

According to the ASEAN Youth Survey Report by the World Economic Forum (2019), ASEAN youths highly value internships and on-the-job training, with 81.4% considering internships as equally, if not more, important than in-school training. Such a trajectory, exemplifying an increasing embrace of work-focused learning, presents a timely opportunity for TVET to strengthen its foothold as a viable alternative to traditional academic routes. Furthermore, 9.2% of youths hold the belief that their current skills are already outdated, while a further 52.4% believe that a constant skill upgrading is essential. The primary reason for job switching (chosen by 19% of respondents) was the desire to seek better opportunities to learn and develop new skills. Hence, if regional TVET is well-implemented, comprehensively addressing the youth's demand for upskilling and reskilling, this shift in youth priorities opens a window for TVET to potentially become an indispensable educational pathway.

3.2 A Potential Solution to Skills Mismatch

The conundrum of skills mismatch has long been a prevalent issue across all ASEAN states, although the type and extent of mismatch vary substantially. It encompasses issues of underqualification to overqualification, overskilling to underskilling, horizontal mismatch, and even skill gaps. A prime example of this issue is the 70% overqualification of the workforce in Vietnam, leaving only 26% with matched skills, according to a report from International Labour Organisation (2019). A similar trend can be observed in Thailand, where 8% of workers are underqualified, while 34% are overqualified, resulting in a substantial number of higher education graduates being unabsorbed by the labour market (OECD, 2021). Employers have also noted difficulties in finding workers with suitable skills for their business operations. For example, in the post-pandemic landscape, the demand for data analytics and blockchain-related recruitment has risen in Thailand, while digital content specialists and internal audit and controls are key skill demands in Singapore (Dzienis, 2020; Toomgum, 2022). In this regard, TVET, with its capacity to facilitate faster school-to-work transitions compared to the traditional education system, can be a powerful means to address the existing skills mismatch (ASEAN, 2022b). However, this requires a thorough reassessment and overhaul of the existing TVET curriculum, thus necessitating the first policy recommendation as delineated below.

4. Policy Recommendations

4.1 *Establish a demand-driven TVET that aligns with gaps in the labour market*

A recurring issue raised during our roundtable discussions, involving stakeholders of different nationalities, has centred on the lack of TVET responsiveness to labour market needs. TVET graduates, whether from Vietnam or Indonesia, grapple with significant unemployment issues upon graduation because the skills that they have been equipped with are incompatible with the ever-changing industry demands. The credibility of these insights is substantiated by similar statistics published in a report by the Asian Development Bank (2021). In Cambodia, 90% of employers held the perception that graduates were inadequately educated and trained before being hired. Similarly, 68% of employers in Indonesia echoed these sentiments.

To ensure compatibility between the skills taught within TVET and those sought after in the labour market, enhanced private sector participation and employer input in developing TVET programmes are quintessential. Strategic collaboration and close coordination with industry players, who are the source of skill demand, are key to increasing the relevance of TVET programmes and ensuring that the necessary skills and industry knowledge are instilled. By allocating a more prominent role to industry players, trainees can benefit from up-to-date programmes, alongside other forms of partnership such as project-based learning with simulations of actual working conditions, guest lectures, and improved employment prospects and pathways upon graduation (Aziz & Subramaniam, 2023). To secure industry involvement, ASEAN states should provide incentives, whether financial or administrative, to ensure that national TVET programmes are steered by industries and helmed by those who are most well-versed in job market dynamics.

An example of best practice within ASEAN is Thailand's apprenticeship programmes that emulate Germany's 'dual TVET system', which is the law-mandated, institutionalised cooperation between SMEs and publicly funded vocational schools. By combining the advantages of on-the-job training in enterprises and school-based learning in classrooms, this system has proven itself to be an effective mechanism that integrates youth into the labour market (Sloane, 2014). This success is clearly demonstrated by Germany's low youth unemployment rate, which stands at 5.8%, in stark contrast to Malaysia's rate of 11.7% in 2022 (The World Bank, 2022). Similarly, the signing of agreements between Renault and the Moroccan Office of Vocational Training in March 2023, aimed at establishing qualifying training courses and industrial maintenance in the manufacturing industry, can be explored and potentially used as a model in AMS (Kasraoui, 2023).

4.2 *Regional focus on rebranding TVET to engender an 'attitudinal revolution'*

As previously mentioned, perhaps the most foundational barrier in engendering a TVET renaissance in the region is the pejorative connotation that is inextricably linked to TVET. Often associated with notions that TVET programmes are meant for 'low-income' dropouts or those academically underperforming, these negative misconceptions deter youths from choosing TVET as an educational

option. Without well-articulated learning pathways that enable progression to tertiary levels, TVET qualifications are also perceived as ‘dead ends’ that do not readily lead to higher levels of education (OECD, 2021).

Given the negative image and lack of appeal of TVET to youths in the region, there is a pressing need for a regional effort to rebrand and reshape TVET. More research, whether qualitative or quantitative, should be conducted to uncover the earning potential and employability of TVET graduates. Alongside the publication of such findings, career guidance and counselling should also be administered to highlight the flexibility of TVET to youths, while being careful to avoid making unfulfillable promises (UNESCO, 2021). The successes of TVET talents should be showcased on a wider scale, either through awareness-raising campaigns, national apprenticeship weeks, or skills competitions to facilitate networking and spur youth interest (The World Bank, 2023). To dispel the perception that TVET is a ‘dead end’, further education opportunities should be made available to TVET graduates. The dissemination of such information should be intensified, especially considering our roundtable participants have noted that TVET is unheard of in certain AMS. Only mentioned in unemployment circles and largely absent from prominent universities, the untapped potential of TVET is underestimated and thus must be made known in a more positive light.

4.3 Enhancing the equity and accessibility of a student-centred TVET ecosystem

Having conducted several roundtable discussions in AMS, it has come to our attention that accessibility to ASEAN as an institution, and consequently, the corresponding regional TVET system, has been relatively restricted due to various factors, including language, financial, physical, or locational constraints. Given that the majority of ASEAN-related agendas are English-dominated, this creates barriers for a substantial portion of non-English speakers, as expressed by our stakeholder from Vietnam. While our roundtable participants have expressed their desire for TVET to champion Diversity, Equity, and Inclusion (DEI) in ASEAN, many youths in the region remain unaware of its existence and the benefits that an ASEAN-wide TVET ecosystem can offer:

“When it comes to TVET in ASEAN, there are good opportunities, but no one knows about it because of language gaps.”

– A roundtable participant from Vietnam

This calls for the need to make TVET more accessible and inclusive, starting with greater flexibility in its offerings to better cater to the diverse needs of students across ASEAN (The World Bank, 2023). From the rigidity of course length, timing, delivery mode, and other aspects, more emphasis should be placed on enabling vulnerable groups to fully maximise their participation and utilisation of TVET. The primary language adopted in ASEAN, English, should be diversified to accommodate local languages. A prime example of such inaccessibility is the limited language settings offered on the ATC’s website, which includes only English, Spanish, Dutch, Italian, and French, while excluding other ASEAN national languages (ASEAN TVET Council, n.d.). Additionally, building upon the existing courses available on SEA-TVET.net, an increase in technology-administered courses should

be considered for those who are physically disabled or located in areas where physical TVET is inaccessible. To gain a realistic understanding of the situation on the ground, a comprehensive database that captures demographic and social welfare data of vulnerable groups and their enrolment in TVET is also necessary to inform future policy direction (UNESCO, 2021).

4.4 Further institutionalise the harmonisation and interoperability of TVET programmes and qualifications between AMS

As the WEF ASEAN Youth Survey Report indicates, the skills that ASEAN youths value vary from one AMS to another, speaking to the importance of national TVET councils and localised TVET programmes (World Economic Forum, 2019). Yet, a sole reliance on local TVET councils will bring about a fragmented and disjointed regional TVET ecosystem that misses out on the benefits of intra-regional collaboration.

