

# Chapter 1

## ASEAN and AEC: Progress and Challenges

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# Chapter 1

## ASEAN and AEC: Progress and Challenges

### Remarkable economic and social progress

ASEAN had remarkable if somewhat tumultuous economic progress during the past quarter century. A number of ASEAN member states have seen marked economic structural transformation during the period. The region's economic progress translated into social progress as best captured by the marked reduction in poverty rate and in the extent of poverty gap in the region and was also made manifest in other social outcomes like in health and literacy.

### Economic progress

ASEAN had very robust growth rates in GDP during its “golden decade” of the late 1980s and early 1990s, with an average growth rate that was close to a near doubling within a decade (see **Table 1.1**). The ASEAN GDP per capita declined sharply in 1998 due to the 1997 East Asian financial crisis that started in Thailand. It inched up secularly during 2001-2007, then had been hit again by the global financial crisis and succeeding global volatility since 2008. Overall, ASEAN GDP grew moderately in the 2000s.

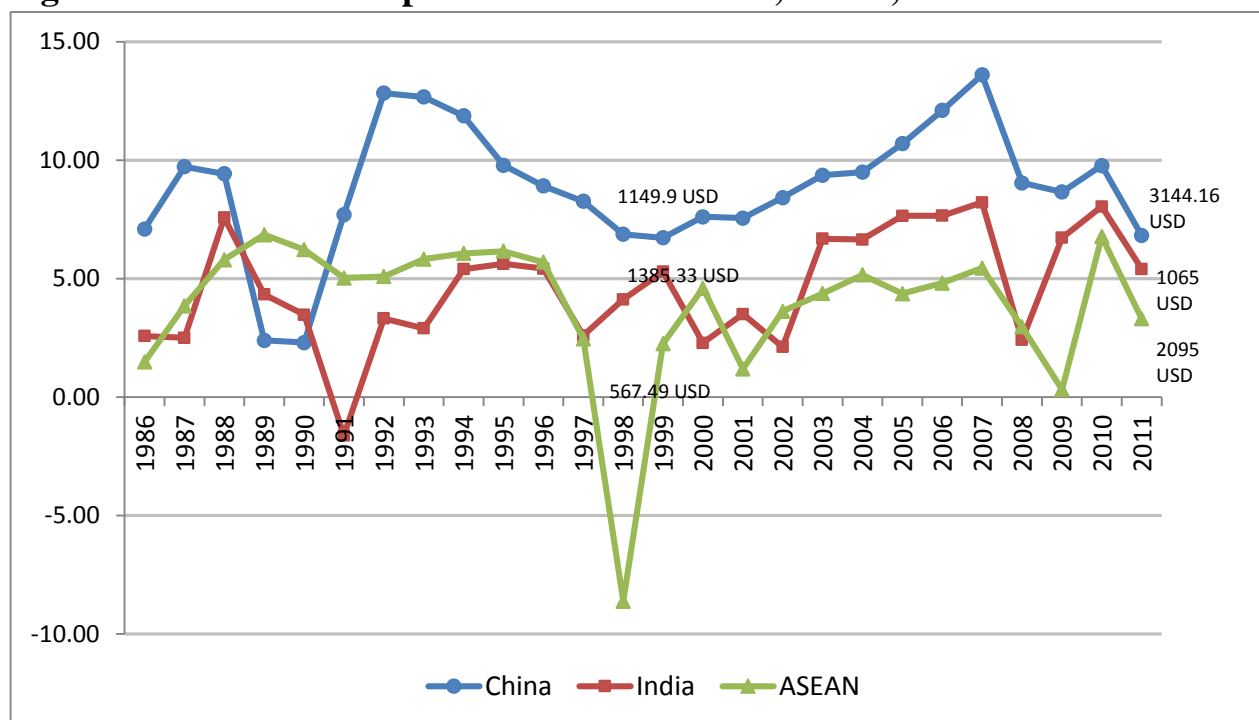
**Table 1.1: The Average Growth of Selected Region in the World (in percent)**

Country	1991-1995	1996-2000	2001-2005	2006-2011
<b>China</b>	12.28	8.64	9.76	10.87
<b>India</b>	5.18	5.80	6.99	7.93
<b>Developing Asia</b>	6.92	5.43	6.45	7.15
<b>All-Developing Economies</b>	5.05	4.60	5.32	6.12
<b>ASEAN</b>	7.48	2.82	5.09	5.14
<b>LAIA</b>	2.98	3.18	2.65	3.90
<b>ROK</b>	7.90	5.35	4.50	3.81
<b>Russia</b>	-8.50	1.77	6.14	3.80
<b>BSEC</b>	27.97	2.29	5.50	3.50
<b>ANZ</b>	3.29	3.71	3.53	2.54
<b>World</b>	2.10	3.43	2.87	2.36
<b>EU</b>	1.63	2.91	1.91	1.03
<b>USA</b>	2.55	4.35	2.40	0.86
<b>Japan</b>	1.42	0.85	1.20	0.17

Source: UNCTAD Stat (2013)

The overall economic performance of ASEAN during the past quarter century can be captured by comparing the per capita GDP growth in real terms of ASEAN with those of China and India, the two big neighbouring countries of ASEAN and which have hogged the development and growth story in East Asia during the past one and a half decades. **Figure 1.1** presents the growth performance of ASEAN vis-a-vis China and India. The figure clearly shows the spectacular growth performance of China over the past quarter century that transformed it from a poor and isolated but liberalising country in the mid-1980s to the second largest economy in the world at present. China's spectacular economic transformation had marked impact on its neighbours including ASEAN countries as the discussion later in this Integrative Report would abundantly show. As **Figure 1.1** also shows, ASEAN grew much faster than India during 1988-1996 (India faced an economic crisis in 1991 that paved the way to India's liberalisation process). However, India clearly outshone ASEAN during the 2000s. Thus, as the popular discussion on the global shift of economic power heated up during the past decade, it is not surprising that it has been China and India that hogged the headlines.

**Figure 1.1: GDP Per Capita Growth of ASEAN, China, and India**



Notes: the data label means Constant (2005 dollar) GDP per capita.

Source: UNCTAD Stat (2013)

ASEAN, of course, is not one monolithic country but an association of 10 countries. Thus, the ASEAN average in **Figure 1.1** is underpinned by the country growth performances of the 10 member states, as presented in **Table 1.2**. There are essentially three broad groups of individual performances of the ASEAN member states during the period.

The first group, i.e., Indonesia, Malaysia, Singapore and Thailand, anchored ASEAN's golden decade of the late 1980s and early 1990s before the 1997 financial crisis, with the huge burst in industrialisation and manufactured exports often linked with the emerging production networks in East Asia that was initially catalyzed by the currency realignment under the Plaza Accord in the mid- 1980s. All four countries would figure prominently as among the high growth economies in the World Bank's famous book on Emerging Asia.

**Table 1.2: Average GDP and GDP Per Capita Growth (in percent)**

<b>GDP Growth</b>	<b>1986-1990</b>	<b>1991-1995</b>	<b>1996-2000</b>	<b>2001-2005</b>	<b>2006-2011</b>
<b>Brunei</b>	-1.65	3.17	1.35	2.08	0.94
<b>Cambodia</b>	8.49	6.46	7.18	9.36	6.80
<b>Indonesia</b>	6.93	7.83	1.06	4.71	5.86
<b>Lao PDR</b>	4.47	6.19	6.17	6.33	7.99
<b>Malaysia</b>	6.70	9.47	4.99	4.76	4.57
<b>Myanmar</b>	-1.98	5.90	8.35	12.87	10.30
<b>Philippines</b>	4.74	2.19	3.59	4.60	4.75
<b>Singapore</b>	8.69	8.57	5.84	4.83	6.33
<b>Thailand</b>	10.34	8.50	0.87	5.45	3.09
<b>Vietnam</b>	4.16	8.21	6.96	7.51	6.83
<b>ASEAN (Aggregate)</b>	7.02	7.48	2.82	5.09	5.14
<b>GDP Per Capita Growth</b>	<b>1986-1990</b>	<b>1991-1995</b>	<b>1996-2000</b>	<b>2001-2005</b>	<b>2006-2011</b>
<b>Brunei</b>	-4.37	0.35	-1.08	-0.03	-1.26
<b>Cambodia</b>	4.54	3.14	4.89	7.83	5.59
<b>Indonesia</b>	4.98	6.15	-0.29	3.40	4.73
<b>Lao PDR</b>	1.60	3.38	4.00	4.67	6.40
<b>Malaysia</b>	3.66	6.68	2.46	2.51	2.84
<b>Myanmar</b>	-3.60	4.42	6.96	12.20	9.52
<b>Philippines</b>	2.03	-0.17	1.33	2.50	2.96
<b>Singapore</b>	6.38	5.50	3.37	3.06	2.93
<b>Thailand</b>	8.44	7.55	-0.27	4.30	2.38
<b>Vietnam</b>	1.96	6.11	5.64	6.35	5.67
<b>ASEAN (Aggregate)</b>	4.84	5.63	1.28	3.74	3.94

Source: UNCTAD Stat (2013)

The 1997 Asian financial crisis ended the high growth phase and led to a few years of domestic adjustment and macroeconomic stabilization. Nonetheless, the China-led commodity and resources boom (especially important for Indonesia and Malaysia), the deepening of the regional production networks (most important for Thailand) and the growth of regional hubbing and successful drive towards technological frontier (Singapore) provided the impetus for the robust if relatively modest (compared to the early 1990s) economic growth performance during much of the 2000s.

The second group consists of the CLMV countries. As **Table 1.2** indicates, virtually all of them had stellar growth rates during much of the period. Viet Nam is the exemplar of the four, and arguably is second only to China for its remarkable economic transformation and, as will be shown later, rapid decline in poverty during the period. Cambodia's growth performance has been consistently impressive, and more recently, also Lao PDR's. GDP data in Myanmar are known to be far less reliable, and so it is not clear what the real magnitude of the growth of the Myanmar economy was during the period. Nonetheless, it is definitely the case that Myanmar grew much faster during the period than the decade before 1988; sharp (government) investment in irrigation and land clearance led to marked expansion in agricultural produce while energy resources were the backbone of export surge in the 2000s despite the import bans imposed on Myanmar's exports by a number of developed countries. Myanmar is now on the cusp of an economic boom, and thus would likely bookend the CLMV growth story.

And the CLMV growth story is one ASEAN success story with lessons for the developing world, especially on the potential benefits of economic integration and opening economies up to foreign investment and trade. The stellar growth performances of the CLMV countries meant that the development gaps between the "poorer" CLMV countries and the "more advanced" ASEAN 6 countries have narrowed during the past decade.

The last group, consisting of Brunei Darussalam and the Philippines, are more like outliers from the rest of the ASEAN in terms of their growth performances during the past quarter century, as **Table 1.2** suggests. Brunei Darussalam is a high income country of about 421 thousand people, dependent essentially on its energy resources, and has persistently huge trade (and current account) surplus relative to GDP and thus effectively is a capital exporter. The country has to manage its resources prudently, and high growth is revealed as *not* a high priority for the country.

The comparatively more modest growth performance of the Philippines during the period stemmed from (a) a pervasive macroeconomic constraint during much of the period arising from debt overhang and economic crisis of the early 1980s, (b) the difficult and long process of industrial restructuring arising from the opening up of the economy in the face of comparatively higher wages and

power rates, poor infrastructure, and regulatory constraints vis-a-vis competitor countries in the region, and (c) the concomitant relative failure to attract much more foreign direct investment. Nonetheless, the country has successfully established its global export niche in outsourced services. With much improved investment climate (including sharp rise in infrastructure development) recently, the country has started to entice more investments for its recently robustly growing and large domestic market as well as an export platform in relatively more skilled labour intensive products. The result has been much higher growth rate in the last two years, surpassing the growth performances of virtually all the other ASEAN countries.

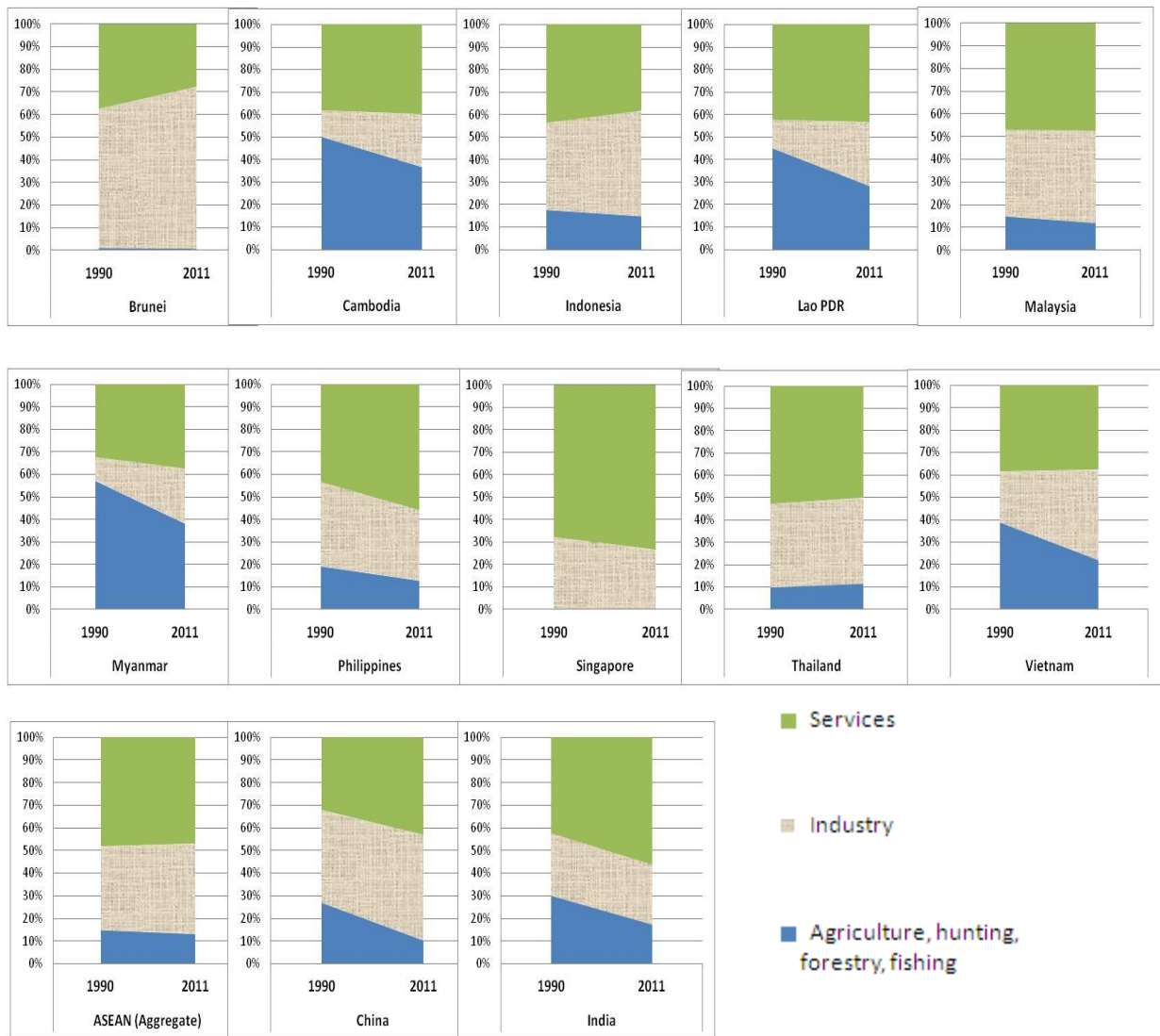
## **Economic transformation**

The economic growth during the past two decades or so led to significant economic transformation of a number of ASEAN member states. This is most evident for Viet Nam, Myanmar, Lao PDR and Cambodia where there was a marked increase in the share of industry and a significant reduction in the share of agriculture to GDP during the period. Brunei Darussalam and Indonesia also experienced significant increases in the share of industry to GDP but interestingly, this was at the expense primarily of a reduction in the share of services. The Philippines and Singapore present the opposite case where there was a significant increase in the share of services at the expense of reduced share of industry as well as, for the Philippines, agriculture. Both Malaysia and Thailand had relatively stable sector shares during the period (see **Figure 1.2**).

The varying changes in the shares of economic sectors among the AMSs reflect to some extent the differing levels of development and different comparative advantages. Thus the sharp increase in the industry share in Cambodia and Viet Nam resulted from the explosive growth of labour intensive export oriented manufacturing even in the face of marked increase in the output of agriculture (including forestry and fishery) during the period, especially in Viet Nam. Export oriented resources boom are at the heart of the sharp rise in industry share in Lao PDR (mining and energy) and Myanmar (gas). The case of Indonesia is essentially a two-part story: the first part was the sharp rise in export oriented labour intensive manufacturing during ASEAN's golden decade; the second part, during the 2000s, is the resources boom in tandem with

the resources-cum-commodities -boom -induced -industrial expansion primarily to meet fast expanding domestic demand for industrial products.

