

# ASEAN ECONOMIC PROSPECTS AMID EMERGING TURBULENCE: DEVELOPMENT CHALLENGES AND IMPLICATIONS FOR REFORM

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JULY 2020

## EXECUTIVE SUMMARY

This paper reviews the performance of ASEAN countries over the two decades since the Asian financial crisis in the late 1990s, as well as the countries' vulnerabilities to the U.S.-China trade war and the COVID-19 pandemic. It argues that these turbulences indicate that the world has reached an inflection point, requiring fundamental change in development thinking and approaches. This message is particularly relevant for Association of Southeast Asian Nations (ASEAN) countries, which made impressive economic achievements before the COVID-19 outbreak. As all ASEAN countries have established aspirational goals for their development journeys over the next two to three decades, it is imperative that each country undertake decisive fundamental reforms and strategic shifts in order to be highly prepared, competitive, and resilient in the future development landscape. Furthermore, ASEAN will be much stronger if it can position itself as an integrated market and a well-coordinated community, in which each country endeavors to enhance not only its own fitness, but also the fitness of the region in the post-COVID-19 global economic evolution.

## INTRODUCTION

The Association of Southeast Asian Nations (ASEAN) comprises 10 countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam (Table 1). Situated between two rising economic powers, China and India, ASEAN countries are facing enormous direct opportunities and challenges brought about by the rise of these two giants in a rapidly changing global environment.

Encompassing more than 650 million people, the ASEAN economy is relatively large, comparable to India in terms of gross domestic product (GDP) (Table 1). The 10 ASEAN countries, however, vary greatly by income and development level, from Myanmar and Cambodia, which are among the poorest countries, to Singapore and Brunei, which are among the wealthiest nations.

To better project the future prospects of ASEAN countries, it is important to comprehend the three prevailing distinctive features of the region: harmonious diversity, development aspirations, and an embrace of global integration. In terms of harmonious diversity, the 10 countries have different religions, population sizes, political systems, and levels of economic development. However, their substantial, sustained efforts to promote peace, partnership, and integration have been impressive. The formation of the ASEAN Economic Community (AEC) in 2015 marked a major milestone in such efforts. In terms of development aspirations, ASEAN has surprised the world with not only with the success of Singapore, but also the new waves of reforms in member states, ranging from Vietnam and Myanmar to Indonesia and the Philippines. In terms of embracing global integration, ASEAN

as an economic bloc is one of the top worldwide destinations for foreign direct investment (FDI), and its trade-to-GDP ratio exceeds 100% (Table 1).

This paper examines recent development in ASEAN countries and the impacts of ongoing global turbulence, the U.S.-China trade war, and

the COVID-19 crisis on ASEAN economies. The paper discusses the strategic priorities that ASEAN countries should take in formulating strategies to achieve their development aspirations.

**TABLE 1: ASEAN IN A SNAPSHOT, 2018**

Country	Population		Current GDP (billion)		Current GDP per capita		Global integration*					
	Millions of people	2008-2018 growth	US \$	PPP \$	US \$	PPP \$	Trade-to-GDP ratio	Exports	Imports	Total trade	Trade balance	FDI inflows
Brunei	0.4	1.2%	13.6	34.7	31,628	80,778	93%	7	5.7	12.7	1.4	0.5
Cambodia	16.2	1.6%	24.6	70.8	1,512	4,354	163%	18.4	21.8	40.2	-3.4	3.1
Indonesia	267	1.3%	1,040	3,490	3,894	13,057	41%	208.7	216.2	425	-7.5	20
Laos	7.1	1.6%	18.1	52.6	2,568	7,441	75%	6.2	7.3	13.5	-1.1	1.3
Malaysia	31.5	1.4%	354	999	11,239	31,698	132%	246.5	221.3	467.8	25.1	8.6
Myanmar	53.7	0.7%	71.2	358	1,326	6,662	49%	15.8	18.9	34.6	-3.1	1.3
Philippines	107	1.6%	331	953	3,103	8,935	65%	89.1	127.7	216.8	-38.5	9.8
Singapore	5.6	1.5%	364	571	64,582	101,353	326%	642.3	545.5	1,187.8	96.7	82
Thailand	69.4	0.4%	505	1,320	7,274	19,018	123%	336.3	285.1	621.4	51.2	13.3
Vietnam	95.6	1.0%	245	710	2,564	7,435	206%	258.5	245.6	504.1	12.9	15.5
<b>ASEAN</b>	<b>653.5</b>	<b>1.2%</b>	<b>2,966.5</b>	<b>8,559</b>	<b>4,539</b>	<b>13,097</b>	<b>119%</b>	<b>1,828.8</b>	<b>1,695.2</b>	<b>3,524.1</b>	<b>133.6</b>	<b>155.4</b>
<b>China-India</b>												
<b>China</b>	<b>1,390</b>	<b>0.5%</b>	<b>13,600</b>	<b>25,400</b>	<b>9,771</b>	<b>18,210</b>	<b>38%</b>	<b>2,651</b>	<b>2,548.1</b>	<b>5,199.1</b>	<b>102.9</b>	<b>203</b>
<b>India</b>	<b>1,350</b>	<b>1.2%</b>	<b>2,730</b>	<b>10,500</b>	<b>2,106</b>	<b>7,762</b>	<b>43%</b>	<b>537</b>	<b>643</b>	<b>1,180</b>	<b>-105.9</b>	<b>42.1</b>

Data source: World Development Indicators (WDI). With the exception of trade-to-GDP ratio, measures on "global integration" are in U.S. billions of dollars.