To strike the right balance, efforts should be made to harmonise TVET policies regionally while granting respective countries the autonomy to shape their own TVET agenda. As previously established, the ASEAN Qualification Regional Framework (AQRf) aims to enable comparisons of qualifications across AMS, accommodating the different stages of development of their National Qualification Frameworks (NQF) without requiring the restructuring of national systems. While the 'translation' provided by AQRf is commendable, the referencing process undertaken by all AMS should be closely monitored and tracked with greater transparency and accountability due to its voluntary nature. Without active implementation of AQRf on the ground, its overall success could inadvertently be jeopardised. Moreover, further efforts to map out vocational opportunities and streamline career progression pathways across ASEAN are necessary to truly benefit from the interoperability of education and training systems. Such a network, which goes a step further than the current translational AQRf, should be made explicit to maximise opportunities for talent mobility and skill transferability.

5. Conclusion

To conclude, an emphasis on TVET implementation and reform by AMS holds a wealth of potential in equipping the region's youth with the right skill sets for the world of work, which is suitably attuned to the visions delineated within the ASEAN Economic Community Blueprint 2025—to pursue heightened labour productivity and human capital development. Yet, given the unprecedented pace of change on a global scale, TVET's success or failure as a regional educational tool hinges on its ability to embrace change, adapt, and transform. As we look ahead, it is crucial to depart from our pre-existing notion of TVET as merely an alternative educational pathway. Instead, policymakers and practitioners, both nationally and regionally, must champion TVET as a pioneering force in redefining education for inclusive growth and prosperity.

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ASEAN Prosperity Initiative

ASEAN MSMEs

Empowering ASEAN Youth
Through MSME Development

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I. Introduction to the ASEAN Economic Community (AEC) Blueprint, MSMEs, and Youth

I.1 Current Landscape of MSME²s and Youth Entrepreneurship in ASEAN

The COVID-19 pandemic has had a severe impact on global economies and labour markets, with a disproportionate effect on specific demographic groups, particularly women, younger workers, and those with lower levels of education (Paweenawat & Liao, 2022). Graduates entering the job market during the pandemic face the challenge of limited job opportunities and reduced wage expectations compared to experienced workers. The global youth unemployment rate, as reported by the International Labour Organisation in 2022, stands at a staggering 15.6%, over three times the adult rate, with millions of young people either unemployed or out of the labour force in 2021. In light of these challenges, encouraging youth entrepreneurship could be a potential solution to integrate young people into the labour market and improve their human capital and economic prospects (Fabeil et al., 2022).

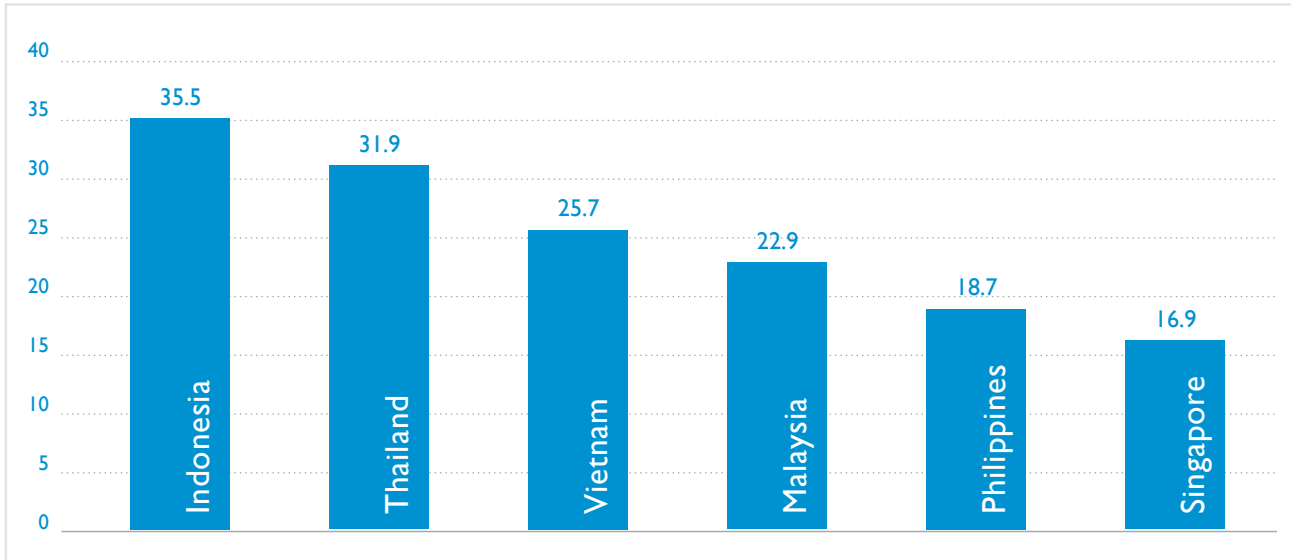
Within the ASEAN region, there is significant interest in entrepreneurship (or self-owned businesses) among its youth. According to the ASEAN Youth Survey conducted by the World Economic Forum in 2019, over 30% of ASEAN³ youths aspire to be entrepreneurs or work in startups, with a keen interest in venturing into small-scale online trading using digital platforms and social media. This entrepreneurial drive varies by country, with Indonesia leading at 35.5% and Singapore at 16.9% (See Chart 3.1). In addition, based on a 2020 poll conducted by Standard Chartered in 12 countries (including Malaysia and Singapore), 72% of young people aged 25 to 34 expressed interest in launching a new business or creating an additional income source in the wake of the pandemic.

At the same time, Micro, Small, and Medium Enterprises (MSMEs) are vital to ASEAN Member States (AMS), representing a significant majority of establishments (97.2% – 99.9%) and contributing 85% to employment, 44.8% to GDP, and 18% to national exports in the region. Thus, MSMEs play a crucial role in creating employment opportunities and improving economic growth (ASEAN, 2020). Of this number, micro-enterprises often make up the largest share of enterprises in ASEAN countries. Given the significance of MSMEs in the region and the evident enthusiasm of the youth for entrepreneurship, there is a compelling case for directing more support and resources toward these enterprises. Encouraging the participation of young people in this sector could lead to a promising synergy between the aspirations of ASEAN youths and the economic growth and employment opportunities offered by MSMEs.

2 The definition of MSMEs varies across the AMS and the term SMEs and MSMEs are used interchangeably in ASEAN documents. For the full definition, please visit <https://asean.org/wp-content/uploads/Definition-of-MSME-in-ASEAN-Member-States.pdf>.

3 The survey covered 56,000 young ASEAN citizens from six countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam (World Economic Forum, 2019).

Chart 3.1: The share of youths (%) in six ASEAN countries who aspire to be entrepreneurs (to work for themselves) in the future



Source: World Economic Forum, 2019

1.2 Progress of ASEAN MSME and Youth Related Policies

In 2015, the establishment of the ASEAN Economic Community (AEC) and the adoption of the more comprehensive development objectives of the 2030 Agenda prompted policymakers in the region to increasingly focus on developing MSMEs as a means of promoting fair economic growth and reducing significant income disparities both within and among AMS. According to the ASEAN Youth Development Index (2017), the AEC Blueprint 2025 has specifically outlined targets for the development of youth and MSMEs, with the objective of increasing the efficiency and the ease of doing business for these MSMEs, as summarised below.

- A. Highly integrated and cohesive economy:** Efforts are underway to simplify and strengthen the implementation of Rules of Origin (ROO), encouraging the participation of MSMEs to expand their linkages within the region. This development will also benefit active youth in the region as youth-led MSMEs will encounter fewer obstacles in expanding internationally.
- B. A competitive, innovative, and dynamic ASEAN:** The emphasis is on enhancing the competitiveness of MSMEs through employing science and technology tools and methodologies, with youth-led MSMEs taking on a crucial role. Entrepreneurship is the focal point, with the development of business incubator programmes tailored to foster innovation and commercialisation among youths. Additionally, ASEAN actively promotes green development by embracing sustainable growth agendas, clean energy, and renewable technologies, all of which involve youth as key players in this transformative process.

