

Chapter 2A

Vision and Indicative Outcomes

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Chapter 2A

Vision and Indicative Outcomes

Towards ASEAN vision beyond 2015

H.E. Dr. Susilo Bambang Yudhoyono, President of the Republic of Indonesia, during the Opening of the 18th ASEAN Summit in Jakarta in May 2011, made the first clarion call to ASEAN to start “successful discussion on...[the] post 2015 ASEAN vision”. For him, it is important and urgent for ASEAN to discuss and agree on the role of the ASEAN Community in the global community of nations, when after the ASEAN Community is achieved in 2015, the region would be well equipped to “... elevating ASEAN’s role to meet the global challenges ahead...”

The Chairman’s Statement on the 18th ASEAN Summit underscored the vision of “ASEAN beyond 2015 which is competitive, fairly equal, inclusive, green, sustainable and resilient”. The Chairman’s Statement of the 19th ASEAN Summit in Bali in November 2011 emphasized that “...equitable development is one key element of our vision for ASEAN beyond 2015”. It also expressed the Leaders’ appreciation of the report of the Government of Indonesia-ERIA-Harvard Symposium on “Moving the ASEAN Community Forward into 2015 and Beyond”, “... which provides creative ideas for a competitive, dynamic, inclusive, sustainable, and globally engaged ASEAN beyond 2015”. The Chairman’s Statement of the 22nd ASEAN Summit held in Bandar Seri Begawan in April 2013 added the importance of “...realizing a truly “People–Centered” ASEAN as a central element of a post-2015 vision of ASEAN”. The essence of People-Centered ASEAN draws from the theme of the 2013 ASEAN Summit of “Our People, Our Future Together” with the emphasis on the role of the people in ASEAN’s community building.

As 2015 draws near, it is indeed necessary to take heed of H.E. President Yudhoyono’s call in May 2011 to “ensure successful discussion on the urgent

need for the post 2015 ASEAN vision”. The Chairman’s statements during the 18th, 19th and 22nd ASEAN Summits are a good start. Nonetheless, there is a need for more articulation and discussion of such vision for ASEAN in order to help guide the roadmap(s) that ASEAN would need to craft on the specific way forward post 2015 after the current Roadmap for an ASEAN Community, 2009-2015, expires.

Towards this end, it is useful to refer back to the 1997 ASEAN Vision 2020 because in many ways, it remains salient today and the near future. Perhaps, the challenge at present is to reframe and update it in the light of the current and expected future realities as well as possibly expand and deepen it in light of new perspectives from recent studies and analyses and of imperatives that ASEAN Leaders would like to give more focus on for ASEAN beyond 2015, as exemplified by the aforesaid Chairman’s Statements.

1997 ASEAN Vision 2020. The 1997 ASEAN Vision 2020 adopted by the ASEAN Heads of State/Government in Kuala Lumpur on 15 December 1997 remains a compelling reading at present, in part because it was adopted during a financial and economic crisis in the region and in part because of the clarity of ambition and vision set forth in the document. The fundamental vision in the 1997 vision 2020 is as follows:

“ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring communities.”

In the section on dynamic partnership, the ASEAN Leaders stated:

“We commit ourselves to moving towards closer cohesion and economic integration, narrowing the gap in the level of development among Member Countries, ensuring that the multilateral trading system remains fair and open, and achieving global competitiveness.

We will create a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services, and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.” (p.3)

The rest of the section details more specific elements of what the statements above entail. The above mentioned statements and the accompanying actions encapsulate virtually much of the essence and key components of what would eventually be the AEC Blueprint 2009-2015, albeit with much greater detail and specified time lines.

The section on “a community of caring societies” of the 1997 ASEAN Vision 2020 provides the broader vision and deeper context of the partnership in dynamic development, discussed above, which is the centerpiece of ASEAN Vision 2020. It is worth highlighting a number of the ASEAN Leaders’ statements as contained in the section on “a community of caring societies” as follows:

“We see vibrant and open societies...where all people enjoy equitable access to opportunities for total human development...”

We envision a socially cohesive and caring ASEAN where hunger, malnutrition, deprivation and poverty are no longer basic problems...

We envision a technologically competitive ASEAN competent in strategic and enabling technologies, with an adequate pool of technologically qualified and trained manpower, and strong networks of scientific and technological institutions and centers of excellence.

We envision a clean and green ASEAN with fully established mechanisms for sustainable development...

We envision our nations being governed with the consent and greater participation of the people ...

