

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The rapid spread of Covid-19 is due to several factors. First, the virus is highly contagious and can spread from person to person even if the infected individual is asymptomatic. Second, the virus has a lengthy incubation period, allowing an infected individual to spread the disease without being aware that they are sick. Third, the virus has a high transmission rate, with each infected person potentially spreading the virus to several others, has infected more than 120,000 people worldwide and spread to more than 100 countries. The declaration was made due to the rapid and sustained increase in the number of cases and deaths worldwide.

The pandemic has presented several limitations and challenges that have affected individuals, businesses, and governments worldwide. Some of the general limitations and challenges that the pandemic presents are: (i) Health Crisis: The pandemic is primarily a health crisis, with the virus spreading rapidly, infecting millions of people, and causing significant health complications, including hospitalization and death. Due to the pandemic, there are shortages of medical supplies, hospital beds, and healthcare staff in every country's healthcare system (Patel, 2020); (ii) Economic Impact: The pandemic has caused a significant economic impact worldwide, with many businesses struggling to stay afloat due to restrictions and lockdowns. Many individuals have lost their jobs or have had their income reduced, leading to financial instability and uncertainty; (iii) Social Distancing: The pandemic has resulted in social distancing measures that have limited

physical interactions between individuals. This has caused significant mental health challenges, including loneliness, anxiety, and depression; (iv) Education Disruption: The pandemic has disrupted the education system worldwide, with many schools and universities closing down, resulting in a significant loss of learning opportunities. This has affected students, teachers, and parents, with many struggling to adapt to remote learning; (v) Travel Restrictions: The pandemic has caused significant travel restrictions worldwide, has limited international travel and tourism, affecting many businesses in the tourism sector; (vi) Vaccine Distribution: Although vaccines have been developed to combat the virus, the distribution of vaccines worldwide has been a challenge. Many countries are struggling to secure enough vaccines to vaccinate their populations, leading to slow vaccine rollouts; and (vii) Misinformation: The pandemic has caused an influx of misinformation and fake news being spread online.

One of the most highlighted impacts is the widespread economic disruption across the globe, with many countries experiencing unprecedented challenges in multiple sectors of their economies. Some global data on the economic impact of the pandemic includes: The global economy contracted by an estimated 4.3% in 2020. The International Monetary Fund forecasted 5.5% world economic growth in 2021 and 4.2% in 2022 in January 2021, but noted that the outlook remains highly uncertain (International Monetary Fund, 2020). Additionally, 255 million full-time jobs would have been lost from the global workforce by 2020, more than four times the amount lost during the global financial crisis (International Labor Organization, 2020). Last but not least, small and medium-sized enterprises (SMEs) have been affected the most by the pandemic, with 80% of them experiencing a decline in revenue (International Trade Centre, 2021). The

ability of people of all ages to participate in activities of daily life, recreation, education, and employment is negatively impacted by restrictions on movement, indoor and outdoor gatherings, and non-essential work. Governments started adopting regulations banning large groups of people, in-person business transactions, and promoting individuals to work from home as much as possible practically immediately, which has an indirect impact on physical activity. COVID-19 pandemic, the most recent in a string of global chaos, thus creating major economic disruption, has compelled industrial organizations to reevaluate every facet of their operations in order to survive in the new normal.

Southeast Asia is one of the regions that is seriously hit by the pandemic, facing the greatest COVID-19 death toll in the world, which is being caused by the Delta variant and an uneven vaccine delivery. Thailand confirmed the first incidence of the COVID-19 sickness outside of China in January 2020. Soon after, the first instances of COVID-19 were confirmed in several other Southeast Asian nations, including Vietnam on January 23, Malaysia on January 25, Cambodia on January 27, and the Philippines on January 30, 2020. As of late 2022, the disease's cases and fatalities have sharply increased in Southeast Asia. Southeast Asia had 249,529 fatalities and 11,324,390 confirmed cases as of September 17, 2021 (Curtis, 2021). In particular, Indonesia reported 4,185,144 SAR-CoV-2 infections in total, with 140,138 deaths (CFR = 3.3%). With 2,040,343 cases and 33,873 fatalities (CFR = 1.6%), this nation has the highest proportion of COVID-19 (ASEAN Secretariat, 2022). The two nations in Southeast Asia with the lowest CFR at the moment are Laos and Singapore (0.1% and 0.1%, respectively).