## ASEAN'S ECONOMIC CATCH-UP PERFORMANCE, 1998-2018

The Asian financial crisis erupted in 1997, and its severe impact on Asian economies was thought to have put an end to the Asian economic miracles.<sup>1</sup> However, most ASEAN economies have emerged from the crisis stronger and with greater development aspirations.

Using the U.S. income level as the benchmark, one can assess the catch-up performance of a given country during a period by examining how much the country's income has changed over this period relative to the U.S. income. These dynamics can be captured by the catch-up performance index (CUPI), defined as the gap between the country and the U.S. on per capita growth over the period of study (see Appendix A for detailed construction of this index).

Table 2 reports the CUPI and its related information for ASEAN countries during the two decades since the Asian financial crisis (1998-2018). To provide comparative insights, the results for ASEAN's two neighboring giants, China and India, are also reported. Table 2 reveals three notable insights.

First, all ASEAN countries, with the exception of Brunei, were among the top 50 performers in the global dynamics of economic catch-up over 1998-2018. Brunei's very low performance (ranked 171st out of 179 economies worldwide) can be explained by its already very high per capita income and its oil dominant economy.

Second, the four least-developed ASEAN countries – Myanmar, Cambodia, Laos, and Vietnam – are among the world's top 15 performers by CUPI. In addition, the convergence trend among ASEAN countries in terms of per capita income over 1998-2018 is solid, with its coefficient of variation (CV) sharply declining from 1.5 to 1.1.

Third, if the ASEAN countries are considered one economy, its global rank in the global dynamics of catch-up over 1998-2018 is 36th, with a CUPI of 2.4. That is, the ASEAN economy as a whole is well behind that of China (rank=2nd; CUPI=7.1) and India (14th; 3.9) in this catch-up performance. More specifically, ASEAN as a whole trailed India by approximately 1.5 percentage points and China by 4.7 percentage points on the average annual GDP growth rate over 1998-2018. These growth gaps suggest that ASEAN countries have the potential to collectively enhance market efficiency and could achieve more robust growth if they were more integrated and better coordinated as one single market.

**TABLE 2: ASEAN GDP GROWTH AND CATCH-UP PERFORMANCE, 1998-2018***(ASEAN countries are in decreasing order by CUIPI)*

Economy	GDP Growth (%)	Catch-up performance		Relative income per capita (US=100)*	
		CUIPI	Global rank	1998	2018
<b>ASEAN</b>	<b>3.76</b>	<b>2.44</b>	<b>~36</b>	<b>12.8</b>	<b>20.9</b>
Myanmar	9.05	7.73	1	2.4	10.6
Cambodia	6.20	4.87	6	2.7	6.9
Laos	5.49	4.16	10	5.3	11.9
Vietnam	5.30	3.97	13	5.5	11.9
Indonesia	3.67	2.34	38	13.2	20.8
Thailand	3.44	2.11	43	20.1	30.3
Philippines	3.36	2.04	45	9.6	14.3
Singapore	3.35	2.03	46	108.5	161.9
Malaysia	3.28	1.95	50	34.6	50.5
Brunei	-0.59	-1.92	171	188.8	129
<b>ASEAN convergence trend</b>					
<b>Mean (M)</b>				<b>38.8</b>	<b>45.4</b>
<b>Standard deviation (SD)</b>				<b>57.7</b>	<b>51.4</b>
<b>Coefficient of variation (CV=SD/M)</b>				<b>1.5</b>	<b>1.1</b>
China	<b>8.42</b>	7.10	2	7.5	29.1
India	<b>5.22</b>	3.90	14	5.8	12.4

Source: Author's calculation from the World Bank's WDI database.

\*Using per capita GDP measured in current PPP\$. The U.S. GDP per capita growth over 1998-2018 is 1.32%.

## ASEAN COUNTRIES' DEVELOPMENT ASPIRATIONS

Inspired by the Asian economic miracles, particularly Singapore, and recent development experiences, ASEAN countries have set aspirational development goals in the upcoming decades. As summarized in Table 3, while Singapore has become one of the wealthiest nations, the remaining nine nations all exhibit a clear ambition to rapidly build prosperity.