We resolve to develop and strengthen ASEAN’s institutions and mechanisms to enable ASEAN to realize the vision and respond to the challenges of the coming century. We also see the need for a strengthened ASEAN Secretariat with an enhanced role to support the realization of our vision.” (p.5)

And in the section on “Outward-looking ASEAN”, the ASEAN Leaders stated as thus:

“We see an outward-looking ASEAN playing a pivotal role in the international fora, and advancing ASEAN’s common interests...” (p.5)

The Bali Concord III: Bali Declaration on ASEAN Community in a Global Community of Nations signed by the ASEAN Leaders during the ASEAN Summit on 17 November 2011 in Bali, Indonesia gives full expression of an outward-looking ASEAN playing a pivotal role in the international fora and advancing ASEAN’s common interests. It is to

“... take forward ASEAN’s shared vision and coordinated action on various global issues of common interest and concern ... (that) ... complement continuing efforts to build and strengthen an ASEAN Community and to enhance and maintain ASEAN centrality and its role in the evolving regional architecture” (Bali Concord III, p.3).

The broad areas of common interest and concern cover areas on (a) political-security cooperation specifically related to peace, security and stability as well as political development; (b) economic cooperation specifically related to economic integration, economic stability and economic development; and (c) socio-cultural cooperation focusing especially on disaster management; sustainable development, environment and climate change; health, science and technology, education, human resources, culture and the high quality of life.

It is clear from the quotations above that much of the statements of the ASEAN Leaders in 1997 remain very relevant, salient and important today for ASEAN’s future as they were about one and a half decades ago. Arguably, much of the AEC work and initiatives as well as Chairman’s Statements of ASEAN Summits in the past decade or so are essentially amplifications and operationalisation of the vision set out in 1997 by the ASEAN Leaders. Additionally, the Bali Concord III amplifies ASEAN vision 2020 and strengthens ASEAN Community building and centrality in the evolving regional architecture with its emphasis that the ASEAN common platform on global issues needs to be characterized by, among others, the following (Bali Concord III, p.3):

- *“A more coordinated, cohesive, and coherent ASEAN position on global issues of common interest and concern, based on a shared ASEAN global view, which would further enhance ASEAN’s common voice in relevant multilateral fora;*
- *An enhanced ASEAN capacity to contribute and respond to key global issues of common interest and concern which would benefit all ASEAN Member States and its peoples;*
- *A strengthened ASEAN Community centered on ASEAN...”*

Vision on ASEAN and AEC beyond 2015: ASEAN vision post 2015. Given the continuing salience of much of the 1997 ASEAN Vision 2020, the vision in 2013 on moving ASEAN and AEC forward beyond 2015 would be fundamentally a rededication of the vision of ASEAN Leaders in 1997. The challenge is to refine, reframe, deepen, update, and expand the vision to take cognizance of deeper perspectives, different realities and changed circumstances and environments, and new challenges facing the region.

Box A presents the proposed vision on ASEAN beyond 2015, specifically the **ASEAN vision 2025/2030**. The **proposed ASEAN vision post 2015 focuses on the economic sphere** and does not cover much of the socio-political and other non-economic spheres of ASEAN community building; thus, would not be a complete and comprehensive vision statement for ASEAN.

Box A

Proposed ASEAN (Economic) Vision post 2015

Overall

ASEAN is a concert of robustly growing, outward-looking, predominantly middle income and high income Southeast Asian nations, living in peace, stability and prosperity, bonded together as an inclusive, resilient, sustainable and people-centered region and economic community of dynamic development. ASEAN is the fulcrum of deeper regional integration in East Asia and is an effective force for peace, justice and moderation in Asia–Pacific and in the world.

Economic Community of Dynamic Development

ASEAN is a deeply integrated, connected, highly contestable, and nearly borderless production area and market, where there is nearly free flow of goods and services as well as much freer flow of investment, capital and skilled labor. The region is well connected physically, institutionally and logistically that allows for efficient movement of goods and services within the region.

ASEAN is a highly attractive investment area for firms within and outside the region, where business is done with ease, regulations are coherent and fair, and regulatory regime is responsive and transparent.

ASEAN is a highly competitive economic region playing a big role in regional and global production networks and value chains in a wide range of products.

ASEAN has a growing mass of modern and competitive SMEs strongly linked in expanding and evolving industrial clusters nationally and cross-nationally within the region. ASEAN has a policy and institutional environment that is very supportive and facilitative of the growth and transformation of the region's SMEs.

ASEAN has prudently managed, well integrated and deepening financial and capital markets that provide the growing financing needs of the region's small, medium and large enterprises with appropriate maturity and tenor.

ASEAN is a major hub of creativity, technological adaptation, and innovation supported by an adequate pool of highly qualified, creative, and/or technologically competent manpower as well as a network of high quality education, research, technological and training institutions, and of technologically adaptive and innovative firms.