Following the health crisis and reaction, it was experiencing a socio economic crisis. In contrast to a pre-COVID prognosis of 4.5 percent growth, the GDP shrinks on

average by 0.1% in 2020/21 (Centers for Disease Control and Prevention, 2021). Sharp declines in economic production have been brought on by restrictions on people's freedom of movement, notably those related to tourism, and reduced flow of goods and services. Malaysia saw an increase in unemployment of 1.5 percentage points, Indonesia of 2.5 percentage points, and the Philippines of 1.2 percentage points (Afonso, 2021). Tens of millions of individuals in this region may fall into extreme poverty due to a lack of consistent income and adequate social protection. The COVID-19 pandemic also resulted in a rise of 61 million undernourished people (IMF Report, 2021). Vulnerable groups and informal workers have been severely hurt by lockdowns and physical separation, forcing them to rely on more expensive supermarkets and officially recognized marketplaces rather than street sellers. Despite ample food supplies, low earnings have made it harder for the poor to afford a variety of wholesome foods. Reduced sales and the loss of perishable stock could, as persisted, cause producers, traders, and retailers to incur more debt. Last but not least, travel bans and restrictions have severely hurt Southeast Asia's tourism and hospitality sector, which generates significant national income (20%, for example, in Thailand and the Philippines) and massive job loss (IMF Report, 2021).

Many of Southeast Asia's hard-won economic and development advantages have been undone caused by the pandemic. Due to the sharp fall in economic activity, according to the Asian Development Bank, 5.4 million more individuals in Southeast Asia classified as extremely poor in 2020 (those who make less than \$1.90 per day) and 4.7 million more people lived in extreme poverty in 2021 than was predicted by the poverty estimate for 2020 without COVID-19. Additionally, the epidemic has severely

disrupted the labor market. The International Labour Organization estimates that, had there not been a pandemic, there would have been 10.6 million fewer employed persons in the region in 2020. According to McKinsey (2017), the employment gap remained at 9.3 million and 4.1 million jobs in 2021 and 2022, respectively. With idle workers losing their skills and low-income people's access to chances getting worse, it is projected that the pandemic's effects on poverty and unemployment would endure.

The output of Southeast Asia decreased by roughly 4% in 2020 after expanding by 4.4% in 2019 (Ing, 2022). Southeast Asian economies saw a range of output declines, with some being more severely impacted than others. For instance, output decreased in the Philippines, Thailand, and Malaysia by 9.6%, 6.1%, and 5.6%, respectively, in 2020 (Ing, 2022). More limitations on movement and economic activity were put in place in 2021's second and third quarters as the COVID-19 Delta version spread over the area. The projected growth rate for Southeast Asia in 2021 dropped from 4.4% in April to around 3% in December as a result (Hermawan, 2021). By region, forecast updates vary. For instance, the third quarter of 2021 saw a decline in output, which had a negative effect on the year's prognosis, economic projections for Malaysia and Vietnam were reduced while The Philippines, Singapore, and Indonesia, on the other hand, saw an improvement in both performance and projections with projected economic growth for 2022 stays at 5.1% (Cassey, 2021).

Sustainable Development Goals (SDGs) have also been highly impacted by the pandemic. Progress towards poverty reduction, trade, investment, healthcare, and environmental sustainability has been reversed, and the region's economies are facing significant challenges (UNDP, 2021). This loss of jobs and income has had a knock-on

effect on poverty reduction efforts, with the number of people living in poverty in the region increasing for the first time in two decades. Besides, the lack of access to vaccines in many parts of the region has also highlighted the need for greater investment in healthcare infrastructure and research and development. The pandemic has also shown the importance of investing in digital infrastructure, such as telemedicine and e-health, to improve the delivery of healthcare services. The region's policymakers have an opportunity to work together to build a more resilient and sustainable economy that can withstand future shocks. This could involve greater investment in digital infrastructure and the development of more sustainable supply chains among SMEs.