**Figure 1.2: The Structure of Economy by Industry (in percent to total GDP)**



Source: UNCTAD Stat (2013)

Both Malaysia and Thailand seem to have had a more balanced growth path during the period. Malaysia also benefited from the China-induced commodities boom during the 2000s that drove substantially its oil palm dominated agriculture sector. The country also experienced an explosive tourism growth. However, in contrast to Indonesia, there was more muted industrial expansion in Malaysia because the domestic market is so much smaller than Indonesia's and the country's electronics and electrical machinery, equipment, etc. industry faced strong competition from China. Thailand



appears to be one that experienced a more balanced cross-sectoral growth during the period. The country remained competitive in agri-based processed foods, became the hub of production networks in ASEAN especially in automotive manufacturing, and deepened its strength in tourism services as well as logistics hub for neighbouring countries during the period.

The Philippines and Singapore are the only two ASEAN member states where services account for more than one-half of GDP. Singapore's shift to services is not surprising since its very high wages could only be feasible for highly skilled labour intensive and/or technology intensive industries like regional and global finance, regional hub services, regional logistics, etc. In the case of the Philippines, the emergence of the country as a key destination for outsourced business processes as well as the robust growth of domestic consumption arising from the country's large and growing remittances from abroad are the key reasons for the significant increase in the share of services sector to GDP. Nonetheless, if the growth figures in recent quarters are any indication, the country appears to be experiencing a resurgence of manufacturing in recent years because of increasingly robust domestic market, similar to the case of Indonesia during the 2000s.

***Drivers and impulses of economic growth and transformation.***

The expenditure accounts of national income accounts provide some indication of drivers and impulses of the economic transformation and progress of the ASEAN member states during the past two or so decades (see **Table 1.3**). Two stand out prominently from **Table 1.3**; namely, investment and foreign trade. The table suggests that high economic growth rate is correlated with high or substantially rising investment rate; there is also a tendency for a higher share of international trade to national output. This is probably not surprising. Given relatively more abundant labour resources, it is the pace of growth of the scarcer resource, capital, that would determine the secular growth of the economy. Similarly, increased or high participation in international trade, adjusted for the size of the economy, is indicative of a country hewing to and growing on its evolving comparative advantage and thereby utilizing and deploying more effectively its resources.

Barring Singapore's exceptionally high trade to GDP ratios because of its historical entreport role in the region, **Table 1.3** shows relatively high trade

orientation of many ASEAN member states exemplified by Malaysia, Thailand, Viet Nam and, to a lesser extent, Cambodia. Singapore, Malaysia and Thailand are the main ASEAN participants in regional production networks; this explains in part the high trade ratios of the three countries. The table shows the marked rise in the trade ratios for Viet Nam and Cambodia during the 1990s and the 2000s. Viet Nam is increasingly pulled into the regional production networks; this explains in part the surge in the trade share of Viet Nam. In both Cambodia and Viet Nam, exports of manufactures are heavily dependent on imported components; hence, the coincident rise in both export and import shares. The regional production networks, and ASEAN countries' participation in them, as well as the intensity of intra-regional trade by commodity are discussed more in **Chapter 4** of this Integrative Report.

**Table 1.3: The Structure of Economy by Expenditure (in percent total GDP)**

Country	Type of Expenditure	1990	1995	2000	2005	2011
<b>Brunei</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	26.49	36.65	24.83	22.46	19.87
	Government consumption (expenditure)	22.02	26.75	25.82	18.41	17.33
	Gross capital formation	18.68	36.66	13.06	11.37	13.36
	Exports of goods and services	61.81	59.72	67.35	70.17	81.28
	Imports of goods and services	37.27	55.83	35.82	27.29	29.13
	Statistical Discrepancies	8.27	-3.95	4.77	4.88	-2.71
	<b>Cambodia</b>	Total by Expenditure	100	100	100	100
Private (Household) Consumption		90.43	90.91	88.81	84.29	82.86
Government consumption (expenditure)		7.23	5.1	5.23	5.8	6.02
Gross capital formation		8.31	13.4	17.53	18.47	17.1
Exports of goods and services		2.44	32.7	49.85	64.08	54.08
Imports of goods and services		8.4	43.92	61.76	72.75	59.5
Statistical Discrepancies		0	1.81	0.35	0.1	-0.56
<b>Indonesia</b>		Total by Expenditure	100	100	100	100
	Private (Household) Consumption	52.98	56.75	61.63	64.36	54.58
	Government consumption (expenditure)	8.05	7.13	6.62	8.11	8.99
	Gross capital formation	27.91	29.06	22.27	25.08	32.77
	Statistical Discrepancies	0	0	0	0	0

	Exports of goods and services	24.18	25.12	40.93	34.07	26.33
	Imports of goods and services	21.6	25.16	30.51	29.92	24.92
	Statistical Discrepancies	8.48	7.11	-0.94	-1.7	2.26
<b>Lao PDR</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	89.11	90.11	93.5	69.93	63.2
	Government consumption (expenditure)	7.25	7.27	6.69	8.22	11.46
	Gross capital formation	16.83	16.73	13.9	36.35	31.13
	Exports of goods and services	11.33	23.22	30.03	25.81	22.83
	Imports of goods and services	24.52	37.33	44.11	38.97	28.76
	Statistical Discrepancies	0	0	0	-1.35	0.13
<b>Malaysia</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	52.72	48.8	43.12	44.19	47.5
	Government consumption (expenditure)	12.53	11.24	9.44	11.47	13.02
	Gross capital formation	35.68	48.12	30.11	22.4	23.58
	Exports of goods and services	68.92	87.09	115.15	112.9	91.56
	Imports of goods and services	67.03	90.73	96.69	90.96	75.66
	Statistical Discrepancies	-2.82	-4.52	-1.14	0	0
<b>Myanmar</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	74.74	78.4	68.75	76.5	70.18
	Government consumption (expenditure)	13.57	8.23	18.9	10.44	10.28
	Gross capital formation	13.38	14.24	12.45	13.19	19.3
	Exports of goods and services	1.94	0.83	0.5	0.16	0.11
	Imports of goods and services	3.63	1.7	0.59	0.09	0.1
	Statistical Discrepancies	0	0	0	-0.2	0.22
<b>Philippines</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	69.45	72.25	72.2	75.01	73.37
	Government consumption (expenditure)	10.09	11.37	11.42	9.04	9.41
	Gross capital formation	27.77	25.81	18.37	21.55	21.81

	Exports of goods and services	23.62	31.21	51.37	46.14	31.19
	Imports of goods and services	30.52	40.51	53.36	51.74	36.21
	Statistical Discrepancies	-0.41	-0.14	0	0	0.42
<b>Singapore</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	45.36	41.39	41.94	40.13	39.37
	Government consumption (expenditure)	9.54	8.39	10.89	10.49	10.32
	Gross capital formation	35.05	33.27	33.18	19.97	22.44
	Exports of goods and services	177.45	183.01	192.34	229.68	208.95
	Imports of goods and services	167.38	166.25	179.49	200.27	182.28
	Statistical Discrepancies	-0.02	0.19	1.14	0	1.2
<b>Thailand</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	53.29	51.22	54.04	55.93	52.85
	Government consumption (expenditure)	10.03	11.27	13.52	13.65	15.75
	Gross capital formation	41.62	42.93	22.33	30.53	25.47
	Exports of goods and services	33.08	41.6	64.97	68.64	71.99
	Imports of goods and services	40.56	48.3	56.57	69.69	68.47
	Statistical Discrepancies	2.55	1.28	1.71	0.93	2.42
<b>Viet Nam</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	89.55	73.61	66.46	63.53	64.31
	Government consumption (expenditure)	7.54	8.19	6.42	6.15	6.48
	Gross capital formation	14.36	27.14	29.61	35.57	32.62
	Exports of goods and services	26.42	32.81	55.03	69.03	74.58
	Imports of goods and services	35.66	41.91	57.5	73.21	86.53
	Statistical Discrepancies	-2.22	0.15	-0.02	-1.08	8.53
<b>ASEAN (Aggregate)</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	55.37	55.07	55.72	57.28	54.36

	Government consumption (expenditure)	9.73	9.53	10.09	10.19	10.7 9
	Gross capital formation	32.3	34.94	24.8	24.98	27.4 3
	Exports of goods and services	48.2	58.43	82.8	83.07	67.1 1
	Imports of goods and services	48.74	59.92	73.55	75.17	61.6 1
	Statistical Discrepancies	3.13	1.95	0.14	-0.35	1.92
<b>China</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	48.85	44.88	46.44	38.99	35.0 5
	Government consumption (expenditure)	13.64	13.25	15.86	14.11	13.1 1
	Gross capital formation	34.87	40.29	35.28	41.61	49.2 2
	Exports of goods and services	15.51	19.45	23.44	36.63	30.5 7
	Imports of goods and services	12.87	17	21.02	31.17	27.0 8
	Statistical Discrepancies	0	-0.86	0	-0.16	- 0.87
<b>India</b>	Total by Expenditure	100	100	100	100	100
	Private (Household) Consumption	65.9	62.78	63.7	58.29	56.0 3
	Government consumption (expenditure)	11.81	10.83	12.61	10.87	11.7
	Gross capital formation	27.81	29.27	24.16	34.28	35.5 2
	Exports of goods and services	7.11	10.92	13.23	19.28	24.6 4
	Imports of goods and services	8.54	12.11	14.15	22.03	29.8 5
	Statistical Discrepancies	-4.08	-1.69	0.44	-0.69	1.97

Source: UNCTAD Stat (2013).

Indonesia and the Philippines have been the less trade oriented among the major ASEAN countries although the table shows increased trade ratios for the two countries over the period. For Indonesia, the comparatively lower trade orientation is due to the large domestic market and with it the domestic orientation of the industries. It has not been well wedded into the regional production networks. The Philippines is very much wedded into the regional production networks but only on very limited range of products. The adjustment difficulties of the country's manufacturing during much of the

1990s and the 2000s, together with a low FDI inflow for much of the period, prevented the deepening and widening of the range of significant manufactured product exports of the country. For both Indonesia and the Philippines, export expansion during the 2000s has been less import dependent: for the former, because of the boom in agricultural and natural resources exports; for the latter, because of the surge in exports of business related services.

With respect to investment, the high growth countries during ASEAN's golden decade of the latter 1980s and early 1990s had high and rising investment rates, from close to 30 percent (Indonesia) up to close to 50 percent (Malaysia) of GDP (see **Table 1.3**). The table also shows the marked decline in the investment rate during the late 1990s and early 2000s in the ASEAN countries most adversely affected by the 1997 crisis (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). Of the five, only Indonesia's investment rate recovered fully during the 2000s to surpass pre-1997 crisis rates, most likely a major reason for its much more consistently robust economic growth rate during the 2000s as compared to the other four countries.

The investment rate in Viet Nam rose dramatically during the past two decades (from around 14 percent of GDP in 1990 to around 39 percent in 2010) that effectively underpinned the remarkable economic transformation of the country. Similarly, the investment rate rose substantially in Cambodia in the 1990s and dramatically in Lao PDR in the 2000s. Note that the substantial difference in the investment rates of Cambodia and Lao PDR in the 2000s, when both countries experienced high economic growth, reflects to some extent the nature of the industries the countries relied on for growth. Specifically, Lao PDR's comparative advantage lies in capital intensive mining and energy sectors while Cambodia relied on substantially less capital intensive garment manufacturing, tourism and agriculture for growth.

Foreign direct investment (FDI) has played an important role in the high or robust growth of investment in most of the ASEAN countries. For the ASEAN region as a whole, FDI inflow as a share of gross fixed capital formation averaged about 19 percent during 2005-2011 as against about 11 percent during 1990-1996. The relative contribution of FDI to fixed capital formation varies tremendously, however, among ASEAN member states (see **Table 1.4**). At one extreme, Singapore's fixed capital formation has preponderantly been from

FDI during the past decade. On the other hand, FDI share to fixed capital formation in Indonesia and the Philippines has been in the single digits since the 1990s. This comparison of the opposites is interesting to some extent: Singapore, with its FDI-preponderant economy, has been at the vanguard of free trade push; Indonesia and the Philippines, with their capital stocks being predominantly domestically owned, have been much more cautious in their investment and trade liberalisation efforts. Alternatively, the table suggests that Singapore has been far more successful than Indonesia and the Philippines in attracting FDIs during the past two decades. Indeed, FDI inflow into ASEAN has been markedly an FDI –inflow- into- Singapore story

**Table 1.4: FDI Inward flow as a percent Gross Fixed Capital Formation**

(in average %)

YEAR	1990 - 1995	1996 - 2001	2002 - 2007	2008 - 2011
<b>Brunei</b>	6.20	53.62	86.32	30.91
<b>Cambodia</b>	23.97	42.04	26.34	39.59
<b>Indonesia</b>	4.95	-2.24	4.45	5.66
<b>Lao PDR</b>	13.89	24.47	8.37	11.83
<b>Malaysia</b>	16.73	12.48	14.32	13.50
<b>Myanmar</b>	23.27	48.87	20.54	17.81
<b>Philippines</b>	6.44	7.13	7.75	4.50
<b>Singapore</b>	32.06	46.56	82.57	65.45
<b>Thailand</b>	4.30	15.86	14.70	9.54
<b>Viet Nam</b>	33.52	23.08	13.70	23.65
<b>ASEAN (Aggregate)</b>	10.77	16.52	20.03	15.58
<b>China</b>	9.69	12.20	7.78	4.49
<b>India</b>	0.82	3.11	4.30	7.15

Source: UNCTAD Stat 2013.

The other ASEAN member states are in between the Singapore-Indonesia/Philippines continuum. Brunei Darussalam and the CLMV countries share with Singapore the larger than (ASEAN) average dependence on FDI for fixed capital formation. The case of Brunei Darussalam is expected since the country does not have the capability to develop its oil resources by itself and therefore needs the joint ventures with, and FDI from, major global oil companies and oil service companies. It is the case of the CLMV countries that is more insightful, because it highlights the concordance of the high FDI contribution to fast rising investment rates in those countries and the

remarkably high economic growth rates and significant economic transformation of those countries, especially Viet Nam and Cambodia.

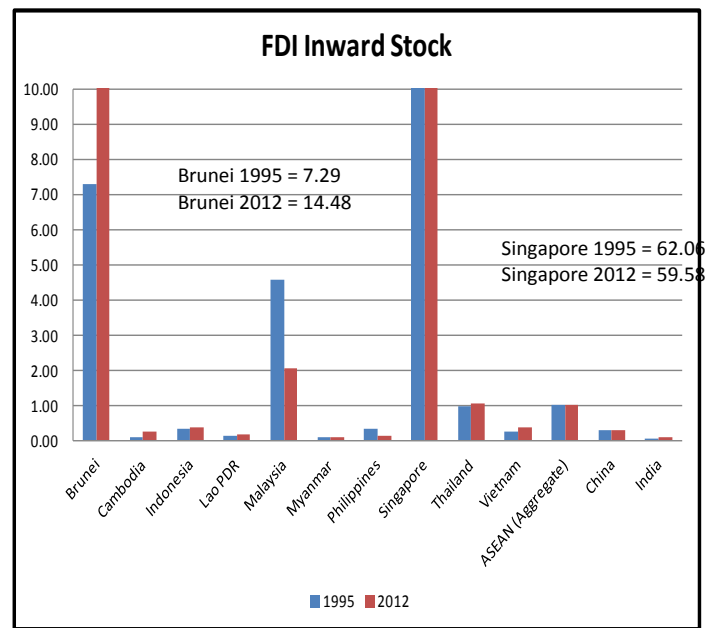
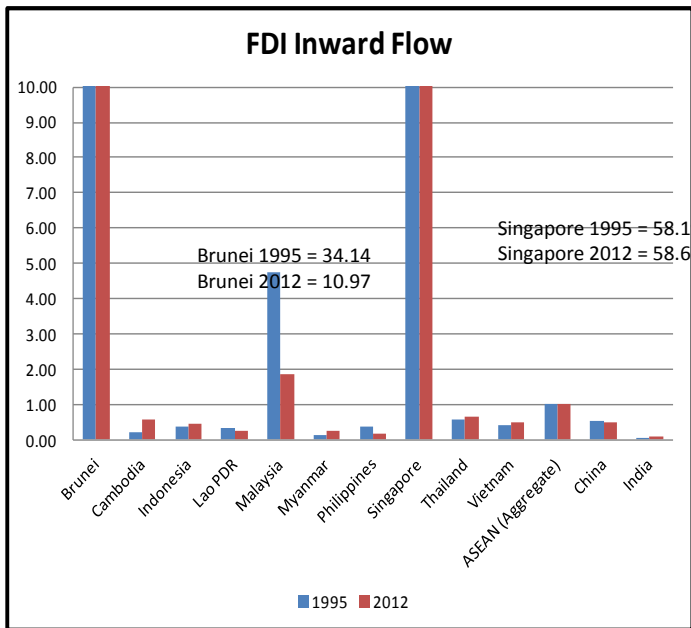
Another way of looking at the relative importance of foreign direct investment is the comparison of FDI flows or FDI stock per capita among the countries and over time (see **Figure 1.3**). Again, the extremely high levels of FDI flows and stock per capita in Singapore stand out among the ASEAN countries as well as China and India. Brunei Darussalam's per capita FDI inflows and stock are also very high as compared to the other countries. As **Figure 1.3** shows, the per capita FDI flows and stock in Singapore and Brunei Darussalam are so many times higher than the average for ASEAN during the past two or so decades. Coincidentally, Brunei Darussalam and Singapore are now high income countries. It is almost tempting to say that it is the very large FDI flows per capita over at least two decades that have made them to what they are today as prosperous countries. It must be noted though that Brunei Darussalam and Singapore are essentially small city states and as such, their FDI per capita can be expected to be higher than that of large population countries like Indonesia or even Thailand and Malaysia.