C. Enhanced connectivity and sectoral cooperation: Initiatives include strengthening digital inclusion efforts for individual and community empowerment, exploring innovative approaches to enhance internet broadband accessibility across ASEAN, and advancing professional development for the Information and Communications Technology (ICT) workforce, with a specific focus on youth. Additionally, efforts are geared towards raising the capacity of tourism-related human capital, particularly among the youth, and incorporating local communities into the tourism value chains at the destination level through active public-private sector participation.

D. Resilient, inclusive, people-oriented, and people-centred ASEAN: This target aims to strengthen the role of MSMEs, particularly those involving youth, by enhancing networking, information flows, and capacity building in areas such as access to finance, technology, markets, and human resource development. Fair and equitable development, such as gender inclusivity, is a key consideration being pursued particularly among youth actors. Financial inclusion and literacy for MSMEs, focusing on youth engagement, are also promoted. Furthermore, a conducive environment for entrepreneurship is being fostered through initiatives such as the ASEAN Online Academy, while efforts to advance human capital development are geared towards MSMEs, particularly youth and women.

Consequently, the ASEAN Strategic Action Plan for SME Development 2016-2025 (SAP SMED 2025) was introduced in 2015 to provide added focus on SME development. The plan delineates five strategic goals: (a) Promote Productivity, Technology, and Innovation; (b) Increase Access to Finance; (c) Enhance Market Access and Internationalisation; (d) Enhance Policy and Regulatory Environment; and (e) Promote Entrepreneurship and Human Capital Development. In 2021, ASEAN published a KPI Monitoring Report to assess the progress of these five strategic goals up to 2020, in comparison to the baseline figures recorded in 2017 (ASEAN, 2021). The report found that for youth labour participation rates, a declining trend is observed in most AMS, except for Brunei Darussalam and Malaysia, where rates have increased but only by a modest 40%. These trends may be attributed to youths prolonging their stay in higher education.

Following the initial SME Policy Index published in 2018, the second edition of the ASEAN SME Policy Index 2024 is currently in the development stage, as indicated by the ASEAN Secretariat (2022). The index is designed to evaluate various aspects of SME-related policies within AMS, including access to finance, access to markets and internationalisation, among others. In line with this, the Initiative for ASEAN Integration (IAI) Work Plan IV (2021-2025) underscores ASEAN's commitment to improve access to finance for MSMEs. One of the proposed actions involves expanding access to financial literacy programmes and productivity training for MSMEs, specifically focusing on women and youth businesses, as well as those located in CLMV countries. Moreover, this initiative aligns with the ASEAN Strategic Action Plan for SME Development 2016-2025, which emphasises the enhancement of skills among the youth to encourage their active participation in MSMEs.

Despite on-going efforts, the roundtable discussions conducted in preparation for this report revealed that youths engaged in entrepreneurship and MSMEs continue to grapple with numerous challenges. The following sections will delve into these challenges and shed light on the opportunities available for ASEAN MSMEs.

2. Challenges Faced by MSMEs in ASEAN

2.1 Access to Financing

The ASEAN Strategic Action Plan for SME Development 2016-2025 (SAP SMED, 2025) recognises the importance of enhancing access to financial services for MSMEs to empower and strengthen the financial ecosystem. As per a survey referenced by Tan, Tok, and Thitipat (2021), 42% of MSMEs in South Asia faced either full or partial credit constraints, surpassing the global average of 38% (Maran, 2022). The COVID-19 pandemic further prompted MSMEs to seek additional government funding to sustain their businesses, increasing from 2.3% in March–April 2020 to 9.7% in March–April 2021 in Indonesia, from 0.3% to 6.4% in the Lao PDR, from 5.7% to 6.9% in the Philippines, and from 2.0% to 2.8% in Thailand (ADB, 2022). Additionally, a study conducted in seven AMS revealed that MSMEs, especially those that are small, new, or located in lower-income states, encounter credit rationing and high-risk premiums (Harvie, Narjoko, & Oum, 2013). The study also highlighted how limited access to finance can significantly impact the innovation capability and export market participation of SMEs. The scarcity of financial supply has also driven MSMEs to seek unsafe and informal financing to fuel their capital accumulation (Tambunan, 2018).

Based on our roundtable discussions, it can be summarised that the financing challenges MSMEs, especially youth entrepreneurs, face primarily result from a combination of information disparities, limitations in stakeholder engagement skills and knowledge, and deficiencies in administrative and financial management skills. This is discussed in further detail in the following sections.

2.1.1 Challenges in External Financing for ASEAN MSMEs

Financial institutions are often reluctant to extend loans to the MSME sector, despite its wealth of potential, due to perceived higher associated risks. The ASEAN SME Policy Index 2018 also highlighted the difficulties encountered by MSMEs in securing external financing. This apprehension stems from three inherent challenges in MSME lending: information asymmetry, principal-agent problems, and transaction costs. The relatively high failure rate among small firms and their lack of collateral further contributes to this mistrust, underscoring the obstacles MSMEs face in obtaining external funding. But what exactly does information asymmetry mean in the context of MSME financing?

According to OECD (2015), information asymmetry occurs when the owner or operator of an MSME possesses more precise knowledge about the company's operations than an external financier. This discrepancy arises because capturing all the intricate relationships, activities, and

finances of the MSME in formal reporting documents, such as financial statements, can be a daunting task. This information asymmetry extends to financiers having incomplete data about individuals or organisations, particularly thin-file⁴ customers, making it challenging for them to assess creditworthiness and ultimately restricting access to credit. Traditional decision-making frameworks relying on outdated financial data have been insufficient in accurately evaluating customer risk, especially within the 'thin-file' population (Ernst & Young, 2023). Consequently, an information gap exists between MSME business owners and external financiers, leading to difficulties in accessing financing for MSMEs. This challenge is particularly evident in newer and smaller companies, given their limited credibility and credit history (Wangmo, 2016).

Principal-agent problems occur when there is concern that entrepreneurs, upon receiving financing, might use the funds differently from the intended purpose, increasing the risk of non-repayment. This issue is particularly pronounced in the context of MSME financing due to the relatively opaque nature of such enterprises and the limited exit strategies. The situation is more critical for smaller firms than larger ones because the line between the firm and the entrepreneur is often blurred, and information imbalances exist. In contrast, larger firms, when embarking on relatively risky activities, have a wider array of risk-sharing options, like equity issuance, while small firms typically have fewer choices available to them (OECD, 2015). Furthermore, transaction costs in MSME lending tend to be higher compared to larger loans. This is due to the fact that the appraisal, monitoring, and enforcement processes for lower-value loans require equally, if not more rigorous, checks. These fixed costs decrease the profit margin for banks and create a disconnect between the funding costs of these institutions and their expected return on investment (Beck & de la Torre, 2007). Consequently, these costs are often shifted onto MSMEs through interest rates, fees, and collateral requirements, resulting in exorbitant loan costs.

This disproportionately affects young people as they face significant challenges in accessing financing and have limited access to capital or savings. For example, in Thailand, 60% of young entrepreneurs require external financing, yet they are 33% less likely to have a savings account than adults (The Asean Post, 2019). Lack of credit history and collateral result in higher transaction costs for financial service providers, making it difficult for youth to secure favourable loans. To address these gaps, financially inclusive solutions such as microfinancing and embedded banking offer opportunities for supporting youth entrepreneurship (see Box Article 3.1 for details on microfinancing and embedded banking). The assessment framework of the 2018 ASEAN SME Policy Index has shown that AMS have increased their endeavours to enhance the accessibility of microfinance. However, a crucial point highlighted by a participant during the roundtable discussion is the need to increase awareness of financial inclusion initiatives especially among the youth, as many individuals are unaware of the opportunities available to them. Greater financial literacy is essential to ensure a wider audience can benefit from various financial inclusion initiatives. While large-scale regional efforts can yield benefits, some aspects may get lost when translating these efforts to the grassroots level.

4 A thin-file customer refers to an individual who either has a limited history of credit usage or has rarely used credit, or their credit history is outdated. As a result, their credit profile is categorised as "thin" because it contains minimal information about their credit history (Hada, 2018).

Box Article 3.1 – Microfinance and Embedded Banking

What is microfinancing and embedded banking?