Box A. Inclusive, Resilient, Sustainable and People-Centered ASEAN Community

ASEAN beyond 2015 is a community of open and vibrant, inclusive, resilient, green and sustainable, and participative societies where poverty, illiteracy and malnutrition are no longer basic problems.

ASEAN beyond 2015 is a community of vibrant and open societies, well aware of the region's history, embracing and welcoming the region's diversities, and bound by a common regional identity.

ASEAN beyond 2015 is inclusive and committed to equitable development, where all people enjoy equitable access to opportunities for total human development, and where development gaps between the periphery and the center, the rural and the urban, as well as the poor and the rich have substantially narrowed. An inclusive ASEAN, with the attendant further rise of the middle class, contributes to robust economic growth in the region.

ASEAN beyond 2015 is resilient, where robust national and regional mechanisms exist and operate well to help vulnerable people and households adjust well to the vagaries of food and energy prices and supplies, weather and climate, and natural disasters. ASEAN food security and energy security are enhanced by regional cooperation and a well performing ASEAN economic community.

ASEAN beyond 2015 actively supports green and sustainable development with established mechanisms to protect the region's environment and better manage its natural resources, engenders opportunities for green development as an economic opportunity for the region, and strengthens the positive contribution of the region's green development toward a resilient ASEAN.

ASEAN beyond 2015 is people-centered and participative, actively harnessing and engaging its peoples in monitoring, analyzing, refining and revising strategies, policies and regulations both nationally and internationally in order to meet the demands of the times, and in designing and implementing initiatives for deepening the sense of community within the region.

A Strong, Outward-Looking, and Globally Engaged ASEAN

AMSs endeavor to strengthen ASEAN's institutions, including the ASEAN Secretariat, and mechanisms to enable ASEAN to realize the vision of an integrated, highly contestable, dynamic, inclusive, sustainable, resilient, and people-centered community.

ASEAN community plays a pivotal role in the global community of nations. ASEAN is the fulcrum of deeper regional integration in East Asia. ASEAN is an effective force for peace, justice and moderation in Asia-Pacific and in the world. ASEAN actively engages in ensuring that the multilateral trading system remains open and fair. ASEAN cooperates actively and cohesively to contribute to international efforts to respond to key issues of common interest and concern which would benefit all ASEAN Member States and its peoples, raising its voice globally through norms and effective facilitation for peace and shared prosperity.

Desired Outcomes: Aim High ASEAN!

The Leaders' enduring vision and ambition of a dynamic, resilient, people-centered, inclusive, deeply integrated, and globally important ASEAN is best served by definable and high indicative outcomes in order to continue to animate and sustain the momentum of the region's integration, reform, institution-building, and cooperation efforts.

This Integrative Report proposes indicative outcomes for the next decade and a half to 2030. The proposed indicative outcomes are grouped together into three major areas. The proposed indicative outcomes are summarized first and then followed by the detailed discussion on the rationale for the proposed indicative outcomes.

1. **“ASEAN Miracle” of sustained high and inclusive growth realized, eliminating dire poverty and making the region predominantly middle class by 2030.** Thus, the following are the corollary indicative outcomes:

- *Dire poverty (i.e., people living below \$ 1.25 PPP at 2005 prices per day per capita) in ASEAN eliminated by 2030.* There is the corollary desired outcome of dramatic reduction in the percentage of people living below \$ 2 PPP at 2005 prices per capita per day from around 42 percent in 2010 to around 12 percent by 2030. It also has the implication of the elimination of illiteracy and serious malnutrition in ASEAN by 2030.
- *Sustained high growth rate of per capita income of the low and lower middle income AMSs: average of between 5.2 and 7.3 percent per year until 2030.* These are the growth rates needed to eliminate dire poverty in the region during 2025-2030.
- *More equitable growth in ASEAN engendered.* In addition to narrowing the development gaps among AMSs, inclusive growth means more equitable growth within AMSs. A reasonably good indicative outcome is to have a *Gini Index* of less than 40 (out of 100, with 100 as the most inequitable) for each AMS by the late

2020s if not earlier. Another important indicator is the *rise of the middle class to predominance* in virtually all the AMSs by 2030; that is, the middle class, defined either liberally or more stringently, accounts for more than fifty percent of the population in most AMSs by 2030.