**Figure 1.3: FDI Inward Flow and Stock Per Capita as a share to ASEAN and 2000's value**

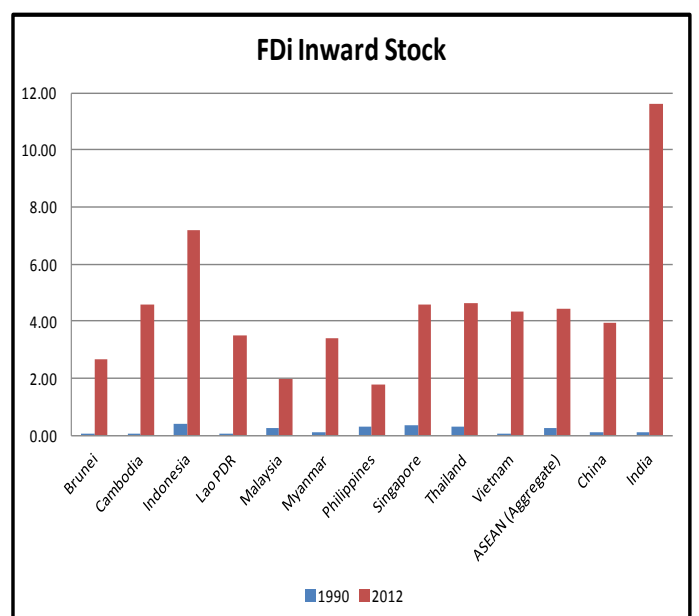
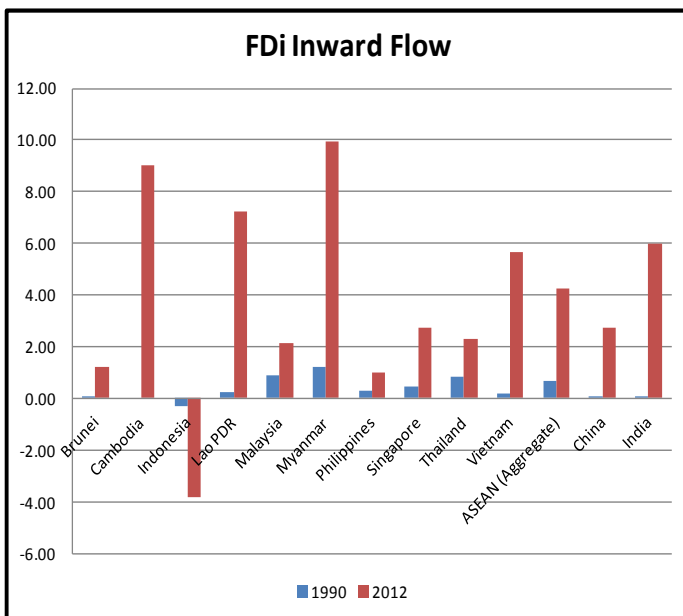
**FDI Inward Flow per capita as a relative to ASEAN (Index)**

**FDI Inward Stock per capita as a relative to ASEAN (Index)**



**FDI Inward Flow per capita as a relative to 2000's value (Index)**

**FDI Inward Stock per capita as a relative to 2000's value (Index)**



Source: UNCTAD Stat (2013)

Malaysia, and to a less extent, Thailand, ASEAN's two upper middle income countries at present, have also received FDI per capita that is higher than the ASEAN average for nearly all (Malaysia) or much (Thailand) of the past two decades or so. And foreign direct investment has played a major role in the economic transformation of these two countries, enabling them to be important players in regional production networks in East Asia especially in electronic and electrical machinery and parts (both countries) and automotive industry (Thailand).

For the other ASEAN member states, although their FDI inflows per capita have been less than the ASEAN average, there was a marked increase in the level of FDI inflow per capita in recent years, most especially in Cambodia, Indonesia and Viet Nam. This marked rise in the levels of FDI inflow per capita is reflective of the sharp rise in the ASEAN to the total world FDI inflow from an average of 3.7 percent during 2007-2009 to an average of 7.4 percent during 2010-2011. This marked increase in the ASEAN share compares very well with the more muted rise in the share of China (from an average of 6.1 percent during 2007-2009 to 8.5 percent during 2010-2011) and the decline in the share of India (from 2.2 percent during 2007-2009 to 2.0 percent during 2011-2012).

Simple regressions of FDI inflow as well as FDI stock on manufacturing value added and on manufactured exports (see **Table 1.5**) show strong positive relationship between the performance of the manufacturing sector and FDI inflows in a number of ASEAN member states, especially taking into account the degree of determination (R-squared). This is especially the case for Cambodia, Indonesia, Singapore and Viet Nam. As expected, the degree of determination is much higher for the FDI stock than for the FDI inflow. The dynamics of the FDI-manufacturing performance is likely to be complex, and the simple regressions may have auto-correlation issues. Nonetheless, the regression results highlight the importance of FDI- investment-trade-manufacturing nexus that is at the heart of production networks and the surge of economic activity in the region.

FDI inflow is not decided out of the blue of course. FDI decisions are affected by factors shaping the investment climate in the ASEAN member states as well as global factors. The issue of investment climate is discussed further in **Chapter 7** of this Report. There are other factors affecting the secular growth

of an economy such as the factors affecting the growth of total factor productivity of the economy; e.g., research and development. In this regard, the performance of the ASEAN member states on total factor productivity growth during the past one and a half decades is decidedly mixed. The issue of productivity growth and the relationship with technology transfer and innovation is discussed further in **Chapter 4** of the Report.

**Table 1.5: The Effect of FDI Inflow and Stock on Manufacturing Value Added and Export in each AMSs from 1990-2011**

Country/FDI Type	FDI Inflow			FDI Stock		
	Coefficient	Intercept	R-Squared	Coefficient	Intercept	R-Squared
<b>Brunei</b>	0.14	872.18	0.04	0.09	457.65	0.84
<b>Cambodia</b>	1.73	270.30	0.79	0.28	192.51	0.94
<b>Indonesia</b>	7.79	48599.00	0.76	0.94	36241.00	0.89
<b>Lao PDR</b>	1.63	61.94	0.69	0.33	-5.00	0.95
<b>Malaysia</b>	3.72	13605.00	0.37	0.57	5537.80	0.89
<b>Myanmar</b>	4.87	-511.16	0.80	0.87	-1332.10	0.77
<b>Philippines</b>	6.24	15206.00	0.21	1.26	8058.10	0.90
<b>Singapore</b>	0.66	13012.00	0.80	0.06	13386.00	0.92
<b>Thailand</b>	6.08	21057.00	0.48	0.58	23249.00	0.94
<b>Viet Nam</b>	2.23	2038.10	0.81	0.38	1020.10	0.98
<b>ASEAN (Aggregate)</b>	4.15	63777.00	0.87	0.36	85774.00	0.97
Country/FDI Type	FDI Inflow			FDI Stock		
	Coefficient	Intercept	R-Squared	Coefficient	Intercept	R-Squared
<b>Brunei</b>	0.0325	298.34	0.042	-0.0055	361.36	0.0426
<b>Cambodia</b>	4.3494	642.8	0.7833	0.8246	101.49	0.9455
<b>Indonesia</b>	1.7558	30258	0.6718	0.2169	25951	0.8176
<b>Lao PDR</b>	0.4098	163.58	0.3883	0.0935	126.39	0.6916
<b>Malaysia</b>	5.8995	60701	0.3833	0.8594	41454	0.7407
<b>Myanmar</b>	0.0909	704.99	0.0167	0.081	352.2	0.269
<b>Philippines</b>	4.997	23094	0.1708	0.6981	19948	0.3026
<b>Singapore</b>	3.3861	81940	0.727	0.315	79662	0.9151
<b>Thailand</b>	11.4	10226	0.5017	0.8877	21448	0.9714
<b>Viet Nam</b>	5.8398	-1456.9	0.7382	1.017	-7430.3	0.9765
<b>ASEAN (Aggregate)</b>	5.4158	168817	0.8465	0.463	193122	0.9304

Note: The regression equations are linear, not log-linear

Source of basic data: UNCTAD Stat 2013

## Social progress

Social progress in ASEAN can best be encapsulated by the marked reduction in poverty rate and poverty gap and by the significant rise of the middle class in the region. **Figure 1.4** shows the headcount poverty rate of ASEAN (aggregate), a number of ASEAN member states, China and India; **Figure 1.5** shows the poverty gap rate in the above mentioned countries. The headcount poverty rate gives the percentage of people with income below the 1.25 \$ PPP per day per capita. The poverty gap gives the gap in percentage terms between the poverty line income and the average income of the people living below the poverty line. The headcount poverty rates were all calculated from the World Bank PovCalNet database using a common poverty line of 1.25 \$ PPP per day per capita for comparability. The poverty gap estimates were also taken from the PovCalNet database. **Figure 1.6** summarizes the ASEAN performance in poverty reduction and the rise in the middle class in the region.

As **Figure 1.6** shows, ASEAN's headcount poverty rate has declined markedly from around 45 percent in 1990 to about 14 percent in 2010, excluding Myanmar, or about 15.6 percent including Myanmar<sup>1</sup>. While ASEAN's performance is less spectacular than the sharp drop in China's poverty incidence from about 60 percent in 1990 to about 12 percent in 2009, it is nonetheless much faster than India's decline from about 49 percent in 1993 to about 33 percent in 2009.

The robust performance in ASEAN's poverty reduction is highlighted by the sharp declines during the period in Viet Nam, Cambodia, Indonesia and even Lao PDR from the early 1990s. The decline in poverty incidence is also remarkable in Thailand from the early 1990s to the mid- 2000s. Malaysia and Thailand had nearly zero poverty rates during the mid to late 2000s. (See **Figure 1.7a**.) The decline in the poverty incidence in the Philippines was much more modest than the other ASEAN member states, a reflection of the more modest overall economic growth performance of the country during the period, combined with relatively greater income disparity.

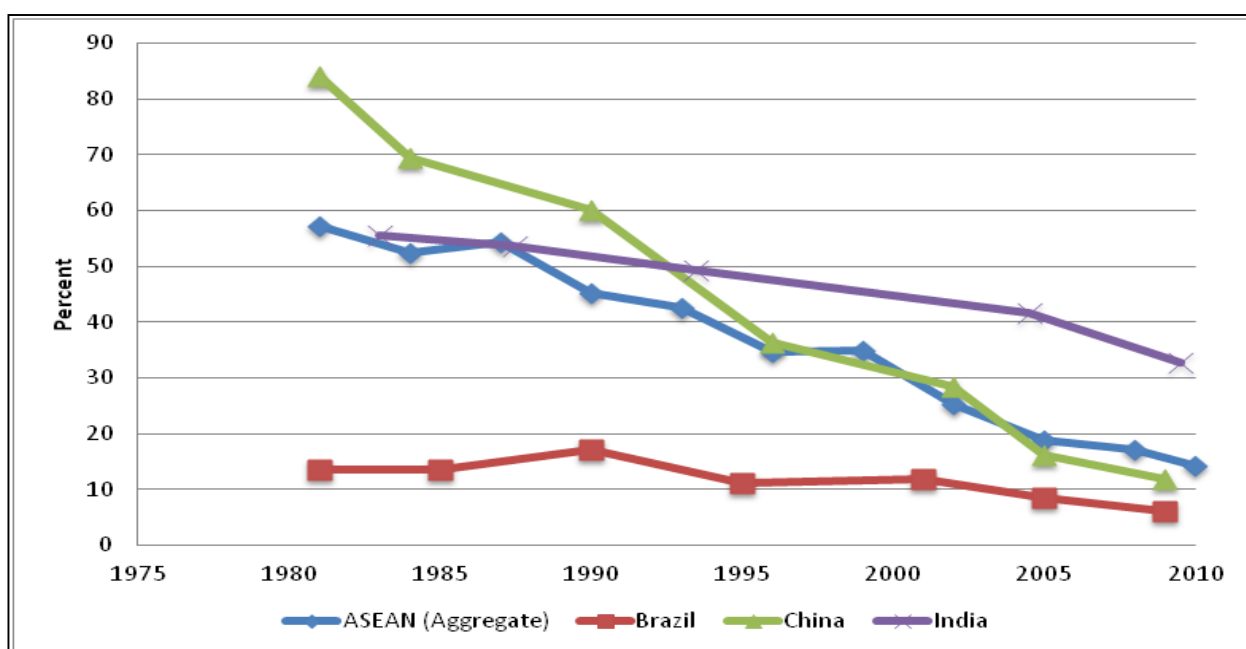
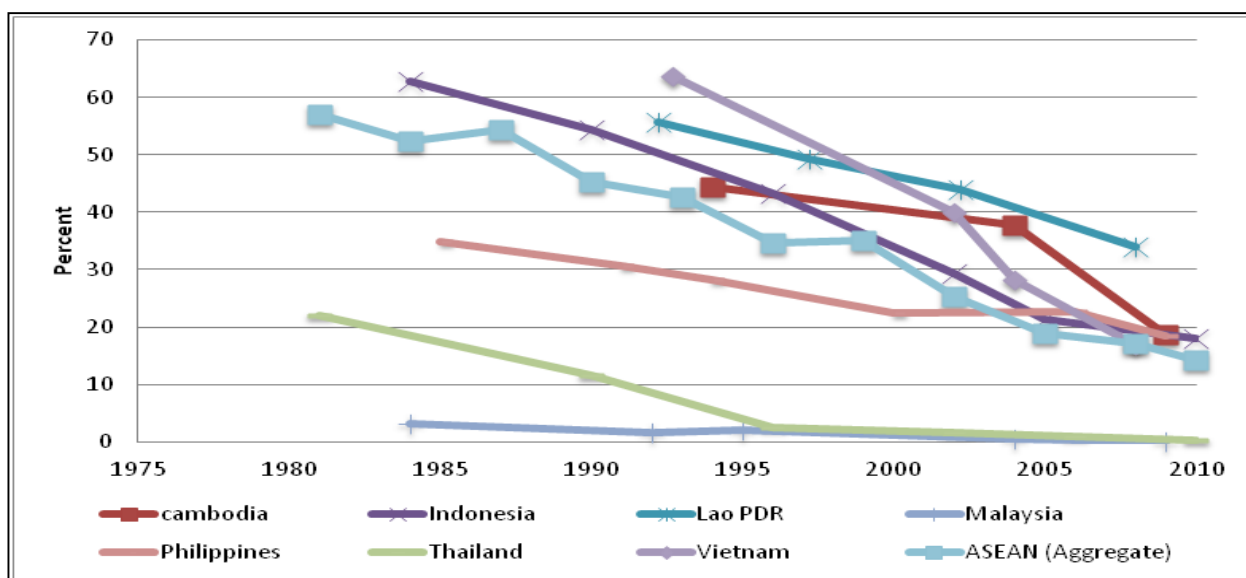
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<sup>1</sup> The poverty rate for ASEAN as an aggregate is the sum of people with income below the poverty line divided by the total population in ASEAN. ASEAN in this computation **excludes** Brunei Darussalam, Myanmar and Singapore because of lack of data; i.e., family income and expenditures data. For the estimate including Myanmar, the Myanmar poverty figure uses Myanmar national poverty line which may not be the same as the \$ 1.25 PPP per capita per day at 2005 prices that was used in the PovCalNet computations for the ASEAN-7 countries.