Microfinancing refers to the provision of small-scale financial services including microloans, microcredit, and microinsurance to small businesses who typically face obstacles accessing traditional banking loans due to the lack of collateral or capital size. Governments and institutions worldwide have embraced micro-financing as a strategic tool in improving economic development, effectively bridging the financing gap between MSMEs and formal banking institutions.

Across the ASEAN region, microfinancing opportunities have propelled MSMEs' growth and enabled their attainment of financial stability. ASEAN countries have developed a diverse range of microfinance products, with an emphasis on MSMEs. For instance, Malaysia's largest microfinance institution, Amanah Ikhtiar Malaysia (AIM), aims to alleviate poverty and empower the poor through microcredit. AIM primarily offers microfinancing to women and rural businesses to stimulate income-generating activities (Haque et al., 2019). Vietnam's approach has also been influenced by the active involvement of the Women's Union in executing microfinance policies and programmes, fostering a culture of inclusive financial empowerment (Nguyen, 2018). AI-powered microfinancing companies like Boost have successfully provided widespread digital financial services to the markets in Malaysia and Indonesia, with Boost disbursing approximately US\$451 million (RM2 billion) in loans to thousands of MSMEs in both countries, benefiting nearly half of them who had never accessed credit from traditional financial institutions (Digital News Asia, 2022). Microfinance facilities in these countries and throughout the ASEAN region have gained immense popularity as they are essential for the growth of MSMEs, especially since they are largely underserved by traditional banking.

Embedded Banking, an innovative approach to financial services, is gaining recognition for its potential to revolutionise the landscape of MSME financing. This approach involves integrating financial services, such as loans and insurance, into non-banking and non-financial platforms including inventory management, procurement systems, or even e-commerce platforms. This approach simplifies operations for MSMEs compared to traditional financial methods, which tend to be time-consuming and often inaccessible. It also benefits financial providers by bridging the information asymmetry gap through real-time data access from integrated platforms, thus making MSME financing more efficient.

Recent statistics reveal that the market size for embedded finance across the GVC is estimated to grow from US\$264 billion in 2021 to US\$606 billion in 2025 (Ernst & Young, 2023). Technology has always been a catalyst for growth, and with over 60% of ASEAN MSMEs struggling to secure loans and financing, the establishment of embedded banking can help advance MSMEs' growth. Several embedded banking platforms have emerged as pioneers, including key players like Tala and Cashalo in the Philippines which leverage mobile technology to provide accessible microloans to underserved populations. Additionally, Shopee and Tokopedia in Indonesia have introduced financing options for their MSME sellers, allowing them to access capital for business expansion. Given its accessibility, integrated nature, and seamlessness, embedded banking is seen as a promising path for MSMEs to gain financing moving forward.

While microfinancing and embedded banking offers favourable avenues for international transactions and business expansion, particularly for rural MSMEs, it is not without its challenges. For young entrepreneurs equipped with technological savviness, accessing financial services through non-banking platforms should be smooth sailing. However, it is important to note that the landscape of embedded banking is loosely regulated, which could entail potential risks. To safeguard both consumers and MSMEs, regulators must be identified alongside the establishment of comprehensive regulations, especially in terms of data security and consumer welfare protection. In ASEAN, the absence of regulatory consistency in data governance, marked by fragmented digital regulations, further impedes the development of innovative financing systems. Member countries in ASEAN have adopted different cross-border data regimes, with the Philippines and Singapore allowing free cross-border data flows, while Indonesia and Vietnam follow a restrictive approach for reasons of public and national security. Malaysia and Thailand permit cross-border data flows with strict compliance requirements (Suvannaphakdy, 2023). As highlighted at the roundtable discussions, when microfinancing uptake increases with a corresponding hike in interest rates, concerns arise about the increased risk and vulnerability of MSMEs.

Example of financing options provided by e-commerce company, Shopee

Shopee, a private multinational e-commerce company, has introduced financing options for sellers in Indonesia, Thailand, the Philippines, and Malaysia. These programmes, namely SPinjam, SEasy Cash, and SLoan, offer financial assistance to eligible sellers. While currently only available to specific users, Shopee aims to expand its accessibility. The application process is seamless, requiring no physical documentation or collateral. SLoan's terms resemble a traditional loan, albeit without the need for collateral and featuring a maximum loan amount.

This streamlined financing process on Shopee aligns with some microfinancing practices. However, it falls under the category of integrating financial services into a non-banking platform. Although this approach promotes financial inclusion by catering to a broader audience, it primarily focuses on specific use cases, such as financing a purchase. While not as extensive as traditional microfinancing institutions, embedded financing still provides accessible financial aid without hindrances.

Shopee's terms are similar to that of a traditional loan; however, it operates with minimal government and financial regulatory oversight. Some of the terms include:

- Interest rate of 1.5% a month or 18% a year
- Loan amount is capped at RM120,000
- Terms of repayment is 3, 6, or 12 months
- Stamping fee is set to 0.5% of the loan amount
- There is a RM5 attestation fee for every withdrawal
- Any late repayment will incur an additional 8% interest rate on the overdue monthly instalment, with penalty charged on a daily basis
- Loan will be deposited into seller's account within 24 hours after approval

Source: Authors' own compilation from various sources (Ernst & Young, 2023; Suvannaphakdy, 2023; Digital News Asia, 2022; Haque et al., 2019; Nguyen, 2018; OECD/ERIA, 2018; Shopee, n.d)

2.1.2 Skills and Knowledge Management for Stakeholder Engagement and Financing in Youth Entrepreneurship

From a demand perspective, a form of information asymmetry also manifests as a disconnect in terms of skills and knowledge in stakeholder engagement and relationship building, which could also impair financing capabilities. Based on inputs from the roundtable discussion, youths express an interest in starting businesses but often lack the knowledge and skills to effectively engage with relevant stakeholders and funders, resulting in an inability to secure funding.

The sustainability of MSMEs hinges upon proficient financial administration and management, underpinned by comprehensive analysis through robust finance and accounting practices, along with the successful implementation of strategic planning (Widjanarko et al., 2022). The roundtable discussions revealed that, when it comes to securing follow-up funding, startups often face a deficiency in management skills, specifically in the realms of administration and finance. Typically, there is a shortfall of capacity and skills, with many startups underestimating the complexities associated with administrative tasks. In addition, participants also highlighted that at the micro level, the primary challenge not only lies in securing funding, but also in navigating the right channels and sources to tap into these opportunities. Entrepreneurs often struggle with identifying the appropriate individuals or platforms to pitch their ideas, indicating a lack of guidance in locating the right avenues.

Furthermore, as highlighted by a participant in the roundtable discussions, in developing countries, management systems are often inadequate, which causes challenges in capacity building. For instance, government-sponsored initiatives and venture firms face difficulties in transferring knowledge when new project leaders assume their roles due to a lack of effective knowledge management systems. This results in the need to restart tasks, especially in administrative domains, which necessitates a significant amount of effort. In contrast, developed countries like Germany exhibit superior knowledge management practices, exemplified by structured learning sessions and comprehensive documentation for programmes such as green technology incubators. Thus, even with a sufficient supply of financing opportunities, there are gaps such as these that act as further barriers to access in financing for MSMEs.

2.2 Rising Competition for MSME

As Schaper and Burgess (2021) posits, smaller firms often operate at a relative disadvantage compared to their larger counterparts. As shown in Table 3.1, smaller firms generally have a restricted product or service range, operate within limited geographic markets, and hold a small market share. They also face challenges in accessing well-established suppliers, value chains, and production processes. Moreover, the operators, often also the founding owner-managers, have limited access to legal advice, market insights, and compliance processes (Schaper & Lee, 2016).