More specifically, Brunei aims to be among the world's top 10 in both per capita income and quality of life by 2035, while Malaysia, Thailand, Indonesia, the Philippines, Vietnam, Cambodia, Laos, and Myanmar all have set a clear goal of achieving a high development status in the next 25 years. If ASEAN countries jointly achieve their visions, the region will be not much behind the European Union in 2050.

**TABLE 3: ASEAN COUNTRIES' DEVELOPMENT AMBITION**

Country	Development ambition	Document (year of issue)
Brunei	Joining the world's top 10 in quality of life and per capita income in 2035	Vision 2035 (2004) <sup>2</sup>
Cambodia	Aiming to become an upper-middle-income nation by 2030 and a developed country by 2050	Prime Minister Hun Sen's statement (2013) <sup>3</sup>
Indonesia	Becoming an advanced and prosperous nation among the world's largest five economies by 2045	The Vision of Indonesia 2045 (2019) <sup>4</sup>
Laos	Becoming an upper-middle-income country by 2035	The 8th Five-Year National Socioeconomic Development Plan, 2016-2020 (2016) <sup>5</sup>
Malaysia	Elevating the country's status to a developed economy by 2020	The 11th Malaysia Plan (2015) <sup>6</sup>
Myanmar	People working together to build a brighter future in a pluralistic and prosperous nation	The Myanmar Sustainable Development Plan, 2018-2030 (2018) <sup>7</sup>
Philippines	Becoming a prosperous middle-class society free of poverty by 2040	Our Ambition 2040 (2015) <sup>8</sup>
Singapore	Envisioning a "Smart Nation" that is a leading economy powered by digital innovation, and a world-class city	Singapore's Smart Nation initiative (2014) <sup>9</sup>
Thailand	Turning Thailand into a developed country by 2037	National strategy Thailand 4.0 (2018) <sup>10</sup>
Vietnam	Becoming among the top three ASEAN countries in industry by 2030, with some of its industries being globally competitive; becoming a modern industrialized country by 2045	The Political Bureau Resolution No. 23-NQ/TW (2018) <sup>11</sup>

ASEAN countries' strong aspiration to close the development gap with advanced countries is motivated by three interrelated factors. First, the strategy for building a prosperous nation is no longer a myth. In particular, the success of a new wave of high-performing Asian economies – including China, India, Vietnam, and Bangladesh – has made the lessons for achieving high economic growth more convincing and straightforward. Among these lessons, adopting a market economy, improving the business environment, embracing globalization to attract foreign direct investment and promote exports, upgrading infrastructure, and investing in human capital development have become canonical tenets in the economic policies of most ASEAN nations (see Appendix D).

Second, globalization has brought enormous benefits to ASEAN countries, ranging from an influx of foreign direct investments and international tourists to the rapid expansion of Asia-based global value chains and the strategic advantage of ASEAN countries as an alternative destination for the “China plus one” strategy adopted by multinational companies.

Third, the information and communications technology (ICT) revolution, with its rapid progress and penetration, has brought unprecedented opportunities for late-comer countries to leapfrog in building their foundations for economic development, especially in communications, connectivity with the developed world, learning, and technology acquisition. As such, the ICT revolution in particular has indeed enabled less-developed countries to reap greater economic development benefits from their “backwardness” advantage.<sup>12</sup> As the digital revolution, including artificial intelligence (AI), is rapidly progressing, researchers foresee trends in both divergence and convergence among countries. The divergence trend is determined principally by sizable disparities in digital infrastructure, digital access, and digital skills. Although these disparities are considerable among ASEAN countries, the region is expected to follow a convergence trend. One of the major drivers

of this convergence is the leapfrogging capabilities of the digital technologies and the benchmarking exercises adopted by most ASEAN countries, which foster continuous learning and improvement efforts.

Vietnam can serve as a good example of how a less-developed ASEAN country can embrace the aforementioned factors to make progress in economic development. For example, look at Vietnam's performance vis-à-vis the five G-7 economies that have similar population sizes as Vietnam: France, Germany, Italy, Japan, and the United Kingdom. As shown in Table 3, Vietnam caught up with these five G-7 economies in terms of manufacturing employment size during the period 2005-2017 (for which data are available). This catch-up performance is even more pronounced for the ICT manufacturing industry.<sup>13</sup> At the same time, although Vietnam remains far below those five economies on labor productivity, its labor productivity growth showed strong catch-up progress in the manufacturing sector and the ICT manufacturing industry. By the same token, although Vietnam was still well below the five nations in merchandise export value and the number of international tourist arrivals in 2018, the country has grown far more rapidly during the past two decades and substantially narrowed the gaps in these two indicators. In terms of embracing the ICT revolution, Vietnam has also shown that it is not too far behind these industrialized nations in terms of the basic indicators capturing ICT penetration (internet and social media usage) and ICT infrastructure quality (mobile internet speed) (Table 4). This progress has strengthened Vietnam's confidence and capability in adopting a more vigorous economic catch-up strategy in the coming years. It should be noted that this confidence would have been considered a mere fantasy only a decade ago. At the same time, the country's development journey will be long and challenging because its current labor productivity is only one-tenth that of any G-7 economy, while the economic development landscape in the years ahead has become much less favorable and predictable than in the past three decades.