The marked decline in the poverty rate in ASEAN has been accompanied by the corresponding large drop in poverty gap in the region, from around 14 percent in 1990 to around 3 percent by 2010. The sharpest declines were recorded by Viet Nam and Indonesia, the two best performers in poverty reduction among the ASEAN member states. Noteworthy also are the declines in poverty gap in Thailand from the latter 1980s to near zero by the mid- 1990s as well as the sharp decline in Cambodia in the latter 2000s. Note that the marked reduction in the poverty gap to around 3 percent only (except for Lao PDR which is still relatively high) means that a sustained growth spurt in ASEAN would readily bring the poor out of poverty and move them on the road to middle class status.

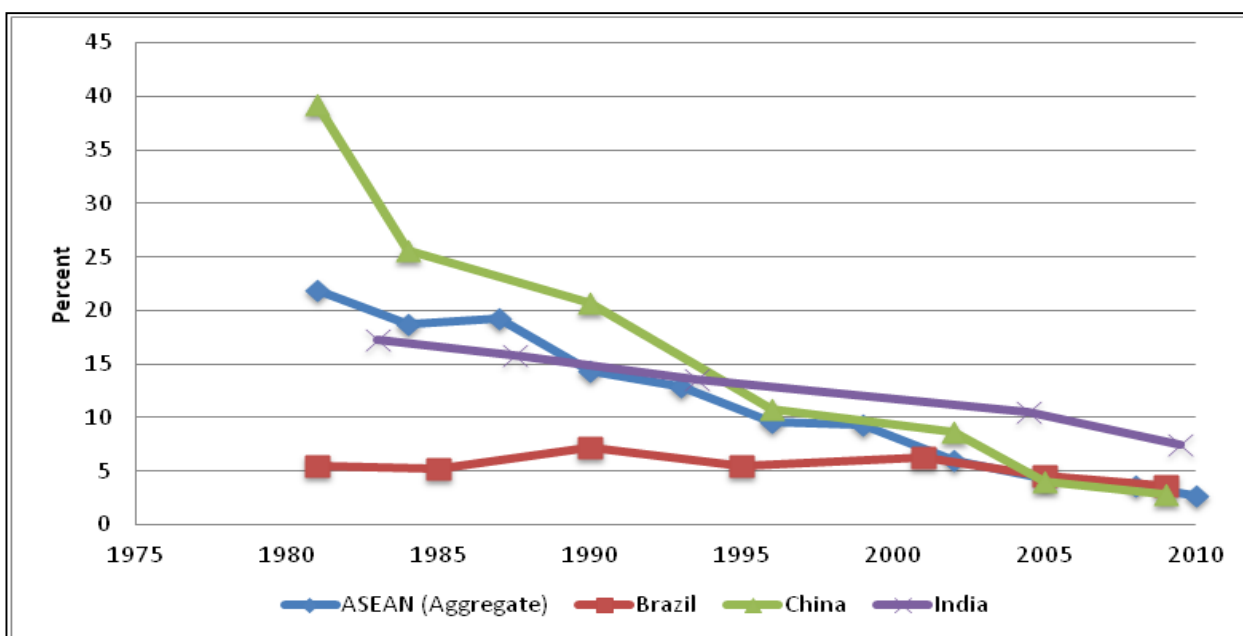
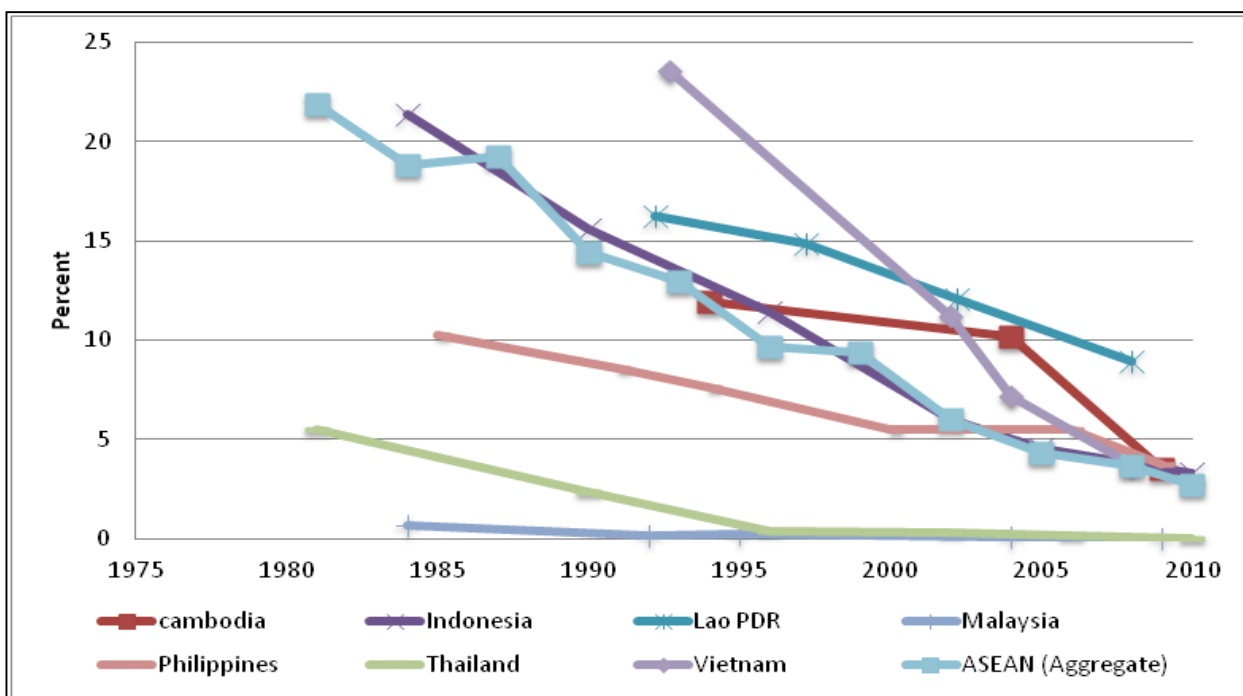
As **Figure 1.5** shows, ASEAN has also been relatively more successful than India in reducing the poverty gap; and both have been more successful than Brazil which has failed to eliminate it (as Thailand did) despite a much lower poverty gap since the 1980s. The Brazilian case of persistent poverty gap--despite higher per capita income and robust economic growth during the past decade --suggests that economic growth need not always translate into effective poverty elimination in the face of highly unequal distribution of income. (Brazil has had one of the most unequal distributions of income in the world for quite some time.)

**Figure 1.4: Headcount Poverty Rate of ASEAN Member Countries, China, India, and Brazil (in percent)**



Notes: The aggregation is calculated over all available ASEAN member states data on a common poverty line (1.25\$ PPP per day / 38\$ PPP per month). The aggregation excluded Brunei, Myanmar, and Singapore in all years, as well as Malaysia only in 2008 and 2010 due to availability of data.  
 Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm?0>)

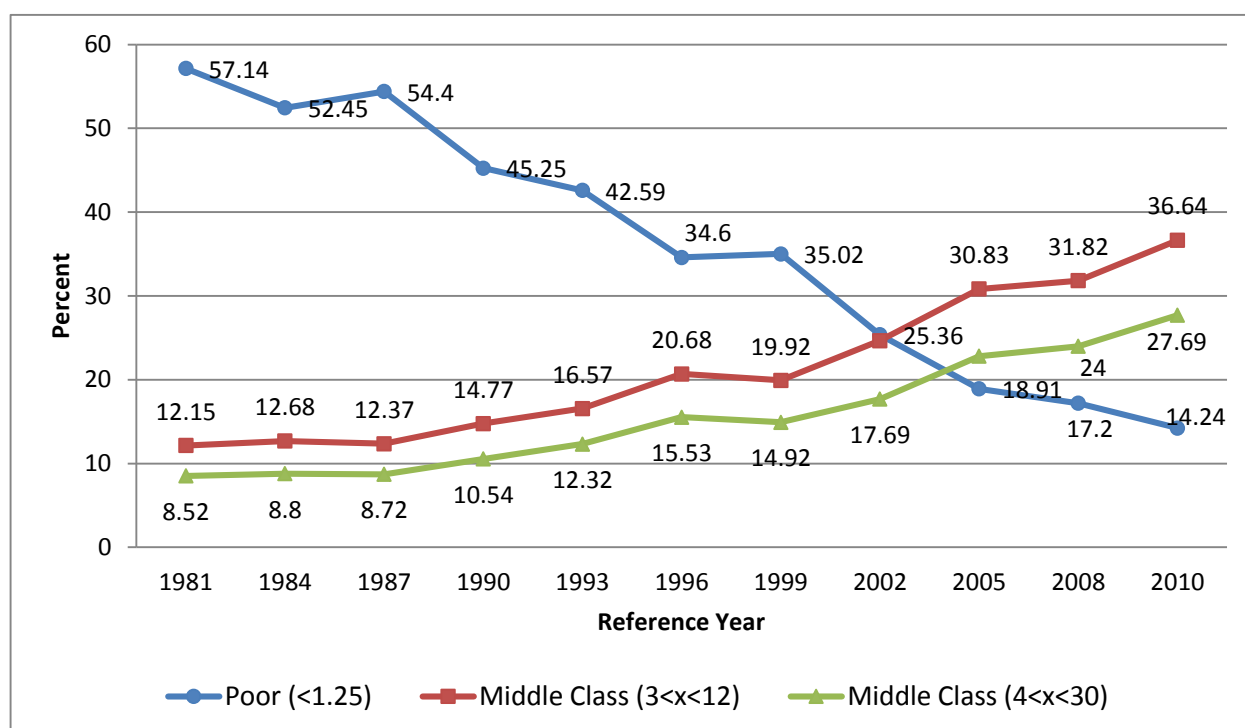
**Figure 1.5: Poverty Gap Rate of ASEAN Member Countries, China, India, and Brazil (in percent)**



Notes: The aggregation is calculated over all available ASEAN member states data on a common poverty line (1.25\$ PPP per day / 38\$ PPP per month). The aggregation excluded Brunei, Myanmar, and Singapore in all years, as well as Malaysia only in 2008 and 2010 due to availability of data.

Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm?0>)

**Figure 1.6: The Dynamics of ASEAN Poor and Middle Class**



Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm?0>)

Notes:

- If the survey at reference year is not available, the nearest survey will be used. If the reference year is between two survey years, the poverty measurements at reference year are linear interpolation of poverty estimates at two survey years.
- Rural and urban distributions are included when aggregating poverty measures from a group of countries

***Rise of the middle class.*** The rise to middle class status of a huge segment of the ASEAN population during the past two decades is well captured in **Figure 1.7a**. **Figure 1.7a** stratifies people in ASEAN, China, and India into a number of income classes. The data come from the World Bank PovCalNet database. The income classification used in the table is as follows (note: PPP means Purchasing Power Parity):

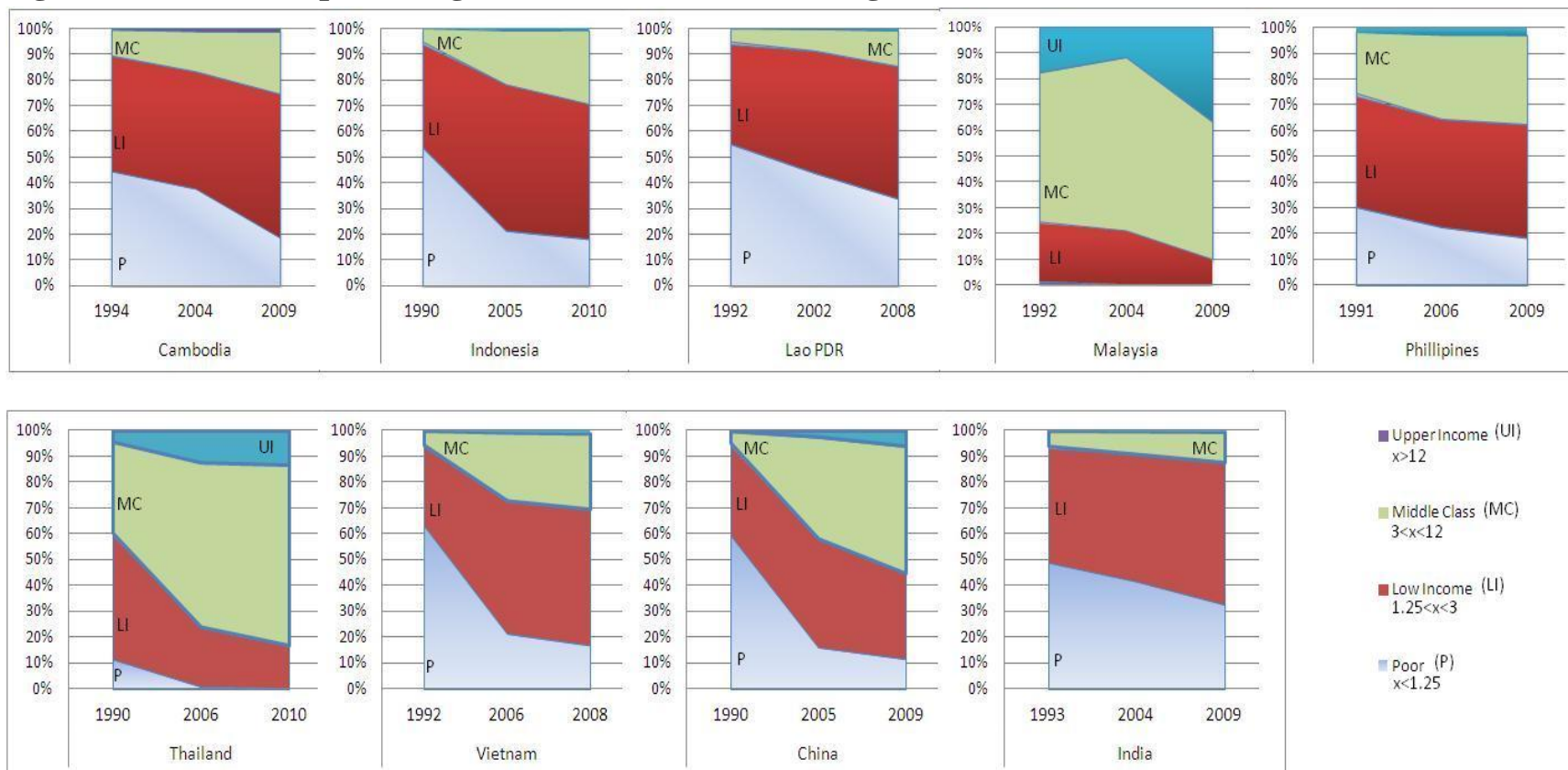


Poor	income below 1.25 \$ PPP per day per capita
Low income	income $1.25 \$ PPP < x < 3 \$ PPP$ per day per capita
Middle class	income $3 \$ PPP < x < 12 \$ PPP$ per day per capita
“Upper income class”	income $x > 12 \$ PPP$ per day per capita

The income classification above is based on criteria for middle class in Duflo and Banerjee (2007) and the McKinsey paper on China (Farrel, *et al.*, 2006).