2. Competitive, dynamic, and highly investment-attractive economic community engendered. Clearly, realizing the ASEAN Miracle of sustained high and inclusive growth demands that ASEAN is highly attractive to investors both foreign and domestic and that ASEAN is competitive in international and domestic markets. The proposed quantitative indicative outcomes are the following:

- *Significantly increased ASEAN share to total trade, GDP and especially FDI of all developing countries and of the world by 2030.* ASEAN share to total trade of all developing countries declined dramatically from around 19.3 percent in the early 1990s to around 15.9 percent during 2009-2011. We propose an indicative outcome of about 17.5 percent by 2030. ASEAN share to total GDP of all developing countries declined from about 8.6 percent in the early 1990s to about 8.1 percent during 2009-2011. Aiming for the return to ASEAN's share in the early 1990s would be a tall order because it means growing much faster than China and India for much of the period; nevertheless, some increase in the share is a possible outcome. Given the indicative outcome of higher trade and GDP share, ASEAN needs to endeavor to substantially increase its share to the total FDI inflow to all developing countries. ASEAN share to all FDI going to all developing countries declined dramatically from around 32 percent in the early 1990s to about 13 percent during 2009-2011. We propose aiming for an increased share to at least 16 percent by the late 2020s.
- *Dramatically improved international standing of the AMSs in ease of doing business, logistics performance, and global competitiveness indices by early 2020s and in global innovation index by the latter 2020s.* Aiming for increased share of

FDI, trade and GDP to all developing economies would call for ASEAN (or more AMSs) becoming a more highly attractive investment destination with highly favorable business climates. We propose the indicative outcomes where ALL AMSs are in the top half, and MOST AMSs in the top third, of the global rankings in ease of doing business, logistics performance, and global competitiveness indices by the early 2020s. In addition, we propose that MOST AMSs belong to the top half of global rankings in the global innovation index by the late 2020s. The global innovation index ranking is a measure of innovation capacity of AMSs relative to the rest of the world.

- *ASEAN SME Policy Index values markedly improved in all AMSs by the early 2020s.* A much improved policy environment for SMEs is important to the realization of the ASEAN Miracle through denser and more competitive industrial clusters (as SMEs form the bulk of industrial clusters) and much enhanced employment creation contributing to more equitable growth, among others. The ASEAN SME policy index has been developed by ERIA and the ASEAN SME working group. We propose that the ASEAN SME policy index be institutionalized in ASEAN with regular monitoring, e.g., every 3 years. We propose further that ASEAN sets an agreed upon extent of improvement, say by 50 percent, by the early 2020s for each AMS, except for those where an AMS is already nearly at the best practice level.
- *Intra-ASEAN trade share to total ASEAN trade from the current 25 percent substantially raised to, say, around 30 percent by 2030.* Note however that a successful RCEP and robust East Asia production networks may make 30 percent target share difficult to achieve because the trade diversion effect of AEC relative to the rest of East Asia is eliminated by RCEP if the latter eliminates virtually all trade barriers within East Asia. Nonetheless, a higher share is an important manifestation of the deepening economic integration within ASEAN under AEC. Much improved trade facilitation, regulatory convergence, much more facilitative standards and conformance, and much more streamlined non-

tariff measures are possible factors that can contribute to increased intra-ASEAN trade share despite RCEP; these factors are usually not captured in simulation models like GTAP.

3. Markedly more resilient ASEAN realized. Resilient ASEAN, as revealed from Leaders' and Ministerial statements and regional initiatives during the past decade or so, is focused on food security, energy security or resiliency, and disaster resiliency. At present, ASEAN does not yet have a set of indicators that can help the region measure the degree of improvement of the region's resiliency with respect to food and energy shocks and to natural disasters. We propose that ASEAN develops the set indicators and monitors them regularly like every 2 years. We propose further that ASEAN agrees on a percentage degree of improvement of the indicator values over the period up to 2030. Specifically, we propose the following:

- *Adopt or adapt the Rice Bowl Index for ASEAN, as the measure of food system robustness and food security in each AMS.* The Rice Bowl Index, developed by Syngenta and covering farm level, demand, trade and policy and environment factors, has been operationalised and results are available for a number of AMSs. The index, or an "ASEANised" version, can be used for all AMSs.
- *Develop and monitor a set of indicators on energy security and resiliency of ASEAN and East Asia.* A related indicative outcome is *reduction in energy demand by an agreed upon percentage arising from energy efficiency alone, e.g., 10 percent by 2030 and 15 percent by 2035 reduction in energy demand with use of energy efficient plants, equipment and vehicles as compared to business-as-usual scenario.*
- *Develop and monitor regularly a set of indicators that comprise a disaster resiliency index or scorecard for ASEAN,* perhaps undertaken jointly by ERIA and AHA Center as the two institutions have started exploring the possibility of developing such an index. The Hyogo Framework Action can be a significant

input in the development of such a disaster resiliency index or scorecard.

