



# BUILDING SKILLS NOW FOR ASEAN'S FUTURE

Upskilling of workers is critical for building a more resilient workforce and future-proofing economic growth.

**U**pskilling has become a buzzword for governments across the region as they gear up to boost economic growth and improve productivity. A confluence of factors such as digitalisation, automation, and artificial intelligence is heralding a new age where these elements have become powerful drivers of economic success.

There is enormous potential for Southeast Asia, which is home to the third largest labour force in the world and has a relatively young population, to upskill its workers. Historically a region that has depended on low-skilled manufacturing and labour-intensive industries, Southeast Asia is at risk of not maximising its economic potential if governments and the private sector are

unable to equip the workforce with the skills needed to take on higher value-added jobs.

In countries such as Indonesia, Thailand, Malaysia, Vietnam, and the Philippines, there is a growing demand for more highly-skilled jobs as their economies transition to higher value-added industries that are green and more sustainable. The lack of workers with the right skills has resulted in a widening skills gap, especially amongst micro, small and medium enterprises (MSMEs), which account for as much as 99 percent of the total number of businesses in these countries. With more than 70 million MSMEs in ASEAN, skills upgrading will be necessary to achieve long-term and sustainable economic growth.<sup>1</sup>

## STATE OF AFFAIRS ON THE GROUND

In Indonesia, there are more than 60 million ultra-MSMEs, i.e., extremely small micro-sized businesses, and many of their founders have at best limited basic financial literacy and management skills, according to Aria Widyanto, Chief Risk and Sustainability Officer of Amarnya, a fintech company that offers micro-finance loans and services to ultra-MSMEs. Widyanto noted that many ultra-MSMEs lack an understanding of financial products and services beyond basic transactions. And while ultra-MSMEs use digital services for communications and entertainment, leveraging these tools to grow their business is still a work in progress. “Issues such as limited knowledge of e-commerce platforms, high logistical costs, and lack of

confidence impede progress and require interventions,” he said.

To unlock the full potential of ultra-MSMEs, collaboration among the government, private sector players, and other stakeholders is essential. Lawmakers, business leaders, financial institutions, training providers, and support groups thus need to come together to create an ecosystem that addresses the needs of both ultra-MSMEs and workers.

“Our research highlights two critical dimensions that inform the segmentation of MSMEs and their needs: innovation level reflects the degree of financial literacy, digital skills, and entrepreneurial drive of ultra-MSMEs, while loan level indicates the extent of financial resources they can access to support business development,” Widyanto noted. “These dimensions provide a foundation for stakeholders to design targeted and impactful interventions.”

Such interventions usually revolve around providing subsidised training programmes to help these micro-entrepreneurs and workers upskill themselves.

## GOVERNMENT STEPS IN TO NARROW SKILLS GAP: THE INDONESIA CASE

Realising the urgent need to upgrade the skill levels of their workforce, governments in the region have stepped in by launching a plethora of upskilling programmes. Nevertheless, the challenge lying before them is significant.

In Indonesia, for example, only six percent of the population holds a diploma or higher education degree, with 20.9 percent holding high school diplomas and 23.4 percent having

elementary school certificates, according to 2022 data from Statistics Indonesia.<sup>2</sup> Until recently, opportunities for upskilling in the country have been limited, and 90 percent of the workforce have never attended formal training courses due to a lack of financial support and limited access to information.<sup>3</sup> The region’s most populous country is also home to the world’s fourth largest workforce with 140 million workers. However, the country’s productivity remains low. According to the International Labour Organization, Indonesia’s 2024 output per hour worked was US\$15.10, while Malaysia’s was US\$29.70 and Singapore’s was US\$95.80.<sup>4</sup> Moreover, there is a significant challenge for conducting offline training given that Indonesia is an archipelago stretching over 5,000 km. In fact, the government of Indonesia has long recognised the importance of implementing nationwide training programmes, but geographical challenges meant that offline localised initiatives were difficult to scale.

In 2020, amidst the widespread job losses and uncertainty caused by the COVID-19 pandemic, then President Joko Widodo launched the Kartu Prakerja programme to enable workers who had lost their jobs to obtain access to inclusive learning and financial assistance. Prakerja is the national skills development agency that runs Indonesia’s largest vocational training programme. The programme aims to provide training scholarships to improve workers’ competence and entrepreneurship capabilities. The Kartu Prakerja programme proved to be a huge

success. By the end of 2024, there were 284 offline training programmes available across 31 provinces. The training courses offered included those for truck and bus driving, technical equipment maintenance, basic security, housekeeping, and bridal make-up. While the programmes were funded by the government, they were run in partnership with 247 registered training providers from the private sector.