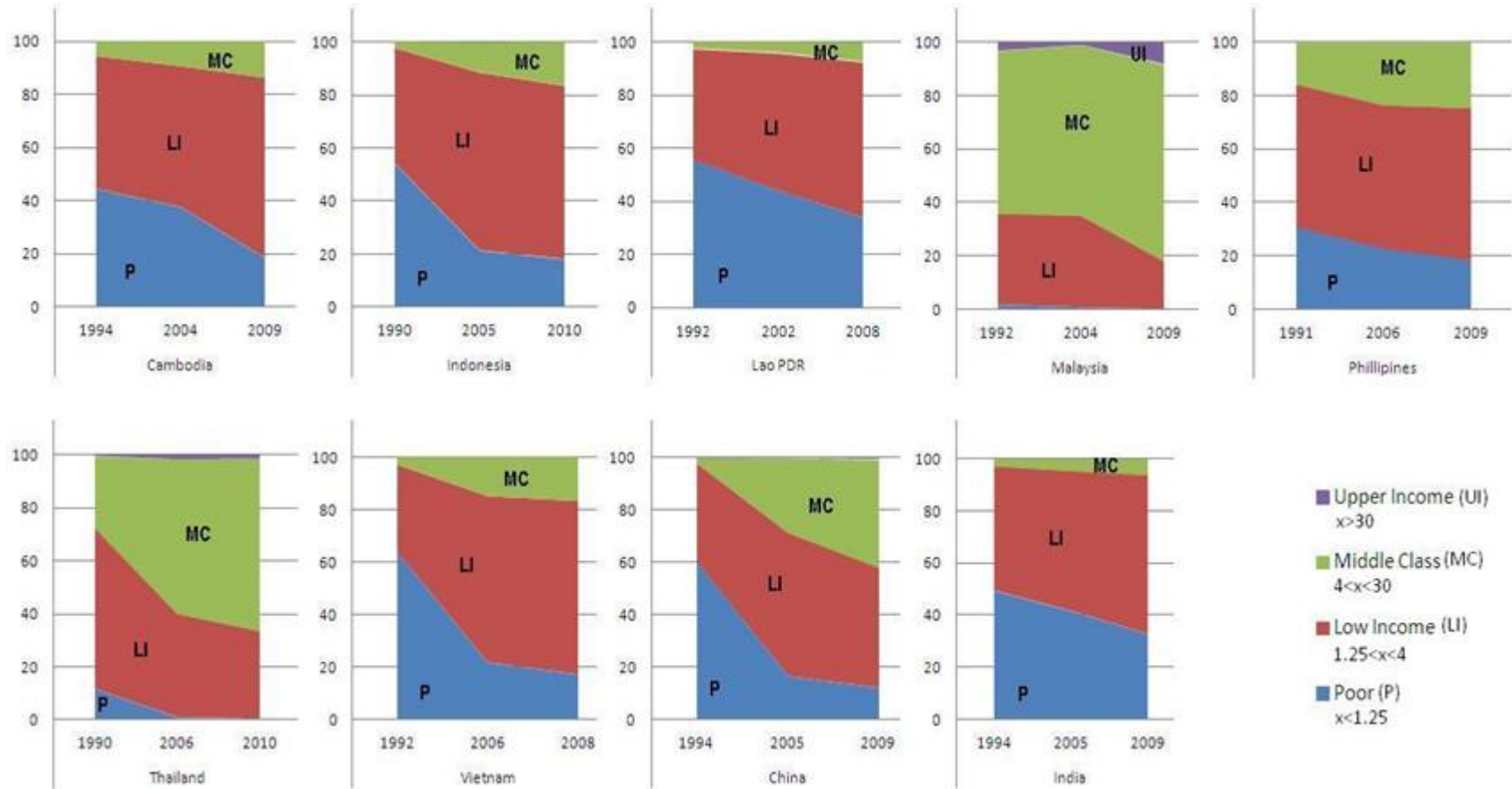
A more stringent criterion of middle class would be the income range  $4 \$ PPP < x < 30 \$ PPP$  per day per capita, consistent with METI (2010); **Figure 1.7b** presents the estimates based on the alternative criterion of middle class consistent with METI (see **Appendix Table 1** for the estimates by country). Note that the classification of the middle class is essentially arbitrary as there is no accepted definition of it.

**Figure 1.7a: People Living within certain Income Range / Class: Middle class ( $3 < x < 12$ )**



Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm?0>)

**Figure 1.7b: People Living within certain Income Range / Class: Middle class ( $4 < x < 30$ )**



Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm?0>)

**Figure 1.7a** shows that the middle class population in the ASEAN 7 (excluding Brunei, Singapore and Myanmar due to lack of data) increased from about 59 million in 1990 to about 197 million in 2010, accounting for about 37 percent of the total population. As a comparison, ASEAN's middle class population is bigger than India's 143 million, accounting for about 12 percent of India's total population. The comparable number of the middle class population in ASEAN using the more stringent middle class definition is about 149 million in 2010, accounting for 28 percent of the population. (Brunei Darussalam and Singapore are among the richest countries in the world on a per capita basis, so their populations are at least in the middle income class group. Thus, one can possibly arbitrarily add another 4 - 5 million to the total size of the middle class in ASEAN.)

Indonesia accounted for the largest increase in middle class population in ASEAN because it has the region's largest population and had one of the more consistently robust economic growth performances during much of the period. Viet Nam stands out with the sharp rise in the middle class population, a result of its fast economic growth during the period and a relatively more equitable distribution of income. Malaysia and Thailand, as **Figure 1.7a** brings out, presently consist preponderantly of middle class and higher income populations.

The pattern of income mobility engendered by economic growth in ASEAN member states is well captured in **Figure 1.7a**. The reduction in the number and percentage of poor people is mirrored to some extent by the rise in the number and percentage of the marginally non-poor and the low income during the past two decades; indeed, they account for more than one half of total population in a number of ASEAN member states. At least a fifth of the total populations are on the cusp of middle class status and who will be pushed upward by sustained robust economic growth, just as the poor graduate into being marginally non-poor and low income status especially as the poverty gap narrows closer to zero. This pattern of income mobility brings out clearly the importance of attaining and maintaining sustained high and equitable economic growth in order for poverty (so defined in terms of the above stated poverty line) to be eliminated and for the low income majority to graduate into middle class status, just as what happened in Thailand and Malaysia during the past two decades.

**Human development.** Social progress in ASEAN is made manifest not only in terms of the declines in poverty rate and poverty gap. The past two decades have seen significant strides in health and education outcomes such as the sharp reduction in infant mortality rate and marked increase in youth literacy rate especially in the CLMV countries. Adult schooling completion (in years) and life expectancy have also increased modestly. Nonetheless, the adult schooling completion in CLMV countries is still relatively low and the gap vis-a-vis the ASEAN 6 is substantial. As industrialisation moves apace in the region, and the concomitant demand for better skilled workers grows, the relatively low adult schooling completion in CLMV can become a significant growth constraint in the future. Thus, this is an area of significant policy concern that needs to be addressed by the CLMV countries in order for the countries to sustain their hitherto high economic growth into the future (see **Table 1.6**).

**Table 1.6: ASEAN Selected Social Indices: 1990, 2005, 2012**

Country	Human Development Index (HDI) value		Education index		Health index		Income index	
	1990	2012	1990	2012	1990	2012	1990	2012
<b>Brunei</b>	0.782	0.855	0.620	0.757	0.844	0.917	0.919	0.904
<b>Cambodia</b>	N/A	0.543	0.391	0.520	0.561	0.687	N/A	0.449
<b>Indonesia</b>	0.479	0.629	0.380	0.577	0.664	0.785	0.436	0.550
<b>Lao PDR</b>	0.379	0.543	0.304	0.453	0.542	0.754	0.331	0.471
<b>Malaysia</b>	0.635	0.769	0.532	0.731	0.789	0.859	0.612	0.726
<b>Myanmar</b>	0.305	0.498	0.267	0.402	0.588	0.721	0.182	0.428
<b>Philippines</b>	0.581	0.654	0.581	0.679	0.712	0.773	0.476	0.535
<b>Singapore</b>	0.756	0.895	0.607	0.804	0.877	0.966	0.815	0.925
<b>Thailand</b>	0.569	0.690	0.413	0.599	0.828	0.856	0.540	0.642
<b>Viet Nam</b>	0.439	0.617	0.374	0.539	0.719	0.874	0.315	0.501

Source: Human Development Report 2013

Challenges facing ASEAN for further economic and social progress are discussed further in **the latter part** of this chapter.

## Remarkable progress in economic integration

The 1990s and the 2000s have seen remarkable acceleration of the economic integration efforts in ASEAN and East Asia, of which for the latter, ASEAN served as the fulcrum of such East Asia integration efforts. The acceleration of economic integration efforts occurred alongside deepening economic linkages among the ASEAN member states and between them and the rest of East Asia.

*ASEAN economic integration efforts.* ASEAN integration efforts accelerate tremendously during the past two decades from the ASEAN tariff preferential arrangements (PTA) of the 1980s to a decision in the early 1990s to create an ASEAN Free Trade Area (AFTA) and culminating to a decision during the early 2000s to establish an ASEAN Community, including an ASEAN Economic Community (AEC), by 2020 (accelerated to 2015 later on).

External developments contributed to the acceleration of the integration process in ASEAN. By 1989, the fear of a potential “fortress Europe” under European Union, the expected establishment of NAFTA as well as the creation of the APEC have all contributed to the recognition by the ASEAN economic ministers of the need to deepen ASEAN integration; ASEAN put in place the ASEAN Free Trade Agreement (AFTA) in early 1990s. Similarly, the marked shift in the investors’ interest towards China coincided with the decision in 2002 and 2003 to create an ASEAN economic community initially by 2020 but later accelerated to 2015.

Nonetheless, it is the internal dynamic of the ASEAN process towards deep regional cooperation in the region that can be considered to be the driving force for deeper economic integration in ASEAN. It is noteworthy that a few years after AFTA has been put in place, the 1997 ASEAN Vision 2020 was adopted by the ASEAN Leaders at the 2<sup>nd</sup> Informal Summit in Kuala Lumpur, just a few months after the 1997 East Asian crisis broke out in Thailand. The document, meant to chart an ASEAN in the 21<sup>st</sup> century, provided much of the core elements of what would eventually become the AEC Blueprint. It is indeed remarkable that the response of the ASEAN Leaders to the unfolding economic crisis in the region at

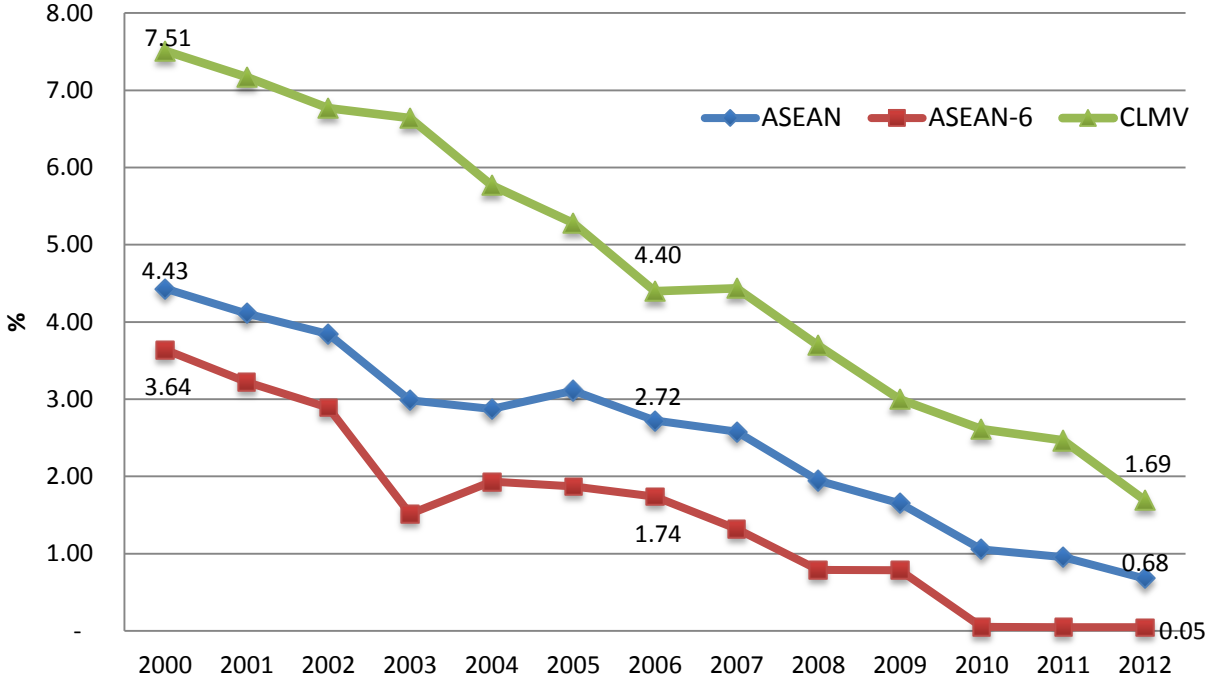
that time was forward looking and to deepen further the economic integration and cooperation among themselves and with the rest of the world.

The AEC Blueprint 2009-2015 was approved by the ASEAN Leaders in 2009 with the Cha- am Hua Hin Declaration on the Roadmap for an ASEAN Community 2009-2015 that also includes the blueprints for the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community.

The Economic Research Institute for ASEAN and East Asia (ERIA) undertook a Mid-Term Review of the Implementation of the AEC Blueprint in 2012. The Mid-Term Review highlights a number of significant achievements of ASEAN towards AEC 2015, to wit:

- Intra-ASEAN tariffs (CEPT) have drastically come down during the past decade. Indeed, for the ASEAN-6, the percentage of items with zero tariff in CEPT rose from 40 percent in 2000 to 99.11 percent in 2012. Similarly, the percentage of zero tariff in CEPT for CLMV countries rose from about 10 percent in 2000 to 67.6 percent in 2012. The average CEPT rate for CLMV countries is 1.69 percent in 2012 while that of the ASEAN-6 has been virtually zero at 0.05 percent since 2010 (see **Figure 1.8**). The elimination of tariffs is the *sine qua non* of any regional free trade area, and ASEAN is very much well on the way to fulfilling it. This is clearly a success story of political commitment in the region.

**Figure 1.8: Average CEPT Rates in ASEAN Countries: 2000-2012**



Source: ASEAN Tariff Database 2013

- ASEAN has been working hard at having a fully functional National Single Windows and ultimately an ASEAN Single Window. The Single Windows are the centerpiece of the trade facilitation measures in the AEC Blueprint for 2015. At present, five ASEAN member states have National Single Windows (i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand) with Brunei Darussalam having an operational one in the last quarter of 2013. Given that it takes a lot of time, close inter-agency cooperation of many trade related government agencies, and large financial resources to have fully developed and fully functional Single Windows, it is primarily Singapore and, to a lesser extent, Malaysia that have such fully functional and developed single windows. The large archipelagic countries of Indonesia and the Philippines, and even to some extent, Viet Nam, are handicapped by the large number of ports and the more dispersed agencies to be able to develop a fully functional and developed single window nationwide. Nonetheless, both Indonesia and the Philippines have operational single windows albeit primarily in the major ports and, for the

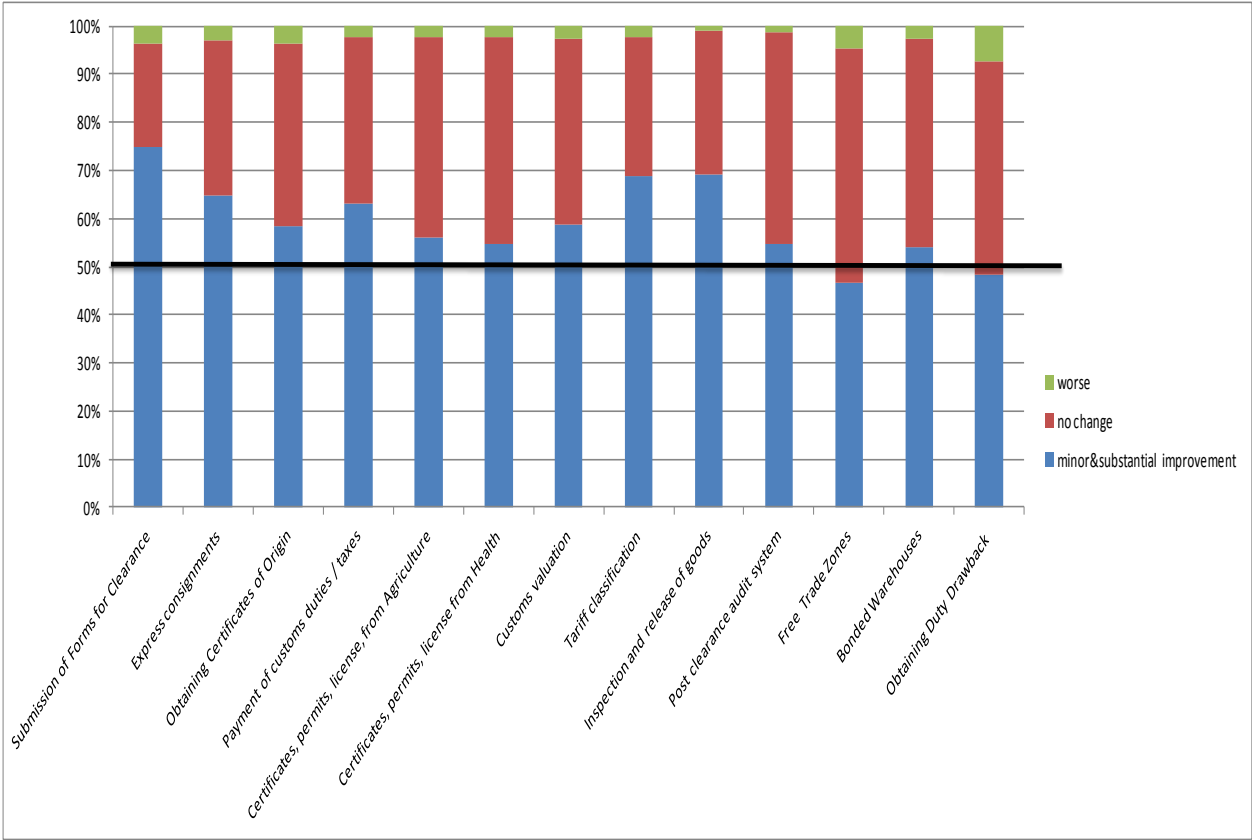


Philippines, still in the process of technical refinement and integration over a very large number of agencies involved.