**TABLE 4: AN EXAMPLE OF ASEAN'S CATCH-UP EFFORTS, THE CASE OF VIETNAM**

Indicator	Vietnam	France	Germany	Italy	Japan	U.K.
<b>Manufacturing sector<sup>a</sup></b>						
<i>Employment, in thousands of workers</i>						
2005	3,099	3,662	7,004	3,837	7,549	3,138
2017	7,651	2,818	7,189	3,211	7,820	2,522
CAGR (2005-2017)	7.8%	-2.2%	0.2%	-1.5%	0.3%	-1.8%
<i>Labor productivity (value-added per worker), U.S. dollars</i>						
2005	3,236	72,678	76,253	67,841	124,397	83,496
2017	8,902	91,239	88,723	80,408	116,969	89,195
CAGR (2005-2017)	8.8%	1.9%	1.3%	1.4%	-0.5%	0.6%
<b>ICT manufacturing industry (ISIC=30)<sup>a</sup></b>						
<i>Employment, in thousands of workers</i>						
2005	11	9	42	12	118	28
2017	693	129	348	82	1,262	111
CAGR (2005-2017)	41.0%	24.9%	19.4%	17.3%	21.8%	12.1%
<i>Labor productivity (value-added per worker)</i>						
2005	10,824	69,984	113,035	59,138	128,546	84,183
2017	21,013	104,599	102,272	79,357	121,036	104,496
CAGR (2005-2017)	5.7%	3.4%	-0.8%	2.5%	-0.5%	1.8%
<b>Merchandise exports (U.S. billions of dollars)<sup>b</sup></b>						
1998	9.4	320.6	543.8	245.8	387.9	273.9
2018	15.5	89.3	38.9	61.6	31.2	36.3
CAGR (1998-2018)	17.7%	3.0%	5.4%	4.1%	3.3%	2.9%
<b>International tourist arrivals (millions)<sup>b</sup></b>						
1998	1.5	70.1	16.5	34.9	4.1	23.7
2018	15.5	89.3	38.9	61.6	31.2	36.3
CAGR (1998-2018)	12.3%	1.2%	4.4%	2.9%	10.7%	2.2%
<b>ICT penetration (per 100 people)<sup>c</sup></b>						
Internet users	70.4	92.3	96.0	92.5	93.8	94.9
Facebook users	68.5	50.4	37.6	50.7	22.1	65.7
<b>ICT infrastructure (March 2020)<sup>d</sup></b>						
<b>Mobile internet speed (Mbps)</b>	33.97	43.04	37.31	30.30	35.73	35.39

Sources: <sup>a</sup> UNIDO industrial database; <sup>b</sup> WDI database; <sup>c</sup> Internet World Stat; <sup>d</sup> Global Speeds March 2020.

## EMERGING TURBULENCES AND ASEAN VULNERABILITIES

As the development landscape has changed in favor of economic transformation and growth in ASEAN countries, two major global turbulences have emerged. The first is the U.S.-China trade war, which began in 2018. The trade tension has slowed down the world's GDP growth from a 3.5% average in 2016-2018 to 2.9% in 2019, and adversely affected many economies.<sup>14</sup> The second is the COVID-19 pandemic, which erupted in Wuhan, China in late 2019. The impacts of this crisis are unthinkably extensive and severe, and the world economy is projected to fall in deep recession in 2020.

To make a rough assessment of the vulnerability of a given economy to each of these shocks, one can create a simple index, which is calculated as the gap in GDP growth between the rate observed for the “damage” year and the rate averaged for the three previous years.<sup>15</sup> For the U.S.-China trade war, the “damage” year is 2019, and its previous three-year period is 2016-2018; for the COVID-19 pandemic, the “damage” year is 2020, and its previous three-year period is 2017-2019. As the U.S.-China trade war and the COVID-19 crisis are two consecutive events, the index of their combined effect, which is calculated as a simple sum of the two effects, can reveal further insights. The sign and magnitude of the index for a country with regard to a given shock indicates the degree of the country's vulnerability to the shock.

Table 5 reports these indexes for countries in three Asian regions: ASEAN, South Asia (Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka) and Northeast Asia (China, Hong Kong, Mongolia, South Korea, and Taiwan). Table 5 reveals three notable findings.