On the other hand, among all, Asia, with Southeast Asia in particular, has become the region that remains resilient despite the challenging situation. One of the suitable instruments to mitigate multiple covid 19 restrictions and also used as the strength in showing how Southeast Asia has greatest potential on it is digital transformation. According to McKinsey, digital transformation is an initiative to support current business models by incorporating cutting-edge technologies in the form of a socioeconomic shift affecting people, groups, ecosystems, and societies as a whole and caused by the development and use of digital technologies (Hermawan, 2021). Here all of sudden, digital transformation becomes more crucial than ever in boosting economic recovery post pandemic, affecting everything from remote, covering supply chain flexibility, employee mobility, and resilience. By offering the flexibility, agility, and mobility needed in the new normal, digital technology has increased productivity and sped up innovation, especially for SMEs who contribute significantly to the country's economic recovery. SMEs refer to a formal firm with an annual turnover in US dollars of

between 10 and 1000 times the country's mean per capita gross national income at purchasing power parity, and registered with fewer than 250 employees. Since the pandemic outbreak in October 2020, micro businesses and businesses in the manufacturing sector have increased by 59% in terms of adoption of the usage of digital platforms (International Trade Centre, 2020). In contrast to the 26% rise seen the year before, the global Internet bandwidth utilization increased by 35% in 2020 (ITC, 2020). This constituted the biggest annual increase since 2013, driven primarily by the epidemic response. There has also been a noteworthy change in customer behavior as shown by the quick rise of e-commerce. Online transactions have exploded in number as a result of lockdown efforts. With the global percentage of online retail sales of total retail sales expanding from 16 to 19% in 2020, people are using digital platforms to do their online shopping (OECD, 2020). Consumers in emerging economies made the biggest switch to online buying, but e-commerce was widely adopted across geographies.

With a population of more than 630 million, the third-largest in the world, over half of whom are under 30 and are tech-savvy, Southeast Asia is the region with the fastest-growing internet market globally where actually, in the area, almost 3.8 million new users log on each month (Curtis, 2021). The region's emerging markets are anticipated to have some of the fastest-growing digital economies, a growing middle-class population that are tech knowledgeable, and strong support from the government. The region, which has witnessed the explosive expansion of digital native enterprises, is also seeing a rise in the popularity of market and sharing economy business models. This is also demonstrated by the growth of technology "unicorn" firms worth more than US\$1 billion, four of which are located in Indonesia, cross-border e-commerce

platforms, and the rising number of business owners who are innovating and utilizing technology to expand (Laisure, 2021). All economic sectors, from transportation and finance to agriculture and social services, stand to be significantly changed by the employment of digital technologies. Digital transformation provides chances for cross-selling and up-selling, and lowering sales and marketing costs, some of these firms are evolving into mega applications. From 2016 to 2020, super applications in Southeast Asia saw huge investments totaling US\$50 billion and by 2025, there will be a US\$23 billion revenue opportunity, up from the current US\$4 billion (Beshcorner, 2021).

Without a question, digital growth in Southeast Asia is accelerating but it does not happen in an equal manner. To realize the region's full potential, improvements must be made in a number of areas, including information security, digital policy effectiveness, new consumer development, and digital infrastructure. In the region, member countries are at various phases of development, including in the field of digital technologies (Heng, 2019). Not all businesses are able to adopt in a remote setting. According to a survey run by the Asian Development Bank, almost 30% of MSMEs in Indonesia, Philippines, Thailand, and Laos, were little equipped to engage in digital transactions (Nakavachara, 2021). In addition, around 40% of MSMEs had to temporarily close. Besides, talking about online learning, 60% of ASEAN youths had increased the use of the internet, yet a similar percentage experience was constricted throughout their learning activities due to low internet quality and high internet cost (Nakavachara, 2021).

Making sure that this "development gap" is properly addressed is a huge challenge. Besides, workers are struggling to keep up with the needs of these evolving company models because they have out-of-date skills. This issue covers the importance



of digital strategy, curriculum development, and regional mobility skills (joint skills training, talent transfers, and standardization for job qualifications) that all need significant collaboration between government and private sectors. Here we just talk about the short term priorities, while how about the long term one such as massive replacement of low-skilled people by robots, known as "automization," that will definitely put pressure on politics? If there isn't also a rise in digital connectedness, the digital economy increases the likelihood of inequality. In addition, enhancing digital connectivity should be part of the process of developing an integrated digital economy. One illustration is the fiscal space's optimization through the facilitation of investment through broadband and digital gadgets (Nakavachara, 2021). To close the digital divide, specific actions and consultations with relevant parties are essential. Since businesses, particularly micro, small, and medium enterprises, and the community are frequently at the forefront of these trends. In relation to that, emerging technologies, including 5G networks, blockchain, big data analytics, and artificial intelligence, if not managed within a good policy framework, will actually disrupt the business model (World Bank, 2021).