The CLM countries are still way off in implementing the national single window while Viet Nam is much well on the way. There appears to have strong political will in the four countries to implement the national single window. Nonetheless, given that there are only two years remaining towards 2015, it would not be surprising if CLM countries could at best have a pilot scheme by 2015 involving their main port (or in the case of landlocked Lao PDR, main border point) and few government agencies. It needs to be pointed out that there can already be substantial benefits from undertaking the preparatory processes towards the establishment of single window such as the streamlining of processes as well as the consolidation of all the relevant rules and regulations.

The concerted efforts in the ASEAN to improve the trade facilitation regime in the region appear to be bearing some fruit already. The results of the ERIA survey of the private business sector in the ASEAN as part of the Mid-Term Review of the implementation of the AEC show that the majority of the survey respondents have noted improvements, both major and minor, in the export/import and customs clearances during the period 2009-2011 (see **Figure 1.9**).

**Figure 1.9: Good News: Percentage of Respondents in ASEAN Stating Improvement in Customs Performance during 2009-2011**



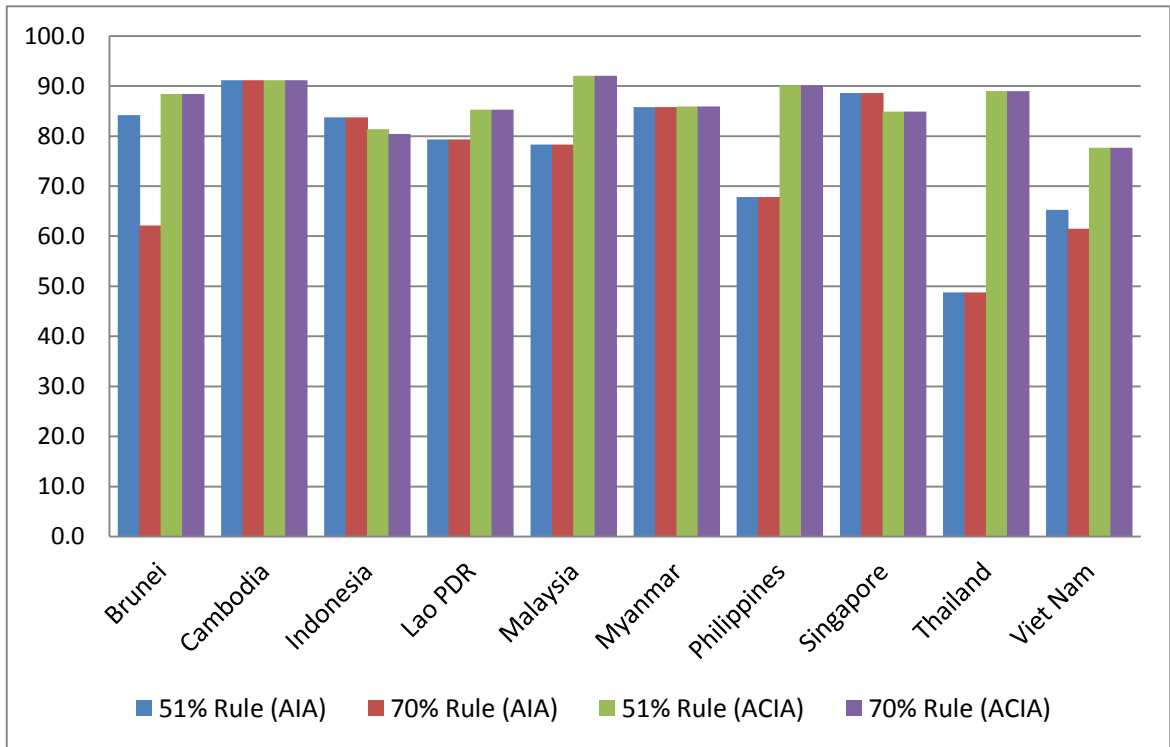
Source: Computed by Intal and Laksono .

- Based on the investment liberalisation commitments under ACIA, most of the ASEAN member states have relatively liberal investment regimes in the goods sector, especially in manufacturing (see **Figure 1.10**). Thus, to a large extent, the ASEAN member states are well on the way towards relatively free flow of investments, which is one of the major strategies of economic integration in the ASEAN as enunciated in the ASEAN vision 2020 and elaborated in the AEC Blueprint.

It is also worth noting that the results of the survey of private sector in the ASEAN under the Mid-Term Review of the AEC Blueprint implementation indicate that the private sector in the region has noted improvements in the ASEAN member states in investment facilitation as well as the in the overall investment climate in recent years. The results of the ASEAN

*Business Outlook Survey 2014* of the American Chambers of Commerce in ASEAN also indicate incremental improvements in most factors affecting investors' satisfaction of local environment in much of ASEAN, most especially for the Philippines (Amcham Singapore, 2013, p.28).

**Figure 1.10: Overall Foreign Investment Liberalisation Rate**



Source: Intal, *et al.* (2011), as updated by Intal and Panggabean.

- ASEAN has made significant progress on air transport with the entry into force, under the ASEAN – X formula, of the Multilateral Agreement on the Full Liberalisation of Air Freight (MAFLAFS), Multilateral Agreement on Air Services (MAAS), and the Multilateral Agreement on the Full Liberalisation of Passenger Air Services (MAFLPAS). There has been significant expansion in air travel within the region in line with the growth of intra-ASEAN trade, of intra-ASEAN tourist flows, and of low cost carriers. Nonetheless, there is yet no ASEAN single aviation market in as much as not all of the ASEAN member states have signed up and ratified the above mentioned multilateral agreements.

- Despite some difficulties, the series of rounds of negotiations of the ASEAN Framework Agreement on Services (AFAS), according to some agreed formula and in order to reach a clear and agreed upon end goal, has been delivering: service sector liberalisation commitments have gone significantly beyond the GATS. Services liberalisation has been a particularly difficult one in the multilateral trade negotiations under the World Trade Organization (WTO), and therefore the continuing process of liberalising negotiations, albeit increasingly tougher as they deal with the more sensitive sectors, has been on the whole productive and facilitative for the region.
- There has been some movement forward, albeit more limited, in other areas such as standards and conformance and mutual recognition agreements and arrangements on the movement of professional service providers like engineers and accountants. There have also been many more regional cooperation agreements and initiatives, e.g., on food security (APTERR), competition policy, intellectual property rights, agriculture, etc. They all add to a robustly growing sense of community within the region.

Despite the significant achievements stated above, the road towards a fully integrated economic region under the ASEAN Economic Community remains long. Much remains to be done moving into and beyond 2015. Charting the ASEAN story post 2015 can be expected to be an interesting and fulfilling challenge to ASEAN officials and the region's stakeholders. This Integrative Report hopes to contribute to this process.

***ASEAN integration efforts with East Asia and the world.***

ASEAN

has been in the forefront of integration initiatives in East Asia, but with the active involvement of its dialogue partners, especially China and Japan. Interestingly, the 1997-99 East Asian financial crisis was a major catalyst of deeper and broader East Asian economic cooperation and integration, with the first ASEAN Plus Three Summit in December 1997 in Kuala Lumpur, a few months after the outbreak of the financial crisis. (It is to be noted that the 1997 ASEAN Vision 2020 was also approved by the ASEAN Leaders during the anchor ASEAN

Summit at the same time.) It is the ASEAN Plus Three Summit (involving China, Japan and South Korea) and later on, also the East Asia Summit (adding Australia, India and New Zealand) as related summits of the ASEAN Summit that have provided the institutional platform for deeper East Asian cooperation and integration initiatives. China's proposal for an ASEAN-China FTA in 2001 catalysed the series of ASEAN + 1 FTAs, initially with China (ACFTA) in 2004, Korea (AKFTA) in 2006, Japan (AJCEP) in 2008, Australia and New Zealand (AANZFTA) in 2009 and India (AIFTA) also in 2009. With the exception of AANZFTA which is a single undertaking, the rest started with agreements on trade in goods and then followed with agreements on trade in services and on investment (still under negotiation for Japan).

These ASEAN-centric FTAs differ significantly among themselves in terms of level of ambition on tariff elimination and the degree of liberalisation in services and investment. Thus, they are best viewed as the initial key steps towards an integrated East Asian community. The East Asian Leaders created in early 2000s the East Asia Vision Group (EAVG) and East Asia Study Group (EASG) that were initially proposed by South Korea in order to develop the groundwork for the roadmap for an East Asian community. Proposals for an East Asian FTA (EAFTA), championed by China, and for a Comprehensive Economic Partnership for East Asia (CEPEA), championed by Japan, followed suit and provided the impetus for further elaboration of the process of the way forward for East Asia's economic integration. In view of the two conflicting visions and proposals towards an East Asian community, ASEAN ultimately responded with the Regional Comprehensive Economic Partnership (RCEP) that deftly embraces both EAFTA and CEPEA and projects "ASEAN centrality" in the evolving regional architecture in East Asia.

RCEP, still under negotiation, will be the main venue of ASEAN's deepening economic relations with the rest of East Asia. RCEP is now also the main mechanism for the official initiatives to deepen economic integration and cooperation in East Asia. The major challenge for ASEAN is how to steer the RCEP to its successful conclusion that takes into consideration the widely differing levels of development and different concerns of the 16 countries

involved in the negotiations. This issue is discussed in greater detail in **Chapter 6** of this report.

***Deepening market integration.*** Alongside the official regional integration initiatives, and indeed to some extent driving such initiatives, has been the deepening market integration in ASEAN and East Asia. More importantly, it is the nature of the market deepening that has markedly affected the substance and pace of official regional integration initiatives. Specifically, the growth and increasingly complex production (and distribution) networks in East Asia, and the critical importance of just-in-time management of supply chains, necessitate that regional integration efforts cannot focus only on liberalisation issues which had been the main bias in the WTO trade negotiations. Instead, facilitation issues, logistics and connectivity issues, standards and conformance issues, and domestic regulatory issues, among others, become particularly salient and need to be addressed in regional integration efforts in order for the regional production networks to be well performing and efficient and thereby increase the competitiveness of the region as a production and export platform.

Indicators of trade linkages within ASEAN and East Asia are shown in **Table 1.7**. The table shows the export and trade intensity ratios as well as export and import shares of ASEAN with itself and with China, Japan and ASEAN + 3. The table shows that the ASEAN member states trade is most intense with the other ASEAN member states; that is, the trade flows among the ASEAN member states have been much more than what is expected given their importance in world trade. ASEAN has also relatively intense trade relationships with China, Japan and ASEAN + 3 as reflected in the greater than unity intensity ratios. The table shows the marked increase in the export and import shares of China and the corresponding decline of the export and import share of Japan for ASEAN in the 2000s. This is one of the major developments in the trade relationships in the East Asia region during the past one and a half decades; that is, the emergence of China as the hub of East Asia's regional production networks, and the redirection of such network relationships from Japan to China even if the significant driver of such redirection have been the Japanese multinationals in China and Southeast Asia themselves. Note that much of the decline in the trade intensity between ASEAN

and Japan has been on the import side; that is, Japan has become a much less important source of imports for ASEAN over time.

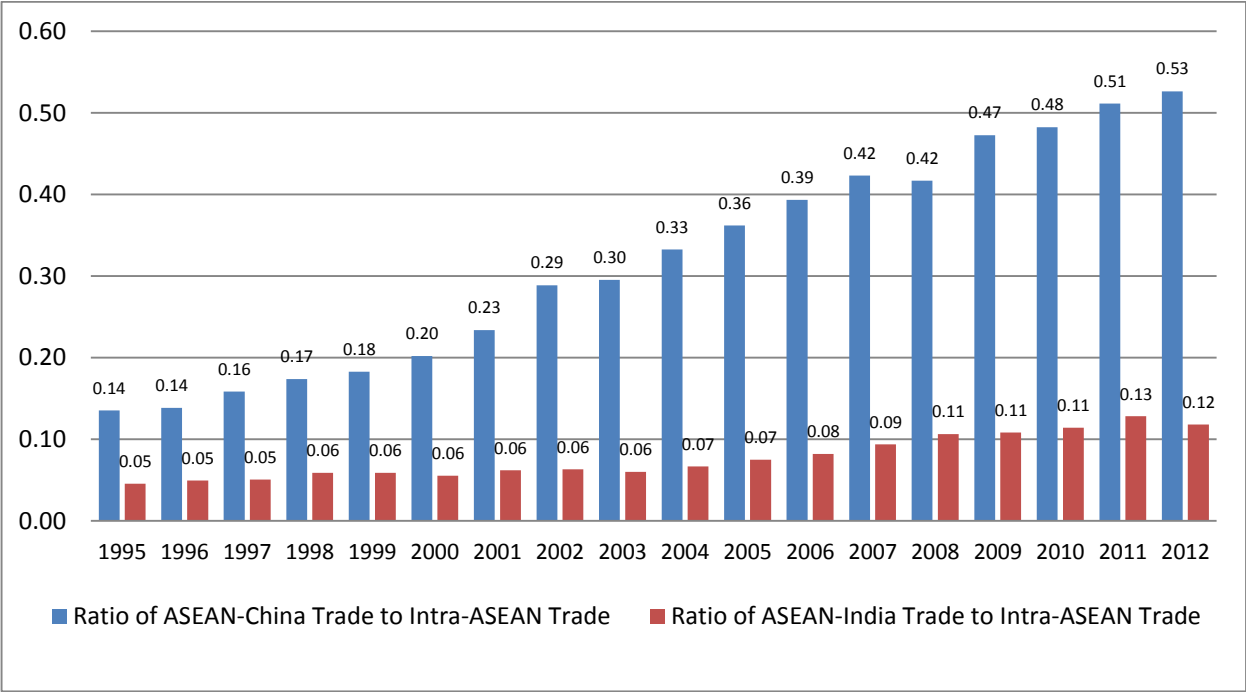
**Table 1.7: Export-Import Share and Trade Intensity Index of ASEAN and Selected Partners**

Indicator	Country/Region	1990	1995	2000	2005	2010	2012
Export Share (%)	ASEAN	18.94	24.41	22.98	25.33	25.03	25.92
	China	1.82	2.69	3.84	8.05	10.85	11.35
	Japan	18.89	14.23	13.44	11.12	9.84	10.27
	ASEAN+3	43	44.44	43.93	48.32	50.01	51.96
Import Share (%)	ASEAN	15.22	17.95	22.47	24.34	24.17	23.18
	China	2.93	3.04	5.05	10.5	13.58	14.77
	Japan	23.13	23.45	19.08	13.95	12.23	11.05
	ASEAN+3	44.42	48.88	51.4	53.47	55.98	55.24
Trade Intensity Index	ASEAN	4.06	3.32	3.68	4.24	3.74	3.57
	China	1.21	0.78	0.94	1.23	1.2	1.27
	Japan	2.82	2.53	2.45	2.35	2.34	2.36
	ASEAN+3	2.84	2.35	2.38	2.39	2.18	2.18

Source: ARIC ADB (2013)

**Table 1.7** shows that the intra-ASEAN trade intensity increased during the 1990s through the early 2000s and then declined somewhat in the latter 2000s. The decline is due primarily to the decrease in the import sourcing from other ASEAN countries which, in turn, appears to be a result of increased import sourcing from China as reflected in the continued increase in China's share of ASEAN total imports. Note the apparent stagnation in the share of ASEAN in ASEAN's total exports during the latter 2000s while there is some increase in the ASEAN + 3 share in ASEAN's exports, mainly due to China. The growing importance of China in ASEAN trade is clearly seen in **Figure 1.11**, where ASEAN-China trade has been largely growing consistently as a ratio of intra-ASEAN trade. The growing China-centric element of ASEAN trade may reflect to some extent the emergence also of China as major exporter of parts and components and not just as an assembler of final manufactured products (see Baldwin, et al., 2013). China is also a significant source of inputs for the garment exports of Viet Nam and Cambodia, where most of the exports go to Western countries.