First, the impact of the U.S.-China trade war on ASEAN countries in 2019 was mixed. While the index is negative and large for Singapore, Laos, and Thailand, which implies a severe loss, it is positive for Vietnam, Myanmar, and Brunei, which suggests some notable gains for these countries. At the group level (based on the index's median value), the vulnerability of ASEAN countries is much lower than that of the other two Asian groups, as well as of the whole world. The mixed effect of the U.S.-China trade war can be explained as follows. While the trade tension has caused a slowdown in global demand, it has increased FDI inflows in ASEAN countries, as multinational companies have increasingly decided to shift some of their activity out of China (see Appendix C for some illustrative evidence).

Second, ASEAN countries are being severely affected by the COVID-19 crisis. With the exception of Brunei, the vulnerability is substantial for all countries in the bloc, ranging from -4.3 for Vietnam to -10.2 for Thailand. In particular, forecasted GDP growth for 2020 is negative for four countries (Thailand, Singapore, Malaysia, and Cambodia) and plunges by more than four to five percentage points for five others (Vietnam, Laos, Myanmar, the Philippines, and Indonesia). At the group level (based on the index's median value), the vulnerability of ASEAN countries is also more severe than in South Asia, but less severe than in Northeast Asia and the whole world.

Third, ASEAN countries as a group are far more vulnerable than both South Asia and Northeast Asia in the vulnerability index for the combined effect. This finding implies that the development road ahead for ASEAN economies will be even rockier if new turbulences emerge.



**TABLE 5: ASEAN COUNTRIES' VULNERABILITIES TO THE U.S.-CHINA TRADE WAR AND THE COVID-19 PANDEMIC**

(The economies in each group are in decreasing order by the combined effect of the U.S.-China trade war and COVID-19.)

Economy/ region	Annual GDP growth				Vulnerability**		
	2016- 2018 average	2019	2017-2019 average	2020*	U.S.-China trade war	COVID-19 crisis*	Combined effect
	(A)	(B)	(C)	(D)	(I)	(II)	(III)
<b>World</b>	<b>3.6</b>	<b>2.9</b>	<b>3.5</b>	<b>-3</b>	<b>-0.7</b>	<b>-6.5</b>	<b>-7.2</b>
<b>ASEAN (Median)</b>					<b>-0.4</b>	<b>-5.5</b>	<b>-6.7</b>
Thailand	3.8	2.4	3.5	-6.7	-1.4	-10.2	<b>-11.7</b>
Cambodia	7.2	7.1	7.2	-1.6	-0.1	-8.8	<b>-8.9</b>
Singapore	3.3	0.7	2.5	-3.5	-2.6	-6.0	<b>-8.6</b>
Malaysia	5.0	4.3	4.9	-1.7	-0.7	-6.6	<b>-7.3</b>
Laos	6.7	5	6.1	0.7	-1.7	-5.4	<b>-7.1</b>
Philippines	6.6	5.9	6.3	0.6	-0.7	-5.7	<b>-6.4</b>
Indonesia	5.1	5	5.1	0.5	-0.1	-4.6	<b>-4.7</b>
Myanmar	6.3	6.8	6.6	1.8	0.5	-4.8	<b>-4.3</b>
Vietnam	6.7	7	7.0	2.7	0.3	-4.3	<b>-4.0</b>
Brunei	-0.4	3.9	1.8	1.3	4.3	-0.5	<b>3.8</b>
<b>South Asia (Median)</b>					<b>-1.0</b>	<b>-4.6</b>	<b>-4.8</b>
Pakistan	5.6	3.3	4.9	-1.5	-2.3	-6.4	<b>-8.7</b>
India	7.4	5	6.3	1.9	-2.4	-4.4	<b>-6.8</b>
Bangladesh	7.4	8.2	7.8	2	0.8	-5.8	<b>-5.0</b>
Sri Lanka	3.7	2.6	3.1	-0.5	-1.1	-3.6	<b>-4.7</b>
Nepal	5.2	7.1	7.3	2.5	1.9	-4.8	<b>-2.9</b>
Bhutan	5.3	4.4	4.0	2.7	-0.9	-1.3	<b>-2.2</b>
<b>Northeast Asia (Median)</b>					<b>-0.6</b>	<b>-6.4</b>	<b>-6.3</b>
Hong Kong	3.0	-1.2	1.6	-4.8	-4.1	-6.4	<b>-10.5</b>
Taiwan	2.7	2.7	2.9	-4	0.0	-6.9	<b>-6.9</b>
Mongolia	4.6	5.1	5.9	-1	0.5	-6.9	<b>-6.3</b>
China	6.7	6.1	6.5	1.2	-0.6	-5.3	<b>-5.9</b>
South Korea	2.9	2	2.6	-1.2	-0.9	-3.8	<b>-4.8</b>

Note: Numbers may not add up due to rounding. The combined effect for a group is the median value of the combined effects calculated for its members.