Table 3.1: Differences Related to Competition between Small and Large Firms

	SMEs	Larger Firms
Number of Business Establishments	Single	Multiple
Geographical Distribution	Limited	Limited or wide
Product/Service Range	Limited	Limited or wide
Market Share	Limited	Significant
Customer Base	Small	Numerous
Likelihood of Business Failure/Exit	High	Low
Compliance Cost Burden	Proportionately high	Proportionately low
Knowledge of, and Access to, Marketplace Information	Limited; ad-hoc	Sophisticated; extensive
Ability to Access Established Supply Sources	Difficult	Easy
Level of Financial Sources	Small and limited	Substantial
Use of External Legal and Economic Advisors	Limited; ad-hoc	Systematic; structured

Source: Schaper & Burgess, 2021

As emphasised in last year's ASEAN Integration Report (Shamsunahar, 2022), ASEAN has made significant strides in promoting regional competition. All AMS have successfully implemented their respective legal frameworks on competition law and policy, effectively achieving Strategic Goal I of the ACAP 2016-2025. However, the COVID-19 pandemic has introduced new competition-related challenges, particularly in terms of potential abuses of MSMEs by larger enterprises. Hence, the current emphasis should be on ensuring robust enforcement, especially considering the distinctive challenges posed by the pandemic. The enforcement of competition laws concerning MSMEs warrants particular attention, given that they constitute more than 97% of businesses in several ASEAN jurisdictions.

Based on the roundtable discussions with ASEAN youths, a participant highlighted that MSMEs in Indonesia are facing critical challenges that hinder their progress. These challenges include the presence of informal businesses and the struggle faced by MSMEs in scaling up from small to medium enterprises. Recently, Indonesia banned TikTok in an effort to protect MSMEs. For example, Tanah Abang, Southeast Asia's largest textile and clothing market in Indonesia, has experienced a 50% decrease in foot traffic compared to pre-pandemic levels (Aljazeera, 2023). This indicates that these e-commerce businesses pose significant competition to traditional, physically-run businesses, which have limited online presence. However, youth entrepreneurs, particularly startups, heavily depend on e-commerce platforms and online markets for their business operations. These policies, aimed at reducing competition for traditional MSMEs, might inadvertently negatively impact youth entrepreneurs.

In addition, the roundtable participant also pointed out that limited financial resources render it difficult for MSMEs (particularly micro-enterprises) to comply with regulations, and many MSMEs in Indonesia underinvest in workforce training, choosing to pay lower wages instead. These challenges constitute substantial barriers to the growth of MSMEs, especially those led by youth entrepreneurs. Large companies, on the other hand, benefit considerably from their substantial capital and scale. However, concerted effort is imperative to encourage growth and level the playing field for MSMEs. Given that MSMEs make up a large percentage of market players in ASEAN, ensuring their growth will eventually translate into increased economic development and thus improve the well-being of the ASEAN community.

3. Policy Recommendations

In light of the multi-faceted gaps that impact the development of MSMEs in ASEAN, this section will propose some policy recommendations and best practices for AMS.

3.1 *Improving microfinancing and embedded banking opportunities for youth entrepreneurs*

Financing is crucial for ASEAN MSMEs, particularly for youth-led enterprises. The ability to secure stable and ample funding serves as a pivotal catalyst for the exponential growth of these enterprises. Past research has proven that the injection of microfinancing substantially improved MSMEs' health (Wirdiyanti et al., 2019), underscoring the vital role of ASEAN and the AEC in engineering a more sustainable microfinancing framework for MSMEs.

It is of utmost importance to nurture and guide youth entrepreneurs given their role as future leaders of the world. ASEAN has taken a positive step in this direction by introducing the ASEAN Work Plan on Youth 2021-2025. The SME Policy Index 2018 also outlined alternative financing options as a key strategy to improve access to financing for MSMEs. However, these plans do not contain a comprehensive strategy to expand microfinancing opportunities for youth MSMEs on a regional level. It is imperative to formulate a microfinancing scheme with built-in skills training focusing on sharpening digital literacy, marketing, stakeholder management, and logistics to nurture youth entrepreneurship. The implementation of such opportunities must be curated to address the specific needs of each region. This can be achieved through collaboration between ASEAN and financial institutions, NGOs, and educational institutions, including community programmes at the grassroots level, bringing in experienced individuals to guide aspiring entrepreneurs, especially in university environments, and implementing specialised programmes for the youth.

Hence, the provision of microfinancing institutions must be undertaken holistically to ensure all layers of the AEC ecosystem are recognised, especially given the diverse nature of the ASEAN region. While microfinance initiatives have demonstrated positive effects in reducing poverty and improving income, the success and sustainability of these programmes are contingent upon factors such as programme design, governance structures, and community engagement (Jana & Patil, 2023). These considerations should be taken into account by ASEAN policymakers when integrating microfinancing tools into policy measures.

3.2 *Enhancing information access and avenues for investor matching*

Considering the challenges that startups encounter in identifying the appropriate channels or platforms for presenting their businesses to secure funding, there is a growing need for more platforms facilitating investor-business matching opportunities. In 2022, ASEAN initiated programmes in line with the SAP SMED 2025, including the launch of ASEAN Access MATCH, a business matching platform aimed at enhancing trade within and beyond the ASEAN region. ASEAN Access MATCH provides registered members with the opportunity to join an international business community, gaining visibility for their businesses beyond the region's borders (ASEAN, 2022). Recognising the obstacles faced by small and medium enterprises in expanding internationally, the platform addresses issues such as accessing reliable distribution networks and managing associated costs. This serves as a good avenue for MSMEs to explore business opportunities and bridge informational gaps, especially regarding market trends. As highlighted during the roundtable discussions, entrepreneurs face challenges when launching a business, particularly in acquiring valuable market knowledge, understanding customer insights, and staying informed about market trends and emerging opportunities. More initiatives with a grassroots approach would be helpful in engaging with the business community. The incorporation and use of digital tools and platforms can mitigate the impact of fragmented information. An example of this is Logivan, Vietnam's largest truck matching platform. Traditionally, truck matching relied on brokers and manual communication, resulting in inefficiencies, with over 70% of truck trips returning empty. The platform addressed information disparities by enhancing access to information through the standardisation of the trucking market and the use of digitalisation (Tech for Good Institute, 2022). These targeted initiatives are crucial for reducing information disparities and ensuring the viability of small businesses.

Beyond that, there should also be more initiatives designed to create investor matching programmes that offer MSMEs a platform to pitch their businesses to potential private sector funders. While numerous programmes exist for investor matching in the startup sphere, such as the AIPF Startup Connect, there appears to be limited opportunities for smaller businesses in traditional entrepreneurial settings to participate in these programmes. This is of paramount importance considering that micro-enterprises make up the largest share of MSMEs in ASEAN as highlighted in the earlier section.

3.3 *Strengthening support for youth entrepreneurs through human capital development and capacity building initiatives*

For youth entrepreneurs starting up businesses, increasing access to government-supported advisory services that offer guidance on accounting best practices, business strategies, and regulatory compliance is imperative to enhance the performance of MSMEs in ASEAN. This should also encompass training and education programmes aimed at improving business and ICT skills through targeted courses and workshops. In Indonesia, a study reveals that despite the availability of a national accounting standard based on the IFRS for MSMEs, MSME owners often refrain from maintaining accounting records due to reasons such as perceived high costs relative to benefits, the lack of mandatory requirements for accounting and financial reporting, the complexities of accounting, coupled with a

lack of understanding among staff (UNCTAD, 2023). Providing institutional support to address these challenges would significantly contribute to improving productivity and efficiency.

In addition to providing training in basic management and business skills, there should also be a strong focus on upskilling and capacity building tools related to technology and innovation. At a regional level, ASEAN initiated the Business Incubator Network (ABINet) Project in 2018 to foster collaborative ecosystems that stimulate innovation and bolster the growth of MSMEs. Several ASEAN countries have already established national innovation hubs and incubators, such as Indonesia, where government-supported incubators operate under the supervision of the Ministry of Education, Culture, Research, and Technology (MOECRT) and Malaysia, which introduced the Business Accelerator Programme (BAP 3.0) under SMECorp. To enhance competitiveness, it is vital to establish connections between these national incubators and regional networks to facilitate MSME operations throughout ASEAN (Litania & Shukla, 2022). These programmes should also be integrated with better knowledge transfer and management mechanisms to improve innovation capabilities and performance of MSMEs.

Overall, promoting network building and the establishment and development of an entrepreneurship ecosystem in the region, which brings together various stakeholders and offers platforms for knowledge sharing and collaboration, will ultimately improve the playing field for emerging MSMEs.