**Figure 1.11: Ratio of ASEAN-China & ASEAN-India Trade to Intra-ASEAN Trade: 1995-2012**



Source: UNCTAD Statistics 2013

Note that the decline in the trade intensity within ASEAN occurred during the period of greater liberalisation within the region as part of the ASEAN economic community build-up towards 2015. The decline could be a result to some extent of the softening of international commodity prices in recent years since a substantial portion of intra-ASEAN trade is in agriculture and natural resource-based products such as rice, palm oil, sugar, oil, and gas. Nonetheless, it is also likely that China has become a very competitive import source for manufactured inputs of ASEAN. This seems to have two important implications for ASEAN and AEC, as follows:

- ASEAN is not yet well integrated enough to be competitive vis-a-vis China in terms of scale economies, depth of industrial clusters, and just-in-time operations. This implies that ASEAN needs to do much more in order to be one integrated production base in such areas as connectivity, trade and transport facilitation, non-tariff measures, etc.; and /or



- ASEAN is not competitive enough in terms of the value chain. That is, ASEAN has not moved up the technology ladder fast enough relative to China. If so, then the challenge for ASEAN is not just to be a much more integrated region and production base but also to be much more competitive and dynamic. This means that ASEAN needs to skill up, raise the extent and quality of tertiary and post graduate education which is a critical human capital element for innovation, and increase much substantially its investments in research and development. Note that in these dimensions, especially in research and development expenditures as well as in research and innovation capacity, China has indeed gone much ahead than most of the ASEAN member states.

## Challenges

The discussion above brought out the progress that transpired in ASEAN over the past two decades or so. Nonetheless, it is apparent from the discussion that the goal to eliminate dire poverty and raise the ASEAN population to middle class status has a long way to go. And with still a large segment of the population either poor or low-income, a number of ASEAN member states face the challenge of ensuring greater resiliency to the vicissitudes of climate, food supplies and even energy. It is also apparent that the drive towards an integrated ASEAN economic community is an unfinished business, and more so an integrated East Asia. It is also apparent that in light of dynamic developments in East Asia and the world, especially in China and even India, ASEAN has to move up and keep up.

The main challenges for ASEAN beyond 2015 are therefore as follows:

- ***Still large number of poor and marginally non-poor in most of the ASEAN member states.*** There were around 80 million people in ASEAN who were still poor in the late 2000s, excluding Myanmar. There are no comparable data and estimates for Myanmar. Nonetheless, the poverty incidence of Myanmar using official poverty line is about 29 percent in 2010, or about 17.5 million people. Thus, there were still at least

around 100 million people in ASEAN who were poor in the late 2000s. In addition to the 100 million or so poor based on the 1.25 \$ PPP per capita per day, there were about 121 million people (excluding Myanmar) in the late 2000s who were marginally non-poor as their per capita income is below the 2.00 \$ PPP per capita per day which is sometimes used as the more stringent poverty line. This means about two- quarters of the ASEAN population were still either poor or marginally non-poor in the late 2000s. This is clearly still the dominant key challenge facing ASEAN now and beyond 2015 -- that of eliminating the number of the poor and ultimately even the marginally non-poor.

A related policy and regional cooperation challenge for AMSs and ASEAN as a whole is that the poor and the marginally non-poor tend to be more vulnerable to significant price hikes of food products, disasters and even of energy shortages. Food is the largest expenditure component of the poor and the marginally non-poor, and as such, significant price hikes substantially reduce their welfare. Most of the poor tend to be in the rural areas and many of them live in flood-prone and erosion-prone areas; hence, they are more vulnerable to natural disasters including the negative effects of flooding and drought. Many of the poor eke out living working in farms, fisheries, and small off-farm enterprises; as such, sharp price hikes and shortfall of energy sources, including diesel, substantially compromise the viability of operations of small firms, farms and fisheries on which their employment and livelihood rests. Thus, alongside the drive of AMSs and ASEAN towards higher economic growth, AMSs and ASEAN would need to give more importance to regional cooperation to improve food security and energy security as well as greater readiness to address disasters within the region.

- ***Mixed record on income inequality.*** To some extent, this is related to the issue of poverty reduction discussed above. ASEAN member states have a mixed record with regards to income inequality amidst growth during the past three decades or so although overall, their performance is

better than that of China and definitely those of the major Latin American countries (see **Figure 1.12**).

As the figure indicates, income inequality has been worsening in Indonesia and Lao PDR, although both countries come from relatively more equitable distribution of income than all the other ASEAN member states.

Malaysia has had the most inequitable distribution of income among the AMSs during much of the 1980s and early 1990s; income inequality decreased very substantially during the late 1990s and the early 2000s but then rose dramatically again in the late 2000s to emerge again as the AMS with the most unequal distribution of income.

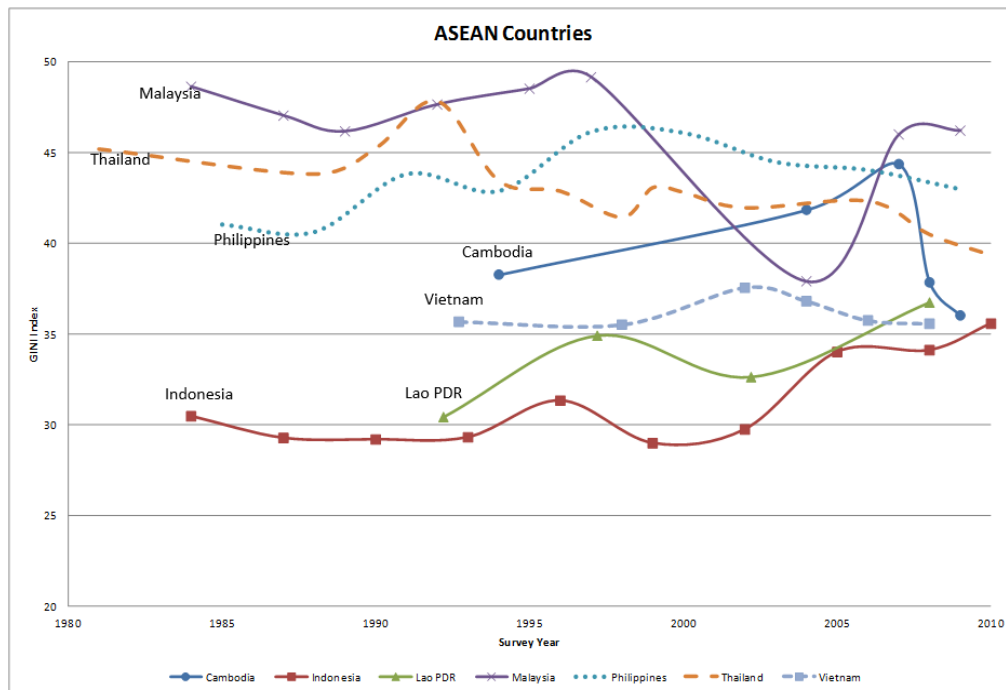
The Philippines has the second most unequal distribution of income after Malaysia at present. Income inequality in the country worsened in the 1990s to the extent that it was the worst in the ASEAN during the late 1990s and early 2000s, and then improved during the 2000s albeit only mildly so much so that the country still has the second most inequitable distribution of income in the ASEAN at present. Note that it is this comparatively more inequitable distribution of income in tandem with modest economic growth performance of the country that has made Philippine performance in poverty reduction a very lackluster one among the AMSs. The Philippine performance contrasts sharply with the case of Viet Nam as will be brought out below.

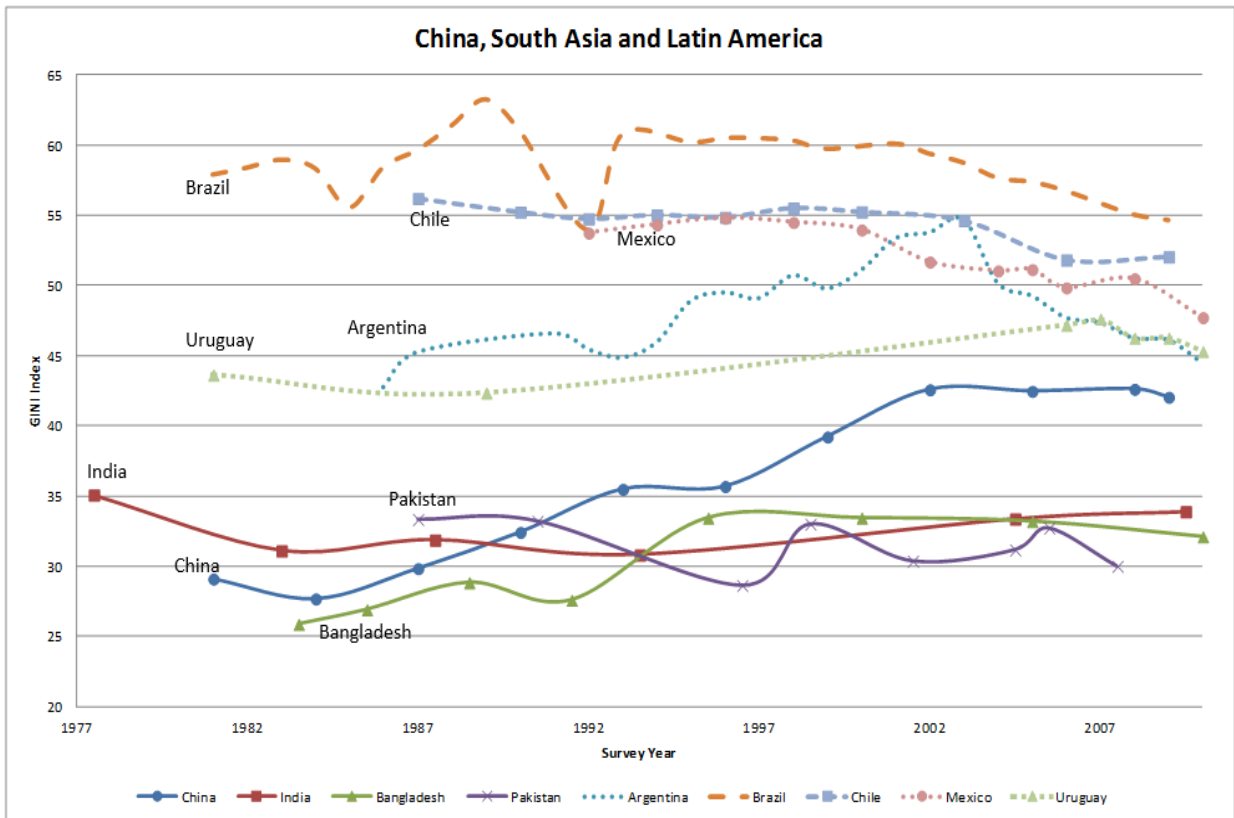
Thailand has had more success in engendering better distribution of income amidst growth during the past two decades. Coming off from having the second most inequitable distribution of income after Malaysia during the latter 1980s and the early 1990s, income inequality in the country declined secularly since then to the extent that its latest Gini index (the measure of income inequality used in **Figure 1.12**) has declined below the threshold of 40 percent, although still higher than the other AMSs apart from Malaysia and the Philippines.

Cambodia's income distribution worsened substantially during the 1990s through the mid- 2000s and then dramatically declined in the late 2000s. It is interesting to know the reason for this dramatic decline because Gini indices tend not to change drastically. It is likely that this is related to the movement of commodity prices and possibly improved agricultural production, especially rice, as well as the tightening of the labour market in view of the success of Cambodia in labour intensive garment manufacturing and tourism.

Viet Nam is perhaps the most successful ASEAN member state in engendering high and equitable growth during the past two decades. Income distribution in the country has been relatively stable despite having very high growth during much of the past two decades. This is the reason for the major success of Viet Nam in reducing dramatically its poverty incidence, arguably the world's second best after the spectacular success of China in poverty reduction.

**Figure 1.12: GINI Index for ASEAN, South Asia, and Latin America Countries from mid- 1970's to late 2000's**





Source: Povcalnet, World Bank (2013)

Despite the mixed performance of AMSs, however, **Figure 1.12** clearly shows that Latin American countries have more inequitable distribution of income, as exemplified by Brazil and Chile, than virtually all AMSs. Similarly, China’s fast economic growth appears to have been accompanied by marked deterioration in the distribution of income<sup>2</sup>. Although there is a tendency for income inequality to worsen during the early to middle income phase of countries, i.e., the so-called inverted U hypothesis, it is nonetheless apparent that there are structural reasons for the degree of income inequality given the level of development. Thus, the challenge is how to craft the set of policies and strategies that would engender a more equitable growth, as what appeared to be the case in Viet Nam during the past two decades.

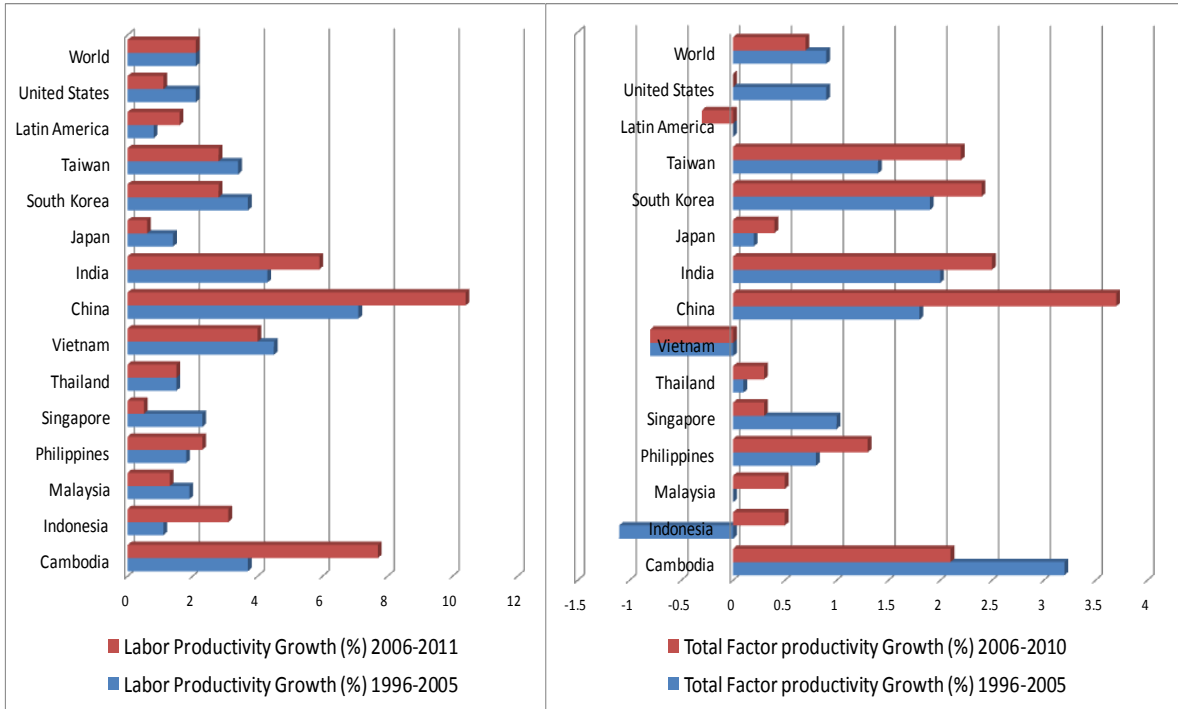
<sup>2</sup> There may be complication in the case of China especially on the attribution of the millions of migrants into the urban areas primarily in China’s Eastern Seaboard.

- ***Need to improve competitiveness of ASEAN.*** The long term competitiveness of ASEAN member states is strongly determined by the rate of growth of total factor productivity relative to other countries over a significant period of time. Estimates of labour productivity growth and total factor productivity growth during 1996-2011 for AMSs as well as China, India, Korea, Taiwan, Japan, USA and Latin America are shown in **Figure 1.13**. The estimates, taken from The Conference Board, use the same methodology and therefore are comparable. The growth of labour productivity is affected by the growth of capital stock, the efficiency in the use of capital, and advancement of knowledge, innovation or technological progress. The growth of total factor productivity is affected by the efficiency in the use of capital and labour as well as the advancement of knowledge, innovation or technological progress.

The results in **Figure 1.13** show robust growth in labour productivity, particularly in Cambodia and Viet Nam, during the whole period, together with significant acceleration in the labor productivity growth in Indonesia and the Philippines in the latter 2000s. However, the growth of total factor productivity has been very modest for most of AMSs. Indeed, Viet Nam registered negative growth of total factor productivity during the period, most likely a reflection of the much higher growth of capital than the growth of output. Cambodia had the highest total productivity growth rate; the Philippines also has a significant rise in total productivity relative to its labour productivity growth.