Sources: Data on actual GDP growth for 2016-2019 are from ADB (2020), <https://data.adb.org/dataset/gdp-growth-asia-and-pacific-asiandevelopment-outlook>; GDP growth forecasts for 2020 and 2021 are from the International Monetary Fund (IMF, 2020), [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEQ/OEMDC/ADVEC/WEOWORLD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEQ/OEMDC/ADVEC/WEOWORLD). The GDP growth forecasts for 2020 from the IMF (2020) may be further adjusted as real-world situations unfold. For a given country and the world, the three vulnerability indexes are calculated as follows: (I)=(B)-(A); (II)=(D)-(C); (III)=(I)+(II).

## ASEAN DEVELOPMENT PROSPECTS AND STRATEGIC PRIORITIES FOR REFORM

While the degree of economic damage caused by the U.S.-China trade war and the COVID-19 crisis may vary by country and region, these two consecutive shocks convey the same message to all: The world has reached an inflection point that requires fundamental changes. This message is particularly relevant for ASEAN countries, the growth model for which has been largely built on the favorable conditions brought about by the transformative power of three forces: globalization, the ICT revolution, and the rise of Asia. In this rapidly changing environment, ASEAN countries, with the exception of Singapore, have mainly relied on a basic framework for prosperity creation that emphasizes five priorities: macroeconomic stability, business environment improvement, global integration, infrastructure upgrading, and human capital development.

While the aforementioned basic framework for prosperity creation remains valid and essential, the new development landscape requires three strategic shifts in the development strategy of each country:

- The first is to shift the management focus from reacting to events to proactively building a foundation that ensures that the economy will be prepared, competitive, and resilient in a VUCA (volatile, uncertain, complex, and ambiguous) environment.<sup>16</sup> In this strategic shift, digital transformation, government effectiveness, transparency, productivity, innovation, and trust-building should be top priorities for reform efforts. For productivity growth, shifting resources from low- to high-value activity, with vigorous efforts in restructuring and technology acquisition, should have a higher priority than promoting investment for simple production expansion. As the lessons of Asian economic miracle have shown, this foresighted approach plays a crucial role in the economic catch-up success of a poor nation.<sup>17</sup>
- The second is to shift the development focus from mobilizing resources in order to seize opportunities to building up strategic capabilities to cope with unexpected challenges and create long-term value. In this shift, exploiting the country's existing advantages must come with strenuous efforts to build its strategic strengths, diligently addressing its inherent and emergent vulnerabilities. For example, Vietnam has enthusiastically embraced the "Quad-Plus" initiative, as apparent in the prime minister's decision to form a special task force to attract new waves of FDI to Vietnam. This proactive strategy, however, is effective only if the country makes unprecedented efforts to overcome its inherent weaknesses, especially lack of transparency, rampant corruption, and low effectiveness in promoting technology acquisition and innovation.
- The third is to shift the prosperity-building focus from the narrow scope of each individual country to the broad interest of the entire ASEAN community, which would upgrade the status and competitiveness of all member states. In this shift, fostering regional integration, synergistic effects, and coordination capabilities can bring considerable gains to every member nation. It should be noted that ASEAN leaders adopted the AEC in November 2015 as a blueprint to transform ASEAN into a single economy. While the formation of AEC has laid a foundation for building momentum toward ASEAN synergy, it still has a long way to go.

Powerful momentum could emerge if ASEAN countries can work together to promote the "ASEAN consensus" development model presented in Appendix D. This model, which offers a meaningful alternative to the two existing competing development models — the "Washington consensus" and "Beijing consensus" — emphasizes the three major pillars of an effective economic development strategy in the 21st century: synergy, vigor, and sustainability.

## CONCLUSION

The U.S.-China trade war and the COVID-19 crisis are not only global shocks with immediate and substantial consequences, but also a signal that the development landscape will face heightened uncertainty and formidable challenges in the time ahead. As all ASEAN countries have established aspirational goals to achieve considerable economic progress in the next few decades, they should turn these emerging threats into a unique opportunity to raise the sense of urgency for change and deepen their commitment to fundamental and visionary reform efforts. ASEAN countries should also focus on formulating an effective strategy to build synergy amongst themselves and with the world. Positioning themselves as a group of countries that care not only about their own fitness but also the fitness of others (that of region and the whole world) in the post-COVID-19 economic evolution will make ASEAN much stronger and more cohesive.

ASEAN is one of the main theaters for U.S.-China tensions. As these tensions have been further intensified amidst the COVID-19 pandemic,<sup>18</sup> the region has an important role to play in shaping the direction of this crucial geopolitical relationship. ASEAN should not only avoid taking sides, but also adopt a proactive approach to make the relationship less unproductive, if not outright productive. A core principle for ASEAN action in this endeavor is to encourage both the U.S. and China not to prove who exhibits greater strength; rather, the key question is about who is the better fit for a new era of development and more capable of enhancing the fitness of ASEAN countries during the coming phase of global economic evolution.