4. Conclusion

To conclude, as the role of MSMEs and youth participation in the ASEAN economy continues to grow, a thorough examination of their shortcomings and challenges is quintessential. While securing financing is paramount in fostering the growth of MSMEs in both domestic and international markets, challenges persist, particularly in terms of financing and information asymmetry which hinder their growth prospects. MSMEs, including those led by young entrepreneurs, face difficulties in accessing loans due to high credit constraints and limited financial resources. Moreover, the inherent nature of small businesses makes it challenging for MSMEs to compete with larger firms. Addressing this gap requires policy interventions to equip smaller businesses with the necessary skill sets.

Amid these challenges, the emergence of microfinancing and embedded banking presents new opportunities for MSMEs. Microfinancing is crucial in bridging the funding gap, while embedded banking simplifies financial access for smaller enterprises. Policy measures focused on improving microfinancing and embedded banking opportunities, especially for youth-led MSMEs, which can serve as alternative financing tools. These innovative financing systems should be accompanied by robust policy and regulatory frameworks. Enhanced information access for investor matching is crucial, along with the need to improve human capital development, capacity building, and knowledge management. Supporting advisory services and training programmes, such as skills training for entrepreneurship and digital literacy, can address the skills and knowledge gaps that often hinder MSMEs in ASEAN. This, in turn, will empower the youth and MSMEs towards sustainable growth and facilitate market expansion.

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ASEAN Prosperity Initiative

DIGITAL ECONOMY

Bridging the Digital Divide

SEQUENCE

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Imran Shamsunahar
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I. Introduction to The Digital Economy in ASEAN

I.1 Current Overview of the Digital Economy in ASEAN

The digital economy, as defined by the Asian Development Bank, encompasses a broad range of economic activities in which digitised information and knowledge serve as key factors of production (ADB, 2018), and according to ASEAN, the digital sector encompasses ICT infrastructure, telecommunications regulations, development policies, security, skills, and various other areas managed by ASEAN ICT ministries (ASEAN, n.d).

It has commonly been observed that the COVID-19 pandemic has accelerated ASEAN's digitalisation trend, with lockdowns and social distancing measures forcing consumers and businesses alike to interact through digital services. According to the e-Conomy SEA 2022 report, Southeast Asia's digital economy, as measured by gross merchandise value (GMV), reached US\$194 billion in 2022 and is projected to grow by a Compound Annual Growth Rate (CAGR) of 20% to US\$330 billion between 2022 and 2025 (Google, Temasek, Bain & Company, 2022). Additionally, Millennials and Gen Z are estimated to comprise 75% of ASEAN consumers by 2030, meaning the region's youth will be the key drivers of the ASEAN digital economy moving forward (World Economic Forum, 2021).

Apart from being an avenue for consumption, the digital economy also provides an accessible platform for ordinary citizens to engage in entrepreneurial activities and pursue new career opportunities. In 2020, the World Economic Forum and Singapore-based tech giant, Sea Ltd, jointly carried out a survey of youths in ASEAN and found that respondents who self-identified as entrepreneurs were more inclined to increase their use of business-related tools throughout the pandemic. These tools include e-commerce selling, enterprise resource planning (ERP), online banking, e-wallets, food delivery, and ridesharing services. A total of 33% of ASEAN entrepreneurs used e-commerce selling more actively during the pandemic, with one in four of them adopting this practice for the very first time (World Economic Forum & Sea, 2020).

I.2 ASEAN Policies

The theme of digitalisation has been consistently featured within the ASEAN policy agenda. Notably, the section on Information and Communications Technology (ICT) within the ASEAN Economic Community (AEC) Blueprint 2025 acknowledges the successes of the previous ASEAN ICT Masterplan 2020 and seeks to build upon it. As such, it is important that we acknowledge the dynamic nature of ASEAN's digitisation policy and take a holistic approach in considering its implementation and progress. This entails focusing not only the AEC 2025 Blueprint, but also other strategies such as the ASEAN Digital Masterplan (ADM) 2025 and the Bandar Seri Begawan Roadmap (BSBR), both of which adopt more targeted and strategic approaches to address the challenges associated with digital transformation in ASEAN.

Information and Communication Technologies (ICT) constitutes the foundation upon which the digital economy is built. Digital business operations are contingent upon the availability of 'critical

infrastructures' such as reliable, fast, and widely available internet coverage, as well as a skilled workforce proficient in utilising these technologies and digital platforms. Hence, the AEC 2025 Blueprint aligns with this general trajectory, setting out specific aims with regard to 'ICT infrastructure development', 'human capital development', and 'people integration and empowerment through ICT', among other priorities (AEC Blueprint, 2025).

Similarly, the ASEAN Digital Masterplan (ADM) is relatively consistent with the above-mentioned objectives of the AEC Blueprint 2025. The ADM's desired outcomes include 'increase the quality and coverage of fixed mobile broadband infrastructure', 'increase capability for business and people to participate in the global economy', and to create a 'digitally inclusive economy'. The coherence observed across ASEAN's various blueprints is reassuring, underscoring its commitment towards identified aims.

The following table (Table 4.1) summarises the overlapping aims and objectives highlighted in the AEC Blueprint 2025 and the ASEAN ICT Masterplan 2020.

Table 4.1: AEC Blueprint 2025 and ASEAN ICT Masterplan Digitalisation Aims

Policy Aims	Description
Economic Transformation	Explore the further utilisation and coordination of ICT for economic development and promote digital trade in ASEAN
People Integration and Empowerment through ICT	Strengthen digital inclusion efforts to empower individuals and to enable community development, explore new ways to enhance internet broadband penetration and affordability in ASEAN
Innovation	Support ICT innovations and entrepreneurship as well as new technological developments such as Smart City, and Big Data, and Analytics
ICT Infrastructure Development	Improve ICT infrastructure and connectivity especially in the rural areas, and develop measures to enhance the resilience of ICT infrastructure, including submarine cables
Human Capital Development	Strengthen the professional development of the ICT workforce in the region
ICT in the Single Market	Promote the freer flow of ICT products, services, and investment in the region as well as the lowering of international mobile roaming charges in ASEAN
New Media and Content Industry	Encourage the growth and use of e-services and new media in the region
Information Security and Assurance	Build a trusted digital ecosystem including through further strengthening co-operation on cybersecurity and developing measures to protect personal data

Source: ASEAN ICT Masterplan, 2020

In 2020, a final review of the ASEAN ICT Masterplan 2020 was published to assess the progress made toward the measures and goals outlined in the blueprint. The findings for each strategic thrust are as highlighted below.

- A. Economic Transformation:** The 'Economic Transformation' strategic thrust which was outlined in the AEC Blueprint 2025 and further detailed in the ASEAN ICT Masterplan 2020, has led to the implementation of several significant projects. These initiatives include the creation of the ASEAN Framework on Digital Data Governance, the establishment of a working group on Digital Data Governance, a study aimed at developing guidelines for open and big data initiatives in ASEAN countries, and the formulation of the Over-the-Top (OTT) framework to balance broadband development with policy goals and OTT Expansion.
- B. People empowerment and engagement:** Some of the initiatives implemented in order to achieve this goal include the ASEAN e-Government Strategic Action Plan, the Intra-ASEAN Secure Transactions Network, and a survey of existing standards ICT Products and Services in ASEAN. Although there were several initiatives undertaken in an effort to fulfil this goal, the AIM Final Review report (ASEAN, 2020) found that there was no significant progress for this particular strategic thrust, stating that there was no project implemented with the specific aim of 'strengthening digital inclusion'.
- C. Innovation:** Significant emphasis has been placed on fostering an environment conducive to supporting startups and strengthening enterprises in ASEAN. Initiatives aimed at encouraging ASEAN youth include the Annual ASEAN Digital Award, which recognises exceptional digital achievements among stakeholders in the region. There has been a substantial focus on setting standards for Smart City Development, with projects such as Capacity Building on Accelerating the Development Framework of Smart Sustainable Cities for ASEAN countries and the ID Smart ASEAN 2020 Network. However, it is worth noting that ASEAN's initiatives in the field of innovation have not been well received, as indicated by the AIM Final Review's survey results, which showed an average score of 3.0 for perceived completeness and 4.2 (out of 10) for perceived value. These scores suggest that relatively little progress has been made, and the results have only yielded moderate value. The AIM Final Review in 2020 conducted a survey analysis to assess the general sentiment on the ground regarding the 8 strategic thrusts outlined in the AEC Blueprint 2025.
- D. ICT Infrastructure Development:** Reducing disparities in access and affordability of broadband is a significant aim within the ICT Infrastructure Development strategic thrust, evidenced by projects such as the ASEAN Broadband Strategy (Indonesia and Lao PDR). ASEAN also placed an emphasis on the critical ICT infrastructure of submarine cables by producing a guideline for strengthening the resilience and repair of submarine cables (Singapore). There is, however, still a substantial amount of work that needs to be done with regard to this strategic thrust, as ASEAN still significantly lags behind the developed world with respect to ICT and digital infrastructure.