Last but not least, cybersecurity issues are constantly accompanied by rising digitalization, and according to 65.8% of ASEAN SMEs, this is their biggest operational challenge. An average cybersecurity breach takes hundred days to identify and contain, allowing hackers plenty of time to destroy computer systems, which often cost organizations \$3.86 million (Tailor, 2020). Unfortunately, in total, ASEAN members spent 0.7% of GDP on cybersecurity, less than the 0.13 percent global average, which further marks the fact that Southeast Asia still does not count this issue in its top priority list. Additionally, a regional governance structure for cybersecurity has not been formed.

Digitalization has grown more and more important to the production of long-term value and competitive advantage as businesses try to meet consumer expectations and stay relevant after the epidemic. Therefore, rather than debating whether to engage in it, organizations must focus on how to create or join one. Consequently, this topic is interesting to be discussed to study the significance of digital transformation on economic recovery that encompasses not only its opportunities but also major challenges which require collaboration and coordination between technological, financial, and regulatory breakthroughs in order to build digital competency and infrastructure. Additionally, utilizing the advantages of technology calls for sound public policy, private sector investment, and effective resource management. All in all, this paper provides a preliminary assessment of opportunities and challenges of digital transformation on Southeast Asia post Covid 19 economic recovery. This writing does not include any insights on the role of ASEAN as ASEAN has not yet had significant actions taken on digitalization on how it can be involved as part of the strategy in integrating or even improving regional economy.

Therefore, the author decides to instead have a deeper analysis on the selected countries in Southeast Asia which are Singapore, Indonesia, Vietnam, and Myanmar. This to highlight the contrast of conditions among the advanced (Singapore), most growing (Indonesia & Vietnam), and the less growing one (Myanmar) to view both similarities if any, difference of opportunities & challenges faced, and how SMEs contribute to their economic recovery. Besides, it is based on facts and information that will mostly be accessible through the third quarter of 2022, including official statistics, corporate and consumer e-commerce surveys, publications by multilateral and for-profit organizations,

and interviews with public servants and business leaders. In particular, it draws on the reality faced by Southeast Asian countries that is intended to stimulate critical discussions in both national and regional level, discussing legislative proposals that can help nations better utilize digital trade and e-commerce to recover from the COVID-19 issue.

## 1.2 Research Questions

Based on the preliminary research, I have formulated the following research questions:

1. *How does Southeast Asia take advantage of the opportunities of digital transformation in the sector of SMEs accelerated during Covid 19 for their economic recovery?*
2. *How does Southeast Asia navigate the challenges of the rapid yet unequal digital transformation in the sector of SMEs for post Covid 19 economic recovery?*

## 1.3 Research Objectives

The objective of this research is to analyze how *Southeast Asia takes advantage of the opportunities and navigate the challenges* of digital transformation that accelerated during Covid 19 for their economic recovery. Such analysis is pursued by studying the case of some countries: developed, growing ones, and less developed, to come up with a more specific explanation on the process and actions, despite the fact that they have issues in common.

## 1.4 Significance of Research

This research will provide a comprehensive understanding on opportunities and challenges faced by the Southeast Asian countries in digital transformation by acknowledging its significant contribution on post Covid 19 economic recovery, focused in the sector of SMEs. This study will also be useful as a source of information for future cooperative efforts involving state and non-state entities in the search for a more efficient method of cooperation. In addition, I hope that this research will increase public awareness of the pressing need for and difficulty in resolving the issue of digital transformation among Southeast Asian countries with different domestic issues. Additionally, it will raise awareness of the need for management designed around non-government and governmental actors to put into practice strategic innovations in enhancing cross-jurisdictional collaboration in digital sectors. It is significant that this research will advance the knowledge of academics studying international relations, particularly when used as a guide for future studies on digitalization and economic recovery. So, in my opinion, this research will be helpful for both social studies academics and the general public.