“From 2020 to 2024, we have strived to provide the best we could to 18.9 million Prakerja beneficiaries and society at large,” noted Denni Puspa Purbasari, Executive Director (Program Management) at Prakerja. “There have certainly been shortcomings, particularly given the difficulty of closing the skills gap when the target continuously shifts, but with the guidance of the Coordinating Minister for Economic Affairs and all members of the Job Creation Committee, we are committed to moving forward, raising awareness, and enhancing the capabilities of our workforce to adapt to the challenges of the labour market,” she said in the foreword to Prakerja’s 2024 annual report.<sup>5</sup> Purbasari added that the government’s commitment to upskilling is critical if the country is to improve productivity and economic growth. “A country’s productivity lies in its human capital. Efforts to keep people productive cannot only rely on philanthropy and corporations,” she noted.

As such, Prakerja will collaborate with the country’s education system, as well as the Indonesian private sector to ensure that its

programmes are relevant to market needs. According to research from the Svara Institute, Prakerja has helped raise worker income by 15 to 17 percent per month on average while also meeting a number of sustainable development goals. Its success has meanwhile been studied by Cambodia's National Social Protection Council (NSPC) and Thailand's Equitable Education Fund (EEF) with the objective of introducing similar programmes in their respective countries.<sup>6</sup>

## THE SITUATION ELSEWHERE IN ASEAN

Vietnam's National Innovation Center (NIC) is also working with private sector players to upskill the nation's workers, especially those in the manufacturing sector. The NIC had partnered with two US firms to train 50,000 Vietnamese semiconductor engineers by 2020 and, according to the Vietnamese Minister of Planning and Investment, Nguyen Chi Dung, the training programme aims to develop manpower for the semiconductor industry and promote a Vietnamese semiconductor ecosystem.<sup>7</sup>

Under a programme supported by the United States Agency for International Development (USAID), Vietnam is also launching training courses to upskill its workforce for the digital economy,<sup>8</sup> which is projected to reach US\$45 billion by 2025, and US\$90 billion to US\$100 billion by 2030.<sup>9</sup> At the same time, in July 2023, it was reported that 61 percent of Vietnamese employers said that they were unable to find appropriately-skilled workers at the right time.<sup>10</sup>

As for Thailand, after realising the need to upskill its workforce, its Ministry of Labour (MOL) has identified a number of sectors to prioritise; they include services and agriculture. Under the MOL, the Department of Skill Development (DSD) plans to upskill and reskill more than five million workers by the end of 2025.<sup>11</sup> In June 2024, the government also announced that it was aiming to develop a skilled workforce of 280,000 people in advanced industries over the next five years to help the country become a high-tech hub.<sup>12</sup> Additionally, to encourage private sector players to train their workers, the Thai government will offer up to a 250-percent tax deduction incentive for companies that send employees for training at accredited universities or government agencies.

Meanwhile, Singapore's SkillsFuture programme remains the gold standard in the region for how the government and the private sector work hand in glove to prepare the workforce for future jobs, and the country is focused on future-proofing its workforce through upskilling proactively, working with both the private and public sectors, investing in the workforce, and involving the older generation of workers.<sup>13</sup> As part of its lifelong learning philosophy, the Singapore government regularly provides financial support to Singaporeans who wish to upgrade their skills and take on new careers. In January 2025, Minister of State for Education Gan Siow Huang announced that in a sign of Singapore workers taking upskilling seriously, more than 25,000 Singaporeans aged 40 and above had utilised the

S\$4,000-SkillsFuture Credit top-up as of November 2024.<sup>14</sup>

## CONCLUSION

As the technological revolution gathers pace, upskilling will grow in importance at all levels. According to the World Economic Forum, over the next five years, "22 percent of today's global jobs will change due to technological advancements [and] the transition to a more sustainable economy."<sup>15</sup> While these trends will create new opportunities for productivity growth, innovation, and climate resilience, they will also pose challenges with job displacements, skills mismatches, and inequitable access to opportunities in their wake.

While Southeast Asian countries face a daunting uphill task to upskill their workforce, they are acutely aware that not doing so will not only impact future economic growth, but also adversely affect the livelihoods of millions of their citizens. There is therefore an urgent need to ensure that everyone's mind is focused on the task at hand.<sup>16</sup>



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