- E. Human Capital Development:** A number of initiatives and studies were carried out, reflecting the importance ASEAN places on this particular strategic thrust. There were several studies commissioned by ASEAN so as to understand the current issues facing ASEAN youth and their integration into an increasingly digital and ICT-driven economy. A study to evaluate the current status and develop recommendations to narrow the gaps between demand and supply in ICT Human Resource was allocated US\$50,000, whilst a study was initiated to develop a best practices guide for ICT Human Resource development.
- F. ICT in the single market:** This thrust focuses on fostering a business-friendly environment aimed at reducing trade costs and enhancing economic integration among ASEAN Member States (AMS). A significant priority for this strategic thrust is the alignment of international roaming agreements among AMS and the standardisation of ICT systems across the region. Several initiatives were undertaken to support this goal, including a study on the development of a Quality of Experience (QoE) Assessment model and proposed guidelines for ASEAN countries, the ASEAN International Mobile Roaming Framework (established between Singapore and Lao PDR), and a study on the establishment of an ASEAN telecommunications single market.
- G. New Media and Content:** Focuses on promoting the use of New Media in ASEAN, developing best practices for e-Service Delivery, and fostering cyber wellness. Initiatives include a gap analysis, recommendations, and the promotion of best practices for ASEAN e-service development (in Lao PDR) and a study on Agriculture Market Information Systems in ASEAN member states (in Cambodia). However, despite these efforts, this strategic thrust received the lowest average Perceived Completeness Score of 2.8 and an average score of 4.8 (out of 10) for the Perceived Value Score in the AIM Final Review in 2020.
- H. Information Security and Assurance:** To strengthen information security in ASEAN through initiatives such as developing regional data protection principles and best practices for regional network security. Some of the projects undertaken by ASEAN include establishing an ASEAN framework on digital data governance and the formation of a working group on Digital Data governance.

As such it is important that we acknowledge the dynamic nature of ASEAN digitalisation policy and consider its implementation and progress from a holistic point of view, taking into account not only the AEC 2025 Blueprint but also the ensuing plans such as ASEAN Digital Masterplan 2025 (ADM) and the Bandar Seri Begawan Roadmap that more strategically and specifically address the challenges associated with digital transformation in ASEAN. The challenge, however, remains with being able to align the abundance of blueprints, master plans, and policy agendas undertaken by ASEAN in recent years. The Bandar Seri Begawan Roadmap (BSBR) had set out to streamline the overlapping initiatives of the many blueprints published regarding digitalisation in ASEAN. This initiative is further extended and strengthened by the Digital Economy Framework Agreement (DEFA) that is currently being negotiated among AMS, with plans for its implementation by 2025. This is an extremely commendable initiative as it is often the case that recurring policy blueprints can become muddled in their objectives.

Given the consistent themes highlighted within these blueprints and the emphasis placed on infrastructure and human capital development, the remainder of this chapter assesses the 'Gender and Urban-Rural Digital Divide' and the 'Technology Talent and Skills Gap', both of which currently hamper ASEAN youth and their utilisation of the digital economy.

2. Challenges of The Digital Divide and Technology Talent Shortages

2.1 Gender and the Urban-Rural Digital Divide

Scholars have noted that men continue to enjoy disproportionate benefits within the digital economy. Compared to other parts of the Asia-Pacific, ASEAN exhibits relatively high levels of gender equality in terms of basic access metrics, including computer, mobile phone, and internet usage, the largest gender differential in mobile phone usage amongst AMS is 6% in Indonesia, where 77% of men use a mobile phone compared to 71% of women, whilst the largest internet usage gender differential in ASEAN is 10% in Cambodia (Marsan & Sey, 2021). However, women in the region lag behind in areas such as entrepreneurship opportunities, access to digital skills, and the attainment of leadership positions (Marsan & Sey, 2021).

In the realm of digital skills, the underrepresentation of girls in science, technology, engineering, and mathematics (STEM) fields is apparent. Women in ASEAN tend to dominate non-science disciplines such as social sciences, business, and law, while those who do venture into the sciences gravitate towards health sciences rather than ICT or engineering. Upon graduation and entry to the workforce, it was found that women are inadequately represented in advanced technology jobs that demand higher skill levels and offer better remuneration (Marsan & Sey, 2021).

Finally, research has highlighted a lack of female representation in top-management and executive positions within technology-related fields. This disparity persists even in sectors that supposedly employ a substantial female workforce. For instance, despite the Information Technology and Business Process Management (IT-BPM) sector being one of the largest employers of women in the Philippines (constituting 53% of its over 1 million direct employees), women have been found to predominantly hold low-skill positions whilst men occupy positions requiring medium to high skill levels (Dahlquist, 2018).

Following the rise in automation, the disproportionate representation of women in lower-level, lower-skilled jobs across many sectors puts them at a heightened risk of job loss. This risk is particularly pertinent in heavily 'feminised' sectors such as retail, business process outsourcing, and textiles and clothing, all of which are facing the highest risk of automation. As such, rather than create opportunities for women, The Fourth Industrial Revolution (4IR) risks potentially exacerbating the gender-related inequalities within ASEAN societies (Marsan & Sey, 2021).

Advocating for enhanced digital access and skills for girls and women empowers them to participate actively in the post-pandemic digital economy, thereby protecting them from exclusion in employment opportunities. Bridging the gender digital divide will facilitate a more gender-inclusive

post-pandemic recovery for ASEAN, thus helping to realise ASEAN's aim of advancing gender equality as outlined in the ASEAN Community Vision 2025 goals (Putri, 2022). This issue was also highlighted by a participant of the roundtable in Jakarta.

The COVID-19 pandemic has also brought to light the gaps in access to digital technologies and services, between urban and rural areas, with well-connected regions adapting better to the pandemic and the ensuing restrictions. Rural communities struggled to access education and healthcare as both of these services transferred online. The ASEAN Rapid Assessment: The Impact of COVID-19 on Livelihoods Across ASEAN report released in 2020 revealed that only 53% of rural children and adolescents had internet access at home, as opposed to 72% of urban children. In countries such as Cambodia, Lao PDR, and Myanmar, only a small number of households had access to broadband internet. While mobile penetration is high in most ASEAN countries, access to unlimited internet on mobile devices remains limited (ASEAN, 2020). The lack of digital access in rural and remote areas has largely been attributed to the difficult geographical access and inadequate infrastructure, as well as the low demand for telecommunication services or technology solutions stemming from low consumer incomes and sparse populations (BIMP-EAGA, 2021).

2.2 Technology Talent and Skills Gap

Besides expediting the digitalisation of the ASEAN economy, the COVID-19 pandemic also severely disrupted the school-to-work transition process for over 15 million recent university and school graduates across ASEAN. Furthermore, given the increasing emphasis placed on digital literacy, these graduates will be entering the job market with a widening mismatch between the skills they possess and those sought by employers (Tobing, 2022).