## APPENDIX A: CONSTRUCTION OF THE CATCH-UP PERFORMANCE INDEX (CUPI)

The catch-up performance index (CUPI) is defined as follows:<sup>19</sup>

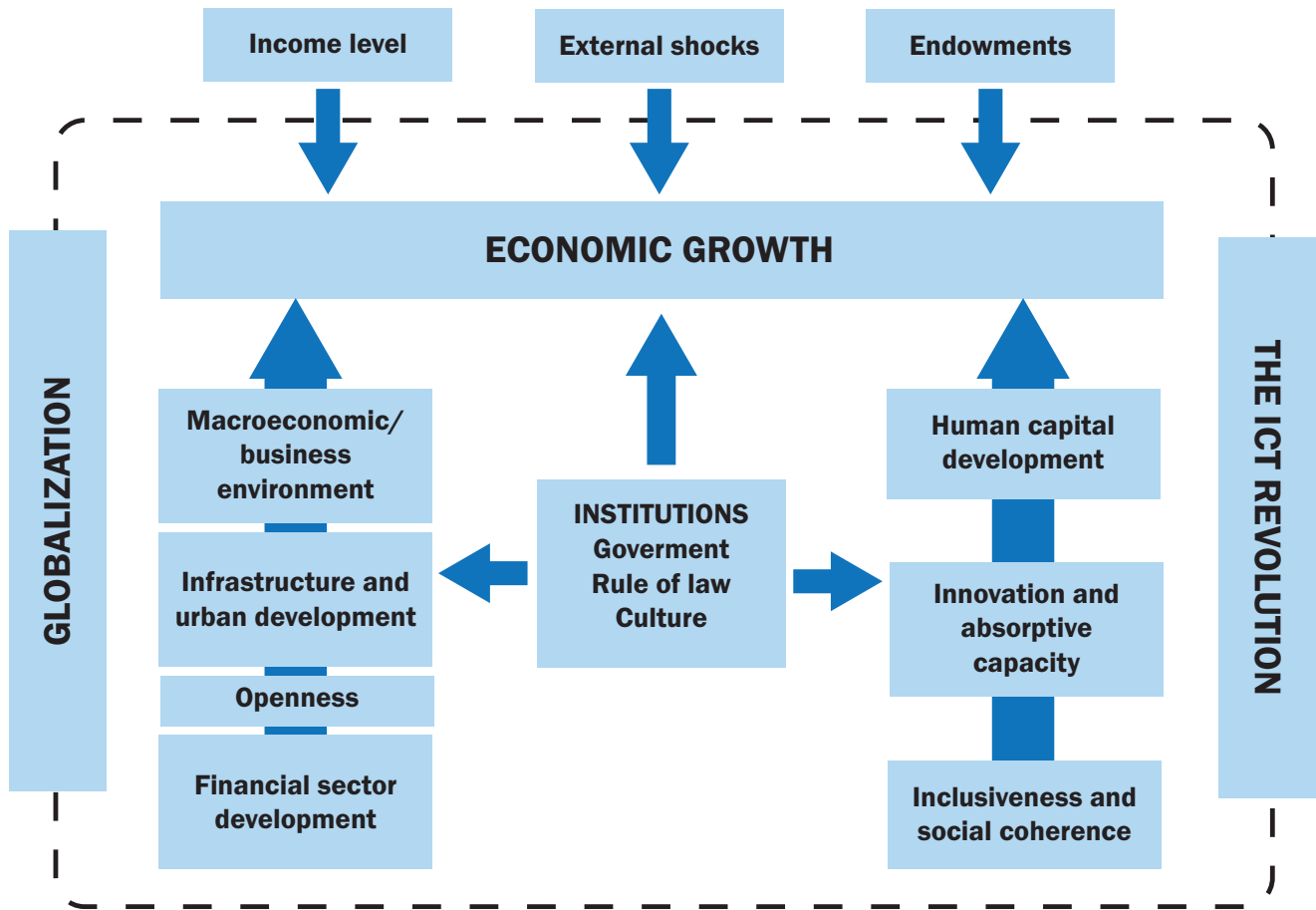
$$CUPI_{0,T}^i = \ln \left[ \frac{rel\_y_T^i}{rel\_y_0^i} \right] / T * 100 \quad (1)$$

where  $CUPI_{0,T}^i$  is the CUPI of country  $i$  over period  $[0, T]$  and  $rel\_y_t^i$  is relative per capita income measured in purchasing power parity (PPP) dollars at constant prices of country  $i$  in year  $t$  in comparison to the U.S. ( $rel\_y_t^i = y_t^i / y_t^{US}$ ).

By definition, if country  $i$  is catching up or forging ahead, its relative income improves,  $rel\_y_T^i > rel\_y_0^i$ , which means  $CUPI_{0,T}^i > 0$ . Conversely, if country  $i$  is falling behind, its relative income gap with the U.S. deteriorates,  $rel\_y_T^i < rel\_y_0^i$ , which means  $CUPI_{0,T}^i < 0$ .