The very modest growth in total productivity in AMSs stands in contrast to the more robust growth in China, India, South Korea and Taiwan, the countries which are more directly competitive vis-a-vis AMSs. Thus, from this perspective, ASEAN's long term competitiveness appears to have deteriorated relative to its neighbours, most especially China. It is clear that AMSs need to improve their total productivity growth performance relative to their neighbours if ASEAN wants to improve its competitiveness, move up the value chain, and rely less on relatively low labour cost for success in exports.

**Figure 1.13: Labour Productivity and TFP Growth in ASEAN and Selected Partners (Annual Average)**



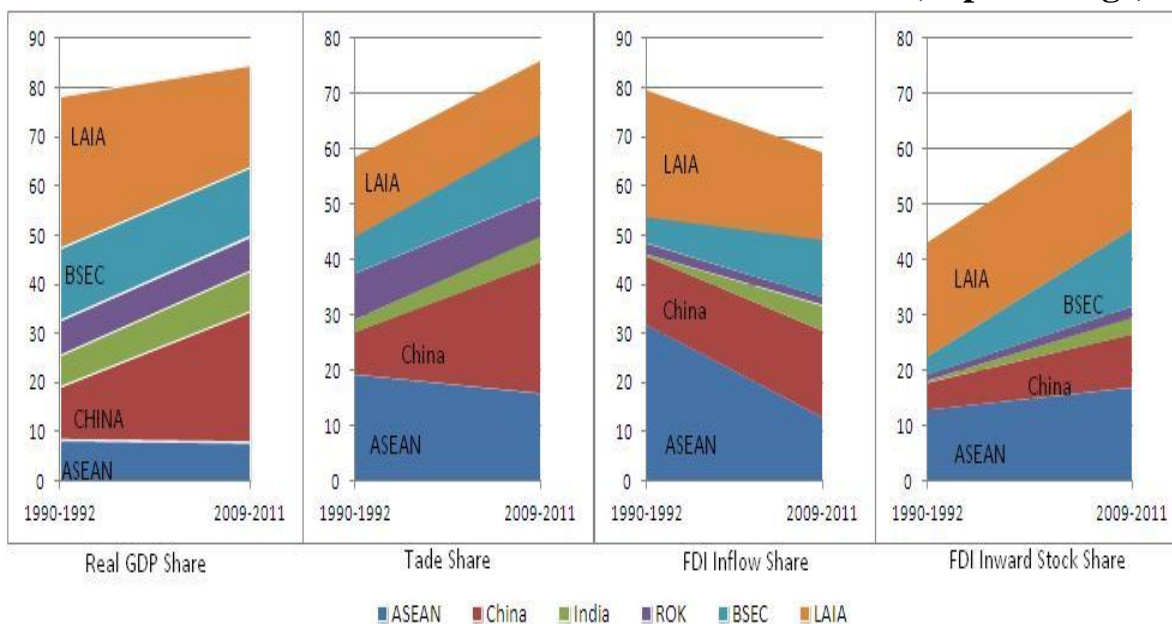
Source: The Conference Board Total Economy Database (2013)

One indicator that is suggestive of increased competitiveness is ASEAN’s share in the total trade and output of all developing countries. Thus, for example, the share of ASEAN to the total output (GDP) of all developing economies averaged 8.6 percent during 1990-1992 but dropped to an average of 8.1 percent during 2009- 2011. In contrast, China’s share rose dramatically from 10.7 percent during 1990-1992 to an average of 26.5 percent during 2009-2011 while India’s share rose from 6.5 percent during 1990-1992 to 8.4 percent during 2009-2011 (see **Figure 1.14**). Increasing the competitiveness of ASEAN post 2015 would have to be to the extent that ASEAN’s share of the total output of all developing countries increases to its share in 1990 and even higher. This would likely mean that ASEAN needs to attain, and sustain, high economic growth rates comparable to, if not better than, China in the years beyond 2015.

It is worth noting from the figure that ASEAN has a larger share of total trade of all developing economies and of the world’s total than the larger Latin America Integration Area (LAIA) as well the Black Sea Economic Community (BSEC)

and India. This reflects that ASEAN plays a bigger role in international trade globally relative to its size. It also reflects that international trade plays a bigger role in ASEAN economies than the other major regional integration areas in the developing world.

**Figure 1.14: The Share to GDP, Trade, and FDI of All Developing Economies: ASEAN and Selected Partners (in percentage)**



Source: UNCTAD Stat (2013)

The other indicator suggestive of increased competitiveness of ASEAN is ASEAN's share to the total trade of all developing countries. The share of ASEAN to total trade of all developing countries was 19.3 percent during 1990- 1992 but dropped to 15.9 percent during 2009-2011 (see Figure 1.14). This decline occurred primarily because of the sharp increase in the share of China to the total trade of all developing countries during the period; i.e., from 7.7 percent during 1990 - 1992 to 23.7 percent during 2009- 2011. The growth of trade in China has been so spectacular that China is now the world's largest exporter. Much more than in the case of the ASEAN share in total GDP of all developing economies, an increase in the ASEAN share to the total trade of all developing countries would be an important barometer of increased ASEAN competitiveness in international trade. This would call for the growth of ASEAN trade to be higher



than the growth of trade of all developing economies, and most likely also of the whole world.

Raising the ASEAN share to total output and trade of all developing countries would necessarily require very robust growth in output and trade of ASEAN. In view of the still limited capital in ASEAN compared to the region's needs, it behooves that ASEAN needs to attract more foreign direct investments. It is therefore likely that ASEAN would need to increase its share to the total FDI inflows to all developing countries and likely also globally. Note from **Figure 1.14** that ASEAN had the largest share of FDI inflows into the developing world during the early 1990s. However, ASEAN share declined dramatically in the latter 1990s and early 2000s. It is only in recent years that there was a notable increase in the ASEAN share to global FDI inflows. ASEAN may thus need to attract an even higher share of global FDI inflows in order for the region to gain a higher share of GDP and total trade of all developing economies and of the world.

• ***Building a fully functioning ASEAN economic community remains unfinished.*** Despite the substantial achievements on the implementation of AEC measures as discussed earlier, much remains to be done to have a fully functioning ASEAN Economic Community. Some of the key sticking points that need to be addressed into and beyond 2015 are as follows:

- There remain a significant incidence of “core NTMs’ especially quantitative limitations” in a number of AMSs. Given that CEPT tariffs are coming down very fast and are virtually zero for the ASEAN 6 countries, it is now non-tariff measures that have become particularly salient as a potential barrier to smoother trade linkages among AMSs.
- National Single Windows are not yet fully operational in most AMSs; and indeed, for three AMSs, they have yet to be put in place. The ASEAN Single Window (ASW) is not yet operative. Moreover, the planned operations for the ASW by 2015 are very limited in scope for effective facilitation of trade within ASEAN and between AMSs and the rest of the world. Related to this is the

need for the full operationalisation of both national and regional trade repositories, which are needed to enhance transparency on trade related policies, rules and regulations in the region for the benefit of firms and people transacting business in the region.

- Despite some progress on standards and conformance as well as on MRAs on professional services, so much more is needed to ensure greater regulatory convergence on standards and technical regulations, greater confidence on conformance assessments and certifications, and greater mobility of skilled professionals within the region.
- AMSs have mixed record on services and investment liberalisation, given the different political economy challenges facing each of the AMSs. It is likely that negotiations for the AFAS beyond AFAS 8 would be increasingly much more difficult since the deepening and widening of services liberalisation efforts would almost certainly touch the more sensitive sectors in each of the AMSs. AMSs may have to determine the degree of liberalisation of the services sector that would be consistent with a highly contestable services sector in the region needed for greater competitiveness vis-a-vis other major economies in the region.

There are many more initiatives by ASEAN to deepen its economic integration and become one community, many still unfinished and/or continuing.

On the whole, what the above examples bring out is that the ASEAN Economic Community project would likely be far from completed by 2015. ASEAN and AMS officials are well cognisant of this, with AEC 2015 as an important milestone and first stage, in ASEAN's continuing drive to become a truly integrated ASEAN economic community. Perhaps, the US Ambassador to ASEAN best sums it all when he said that what matters most with respect to AEC is not AEC 2015 per se but

*ambition* and *momentum*. ASEAN Leaders remain wedded to the ambition and vision that underpin the ASEAN Economic Community project. The challenge for ASEAN is to maintain, and better still, strengthen the momentum post 2015 moving forward towards an integrated, highly contestable, competitive, dynamic, inclusive, resilient and sustainable region that is deeply engaged with the rest of East Asia and the world.

## Appendix

**Table 1: People Living within certain Income Range / Class: Based on METI Definition in Millions Person**

Income Class	USD Per day per capita	Cambodia			China			India			Indonesia			Lao PDR			Malaysia			Philippines			Thailand			Vietnam		
		1994	2004	2009	1990	2005	2009	1993.5	2004.5	2009.5	1990	2005	2010	1992.2	2002.2	2008	1992	2004	2009	1991	2006	2009	1990	2006	2010	1992.7	2006	2008
Poor	<1.25	4.8	5.0	2.6	683.2	211.9	157.1	458.5	467.6	394.7	100.0	48.7	43.3	2.5	2.4	2.0	0.3	0.1		19.4	19.7	16.9	6.6	0.7	0.3	43.6	17.8	14.3
Low Income	1.25<x<4	5.4	7.0	9.5	429.7	718.6	615.1	443.5	603.9	737.7	80.0	152.4	156.7	1.9	2.9	3.5	6.6	8.8	5.0	33.7	46.8	52.1	34.6	26.2	22.8	22.9	53.1	56.4
Middle Class	4<x<30	0.6	1.2	1.9	22.2	371.2	550.4	26.1	51.2	74.6	4.4	25.9	39.8	0.1	0.2	0.4	11.7	16.4	20.6	10.0	20.6	22.6	15.6	39.4	45.1	2.0	12.4	14.4
Upper Income	>30	0.0	0.0	0.0	0.1	2.1	8.8	0.1	0.2	0.7	0.0	0.3	0.0	0.0	0.0	0.0	0.6	0.2	2.3	0.1	0.0	0.1	0.3	1.0	1.0	0.0	0.0	0.0
<b>Total</b>		<b>10.9</b>	<b>13.2</b>	<b>14.0</b>	<b>1135.2</b>	<b>1303.7</b>	<b>1331.4</b>	<b>928.2</b>	<b>1123.0</b>	<b>1207.7</b>	<b>184.4</b>	<b>227.3</b>	<b>239.9</b>	<b>4.4</b>	<b>5.5</b>	<b>6.0</b>	<b>19.2</b>	<b>25.6</b>	<b>27.9</b>	<b>63.2</b>	<b>87.1</b>	<b>91.7</b>	<b>57.1</b>	<b>67.3</b>	<b>69.1</b>	<b>68.5</b>	<b>83.3</b>	<b>85.1</b>

in Percentage to Total Population

Income Class	USD Per day per capita	Cambodia			China			India			Indonesia			Lao PDR			Malaysia			Philippines			Thailand			Vietnam		
		1994	2004	2009	1990	2005	2009	1993.5	2004.5	2009.5	1990	2005	2010	1992.2	2002.2	2008	1992	2004	2009	1991	2006	2009	1990	2006	2010	1992.7	2006	2008
Poor	<1.25	44.5	37.7	18.6	60.2	16.3	11.8	49.4	41.6	32.7	54.3	21.4	18.1	55.7	44.0	33.9	1.6	0.5	0.0	30.7	22.6	18.4	11.6	1.0	0.4	63.7	21.4	16.9
Low Income	1.25<x<4	50.0	53.0	67.8	37.9	55.1	46.2	47.8	53.8	61.1	43.4	67.0	65.3	41.8	51.9	58.6	34.2	34.5	17.9	53.4	53.7	56.8	60.6	38.9	33.0	33.4	63.7	66.3
Middle Class	4<x<30	5.5	9.2	13.5	2.0	28.5	41.3	2.8	4.6	6.2	2.4	11.4	16.6	2.5	4.2	7.4	61.0	64.1	73.8	15.8	23.7	24.7	27.3	58.6	65.3	2.9	14.9	16.9
Upper Income	>30	0.0	0.1	0.1	0.0	0.2	0.7	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.1	3.2	0.9	8.3	0.1	0.0	0.2	0.5	1.6	1.4	0.0	0.0	0.0
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank

<http://iresearch.worldbank.org/PovcalNet/index.htm?0>

**Table 2: People Living within certain Income Range / Class in Millions Person**

Income Class	USD Per day per capita	Cambodia			China			India			Indonesia			Lao PDR			Malaysia			Philippines			Thailand			Vietnam		
		1994	2004	2009	1990	2005	2009	1993.5	2004.5	2009.5	1990	2005	2010	1992.2	2002.2	2008	1992	2004	2009	1991	2006	2009	1990	2006	2010	1992.7	2006	2008
Poor	<1.25	4.8	5.0	2.6	683.2	211.9	157.1	458.5	467.6	394.7	100.0	48.7	43.3	2.5	2.4	2.0	0.3	0.1	N/A	19.4	19.7	16.9	6.6	0.7	0.3	43.6	17.8	14.3
Low Income	1.25<x<2	3.3	3.7	4.3	277.7	269.7	205.2	300.1	381.6	435.8	55.9	73.6	67.3	1.3	1.8	1.9	1.8	1.9	0.6	15.6	19.5	21.2	14.6	4.5	2.5	15.0	22.2	22.6
	2<x<3	1.6	2.3	3.5	119.5	276.9	234.2	113.0	170.6	228.6	18.7	56.1	59.3	0.4	0.8	1.2	2.5	3.5	2.2	12.0	17.1	19.3	13.0	11.0	8.9	5.9	20.6	22.2
Middle Class	3<x<12	1.1	2.1	3.4	54.0	514.8	657.0	55.3	99.4	142.5	9.6	46.9	67.9	0.2	0.5	0.8	11.2	17.2	14.9	15.1	28.3	31.6	20.5	42.9	48.4	3.9	22.1	25.1
Upper Income	>12	0.0	0.1	0.2	0.8	30.4	77.9	1.3	3.8	6.2	0.1	2.0	2.0	0.0	0.0	0.0	3.4	3.0	10.2	1.1	2.5	2.8	2.5	8.2	9.1	0.0	0.6	0.9
<b>Total</b>		<b>10.9</b>	<b>13.2</b>	<b>14.0</b>	<b>1135.2</b>	<b>1303.7</b>	<b>1331.4</b>	<b>928.2</b>	<b>1123.0</b>	<b>1207.7</b>	<b>184.4</b>	<b>227.3</b>	<b>239.9</b>	<b>4.4</b>	<b>5.5</b>	<b>6.0</b>	<b>19.2</b>	<b>25.6</b>	<b>27.9</b>	<b>63.2</b>	<b>87.1</b>	<b>91.7</b>	<b>57.1</b>	<b>67.3</b>	<b>69.1</b>	<b>68.5</b>	<b>83.3</b>	<b>85.1</b>

in Percentage to Total Population

Income Class	USD Per day per capita	Cambodia			China			India			Indonesia			Lao PDR			Malaysia			Philippines			Thailand			Vietnam		
		1994	2004	2009	1990	2005	2009	1993.5	2004.5	2009.5	1990	2005	2010	1992.2	2002.2	2008	1992	2004	2009	1991	2006	2009	1990	2006	2010	1992.7	2006	2008
Poor	<1.25	44.5	37.7	18.6	60.2	16.3	11.8	49.4	41.6	32.7	54.3	21.4	18.1	55.7	44.0	33.9	1.6	0.5	N/A	30.7	22.6	18.4	11.6	1.0	0.4	63.7	21.4	16.9
Low Income	1.25<x<2	30.7	28.4	30.9	24.5	20.7	15.4	32.3	34.0	36.1	30.3	32.4	28.1	29.1	32.9	32.1	9.6	7.3	2.3	24.7	22.4	23.1	25.5	6.6	3.7	22.0	26.6	26.5
	2<x<3	14.3	17.4	25.3	10.5	21.2	17.6	12.2	15.2	18.9	10.2	24.7	24.7	9.9	14.6	19.4	12.8	13.5	7.9	19.0	19.6	21.0	22.7	16.4	12.8	8.6	24.7	26.1
Middle Class	3<x<12	10.0	15.6	24.0	4.8	39.5	49.4	6.0	8.8	11.8	5.2	20.7	28.3	5.2	8.4	14.0	58.4	67.1	53.3	23.9	32.5	34.4	35.9	63.8	70.0	5.6	26.5	29.4
Upper Income	>12	0.4	0.9	1.1	0.1	2.3	5.9	0.1	0.3	0.5	0.0	0.9	0.8	0.0	0.2	0.6	17.6	11.5	36.6	1.8	2.9	3.0	4.3	12.2	13.1	0.0	0.7	1.1
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank

(<http://iresearch.worldbank.org/PovcalNet/index.htm?0>)