These insights were supported by IDEAS' qualitative findings at our roundtable discussion in Hanoi, where participants voiced concerns over the growing disconnect between the skills taught by educational institutions and those demanded by the digital industry. In particular, Technical and Vocational Education and Training (TVET) was flagged as an educational programme that has struggled to adapt to the ever-changing and highly varied skills required for the digital economy. These skills can range from 'advanced digital skills' such as knowledge of programming languages including Python, SQL, and Java, to 'intermediate skills' such as SAP and Microsoft Project, and finally to 'basic digital skills' such as Microsoft Office and Microsoft Word (Cunningham, et. al, 2022). In light of the vast magnitude and variance within 'digital skills', there were also calls for shorter, more targeted courses that would equip the youth with the specific digital skills they require efficiently and affordably. Additionally, the need for learning communities that foster a multi-stakeholder relationship between industry, educational institutions, and students was voiced.

It is also worth noting that there is a high demand for 'non-traditional' skills within the digital sector. A pertinent issue brought up by attendees at IDEAS' roundtable discussion in Jakarta was that of social media marketing, particularly the effective utilisation of advertising algorithms. These skills—while not considered 'traditional' digital skills—are nonetheless considered extremely important for businesses operating within the digital realm. This underscores the need for improved communication

and collaboration between industry and the education sector. As stated previously, digitalisation and digital skills has extended beyond the domain of traditional, 'advanced digital skills', instead now boasting many applications to simplify business activities such as social media marketing. Digital skills are no longer reserved for companies only in the ICT space, but in fact extends to every corner of the economy.

The notion of 'lifelong learning' also emerged during the roundtable discussion. Given the ever-evolving nature of the digital sector, new skills will need to be developed in line with technological and digital progress. An attitude of lifelong learning may prove helpful in maintaining a workforce that is suitably skilled in the digital age.

3. Policy Recommendations

3.1 Addressing the Gender and Urban-Rural Digital Divide

Although there exists a significant disparity in mindset and aspirations between genders, there is no such gender gap in STEM capabilities in primary and secondary schools (World Bank, 2020). Analysis from the World Bank also shows that it is often the case that girls' performances are on par with, or even better than, boys in science and mathematics at the pre-tertiary stage.

It is imperative that education policy encourages girls to enter STEM and promotes the enhanced opportunities available to women with advanced digital skills. ASEAN can follow the lead of the International Telecommunication Union (ITU), whose initiatives such as International Girls in ICT Day and Gender Champions at Generation Connect Initiative, work to build awareness of the current gender digital divide and promote girls' participation in the ICT sector (ITU, 2022). Aside from the ASEAN Gender Mainstreaming Strategic Framework 2021-2025 published in 2021, there has been minimal focus on addressing the gender-related digital divide at the regional level (Marsan & Sey, 2021).

Overall, a more targeted approach to address the gender digital divide is urgently needed in ASEAN, at both the regional and national levels. Policymakers must develop actionable plans that will enable a more equitable distribution of the benefits from digitalisation.

There have been relatively more positive developments with how ASEAN has sought to address the urban-rural digital divide. The ASEAN Digital Masterplan 2025 has identified the extension of telecommunications infrastructure to rural areas as one of its priority targets. The plan also acknowledges the importance of affordability and recognises the key benefits that e-education, e-health, and e-commerce can bring to rural areas in ASEAN (ASEAN Digital Masterplan, 2025).

Lurong Chen, in his South Asia case study, noted that ordinary people in India could not afford internet access in the 2010s (Chen, 2020). Yet, the country now has some of the most affordable internet rates worldwide. High levels of competition in India have driven prices to extremely low levels, thus constituting a viable model for other AMS to emulate in increasing market access and promoting competition within their telecommunications industries.

A significant concern is that there will remain rural areas not serviced by private telecommunication infrastructure providers as it would be deemed financially unfeasible. Access to the internet is increasingly seen as a citizen's right and is necessary for their partaking in the modern world. As such, it cannot be left totally to the market to decide who has internet access. Hampered by geographical barriers, rural ASEAN remains an underserved and untapped market. ASEAN and AMS national governments can supplement private investment where the social returns that come out of these investments and providing internet access to a rural community outweigh the private returns. ASEAN can follow the example of the World Bank who have engaged in several public-private partnerships to successfully build rural telecommunication infrastructure in countries such as; Burundi, Liberia, Rwanda and Gabon (IBRD-IDA, n.d)

Although ASEAN has seen significant improvements in mobile internet access, the provision of fixed broadband should be deemed a policy priority. There are several benefits associated with fixed broadband such as higher data transfer speeds, better network stability, and unlimited data. This form of internet access is also often associated with more productive activities such as online learning (Gong, 2021).

For these rural consumers and business owners, there are significant benefits that can entail access to the digital marketplace. As the world shifts towards an increasing dependence on digital platforms to buy and sell goods as well as provide critical services such as healthcare and education, we cannot afford to leave rural ASEAN behind.

3.2 Ensuring education keeps up with industry needs

Efforts to bridge the informational gap between educational institutions, industry, and students should be made a policy priority to ensure that students are equipped with the relevant digital skills to engage in the digital economy. Indeed, this was a policy priority within the ASEAN Declaration on Human Resources Development for the Changing World of Work and Its Roadmap, but it is paramount that tangible planning and implementation are diligently pursued.

Collaborations between the industry and the educational sector can come in the form of curriculum adjustments to incorporate the views of industry players and prioritising internships and industrial placements as integral components during university studies.

As stated previously, there is a demand for shorter, more specialised digital skill courses that will empower students rapidly. TVET can serve as an avenue for these shorter courses as traditional educational institutions such as universities tend to offer longer, more academic qualifications. TVET institutions should focus on 'less academic' digital skills, for example, social media advertising, which will yield tangible effects for youths trying to engage in the digital economy. There must be a significant focus to overhaul TVET so that it is viewed more favourably by students and employers.

4. Conclusion

Digitalisation and the continued adoption of technological advancements represent a critical step in the developmental journey for ASEAN. While the digital economy offers promising opportunities for ASEAN youth, it can also marginalise vulnerable groups, such as women and rural communities.

The risks associated with digitalisation, such as increased automation, is a double-edged sword that can stimulate economic growth while exacerbating inequality. Given that this is a difficult trade-off to manage, a balanced approach that prioritises digital progress whilst ensuring that welfare gains are equitable must be prioritised.

This chapter focuses primarily on the challenges of digitalisation and emphasises the importance of proactively tackling the issues faced by disadvantaged groups. Much like how the developed world developed significantly during the first two Industrial Revolutions and the East Asian Tigers in the Third Industrial Revolution, ASEAN should not shy away from the growth potential presented by Industry 4.0. This era constitutes an opportunity to significantly boost incomes and facilitate the convergence of ASEAN living standards toward those of the developed world.

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Appendix A – Roundtable Discussion Participant Demographics

Jakarta Roundtable Participant List

No.	Gender	Occupation/ Affiliation	Location
1	M	Entrepreneur	Philippines
2	M	Student	Indonesia
3	M	Student	Indonesia
4	F	Foreign policy organisation	Indonesia
5	M	Government officer	Indonesia
6	F	Organisational co-founder/ executive	Thailand
7	M	Organisational founder	Indonesia
8	F	Research associate	Indonesia
9	M	Organisational founder	Philippines
10	M	Project manager	Indonesia
11	F	Business owner and marketing officer	Indonesia
12	F	Plant physiologist	Malaysia
13	F	Research assistant	Indonesia
14	F	Senior analyst and organisational founder	Singapore & Jakarta

Hanoi Roundtable Participant List

No.	Gender	Occupation/ Affiliation	Location
1	M	Managing director	Lao PDR
2	M	Research associate	Cambodia
3	M	Organisational founder/ trainer	Vietnam
4	M	Policy coordinator	Thailand
5	F	Consultant	Vietnam
6	F	Entrepreneur	Vietnam
7	M	Entrepreneur	Vietnam
8	M	HR specialist/ digital content creator	Vietnam
9	M	Sourcing manager	Vietnam
10	M	Startup entrepreneur	Vietnam
11	M	Organisational founder	Myanmar
12	M	Entrepreneur	Cambodia
13	F	Director and organisational founder	Myanmar
14	F	Youth engagement and governance coordinator	Vietnam
15	M	Media entrepreneur	Vietnam
16	F	Researcher	Vietnam



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