That is, the sign and magnitude of the CUPI index provide a meaningful measure to assess the catch-up performance of a given country in terms of per capita income over the period under investigation.

## APPENDIX B: DETERMINANTS OF ECONOMIC GROWTH



## APPENDIX C: NET FDI INFLOWS FROM THE U.S. TO ASIAN COUNTRIES, 2019 VERSUS 2018

(Countries are in increasing order of the change in FDI inflows from 2018 to 2019.)

Country	2018 (A)	2019 (B)	Change (B)-(A)
China	7,592	5,113	-2,479
Malaysia	-88	-2,157	-2,069
Taiwan	529	-47	-576
Philippines	689	302	-387
Hong Kong	1,242	944	-298
Thailand	44	1,126	1,082
South Korea	-455	1,564	2,019
India	2,080	4,952	2,872
Japan	3,289	6,609	3,320
Indonesia	-3,051	1,351	4,402
Singapore	-47,508	24,478	71,986
Others (Vietnam, Cambodia, etc.)	835	942	107

Source: The U.S. Bureau of Economic Analysis (BEA) database, <https://www.bea.gov/data/intl-trade-investment/direct-investment-country-and-industry>.

## APPENDIX D: THE ASEAN CONSENSUS (ADC) MODEL

Policymakers in developing countries have, to some extent, been influenced by the two competing development models: the Washington consensus (WAC) and Beijing consensus (BEC). While the WAC and BEC – which were introduced by John Williamson and Joshua Cooper Ramos, respectively – offer valuable insights for policy reforms to promote economic development, they are not robust enough to be effective for the new development landscape in the 21st century.<sup>20</sup> Khuong Vu and Kris Hartley introduce the ASEAN Consensus (ADC) model, arguing for a strategic focus on three core components: synergy, vigor, and sustainability (Figure D1).<sup>21</sup>

Compared to the WAC and BEC, the ADC model distinguishes itself in three particular ways (Table D1): first, its primary focus is on the “why” question, while the other two models concern “what” and “how” questions; second, the ADC focuses on value creation as articulated by a comprehensive framework that includes synergy, vigor, and sustainability (by contrast, the WAC is preoccupied with market efficiency and the BEC with coordination effectiveness); and third, the ADC emphasizes ecosystem-building as the primary mechanism for creating value, while the WAC relies on the market and the BEC on government interventions.

**FIGURE D1: THE ASEAN DEVELOPMENT MODEL**

<b>Embracing the industry 4.0 revolution</b>	<b>Synergy</b>	<ul style="list-style-type: none"> <li>• <b>Global integration</b></li> <li>• <b>Government-market interdependence</b></li> <li>• <b>Domestic economic integration</b></li> <li>• <b>Whole of government</b></li> <li>• <b>Sharing economies</b></li> </ul>
	<b>Vigor</b>	<ul style="list-style-type: none"> <li>• <b>Institutional quality (stability, consistency, transparency, coordination, control of corruption)</b></li> <li>• <b>Value creation (efficiency, effectiveness, and productivity)</b></li> <li>• <b>Competitiveness (strategic positioning, turning vulnerabilities to strengths, solution focus, culture)</b></li> <li>• <b>Factor conditions (infrastructure, entrepreneurship, human capital, financial sector, innovation capacity)</b></li> <li>• <b>Resilience (pragmatism, discipline, ecosystem)</b></li> </ul>
	<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• <b>Quality of life</b></li> <li>• <b>Future-readiness</b></li> <li>• <b>Resources conservation</b></li> <li>• <b>Diversity and inclusiveness</b></li> <li>• <b>Mutual respect and understanding</b></li> </ul>

Source: Khuong Vu, “Economic Catch-up Strategy in the 21st Century: From Concept to Action.”<sup>22</sup>

**TABLE D1: THE ASEAN DEVELOPMENT MODEL**

Feature	Washington consensus (WAC)	Beijing consensus (BEC)	ASEAN consensus (ADC)
Example	United States	China	Singapore
Primary question	What?	How?	Why?
Strategic objective	Stability and growth	Development	Prosperity
Central priority	Efficiency	Effectiveness	Value creation
Transformative mechanism	Market	Coordination	Ecosystem
Optimization scope	Local	Local	Global
External enablers	No discussion	Globalization	ICT revolution; globalization

Source: Khuong Vu, "Economic Catch-up Strategy in the 21st Century: From Concept to Action."<sup>23</sup>



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## ACKNOWLEDGEMENTS

I am grateful to Jonathan Stromseth, Adrien Chorn, and an anonymous reviewer for valuable comments and suggestions. I am also indebted to the participants at the “Trilateral Dialogue on Strategic Landscape, Governance Trends, and Economic Cooperation in Southeast Asia” conference held in Singapore on October 29-30, 2019 for insightful discussions. Anna Newby edited this policy brief, and Rachel Slattery performed layout. The views expressed and any errors are the author's responsibilities.

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