- *AMSs to agree on a percentage improvement in the set of indicators or indices or scorecards over time into 2030, after the indicators have been developed and initial results are available.*

Discussion on the Proposed Indicative Outcomes and their Rationale

The indicative outcomes and their rationale are discussed in detail in the rest of this chapter:

1. **Eliminate dire poverty; reduce expanded poverty rate by at least two-thirds; and (nearly) eliminate illiteracy and serious malnutrition in ASEAN by 2030.**

“We envisionASEAN where hunger, malnutrition, deprivation and poverty are no longer basic problems....” **1997 ASEAN Vision 2020**, p.5

The country-specific **poverty reduction** challenges in the region during the next two decades or so are shown in **Table 2A.1.a**. The country specific reduction challenges on **illiteracy and serious malnutrition** are shown in **Table 2A.1.b**. Serious malnutrition is proxied by percentage of children under 5 years old who are wasted.

Table 2A.1.a: Population and Poverty: a Projection

Country	Total Population 2012 (Million)	Population Projection in 2030 (Million)	Number of Poor People (in Million) in 2010 (< 1.25 \$ PPP)	Number of poor people lifted out from poverty by 2030 (Million)
Brunei Darussalam	0.41	0.50	N.A	N.A
Cambodia	14.86	19.14	2.08	2.82
Indonesia	246.86	293.48	43.32	53.00
Lao PDR	6.65	8.81	1.61	2.29
Malaysia	29.24	36.85	N.A	N.A
Myanmar	52.80	58.70	N.A	17.02
Philippines	96.71	127.80	17.18	23.54
Singapore	5.31	6.58	N.A	N.A
Thailand	66.79	67.55	0.26	0.26
Viet Nam	88.78	101.83	12.14	14.22

Source: UN Data, World Bank Data, Povcalnet-World Bank

Table 2A.1.b: ASEAN, China, India Literacy and (Child) Malnutrition Rate in Late 2020s

Country	Literacy Rate (% to Total)		Malnutrition: Wasted for Age (% to total child < 5)	Indicative Outcome
	Adult	Youth		
Brunei	95.45	99.75	N/A	Indicative Outcome: Youth Illiteracy rate < 0.5% Wasted malnutrition < 1.0%
Cambodia	73.90	87.13	10.80	
Indonesia	92.81	98.78	14.80	
Lao PDR	72.70	83.93	7.30	
Malaysia	93.12	98.42	N/A	
Myanmar	92.68	96.10	7.90	
Philippines	95.42	97.75	6.90	
Singapore	95.86	99.75	N/A	
Thailand	93.51	98.05	4.70	

Viet Nam	93.36	97.07	9.70
China	95.12	99.64	2.30
India	62.75	81.13	20.00

Source: WHO-Global health Repository Data, and UNESCO Institute of Statistics

Rationale:

The popular, and usual, measure of absolute poverty is the percentage of population with income below **\$ 1.25 PPP per capita per day** at 2005 prices. We can call this the **dire poverty rate**. An alternative, and relatively more stringent, measure of poverty is the percentage of population with income below **\$ 2 PPP per capita per day** at 2005 prices. We can call this **expanded poverty rate**.

Around **95 million people** lived below the dire poverty line of \$ 1.25 PPP per capita per day at 2005 prices in 2010.¹ This is equivalent to around 15.6 percent (dire) poverty rate in ASEAN, including the estimated number of poor in Myanmar.² ASEAN population is expected to increase from 608.4 million in 2012 to 694.7 million in 2025 and 721.2 million in 2030. This means that **a total of around 112.5 million people have to be lifted out of poverty between 2010 and 2030, in order to eliminate dire poverty in ASEAN by 2030.**

Is this a realistic target? What is the implied growth rate required to attain zero headcount poverty rate by 2025-2030? **Figure 2A.1a** presents the relationship between headcount poverty rate and per capita household income in PPP terms using the ASEAN, China and India experience.³ **Figure 2A1b** presents the same relationship but using ASEAN data only. The two figures show the expected negative relationship between headcount poverty rate and per capita household income. The figures suggest that, *on the average*, the threshold per capita family income that would lead to zero poverty rate is about *2,600 \$ per*

¹ This is equal to the 76.6 million for ASEAN-7 (minus Brunei, Myanmar and Singapore) using the PovCalNet database plus an estimated 17.5 million for Myanmar based on Myanmar's poverty line, which may NOT be the same as the \$1.25 PPP per day per capita at 2005 prices used in the estimation using PovCalNet database.

² The estimated headcount dire poverty rate without Myanmar is about 14 percent in 2010.

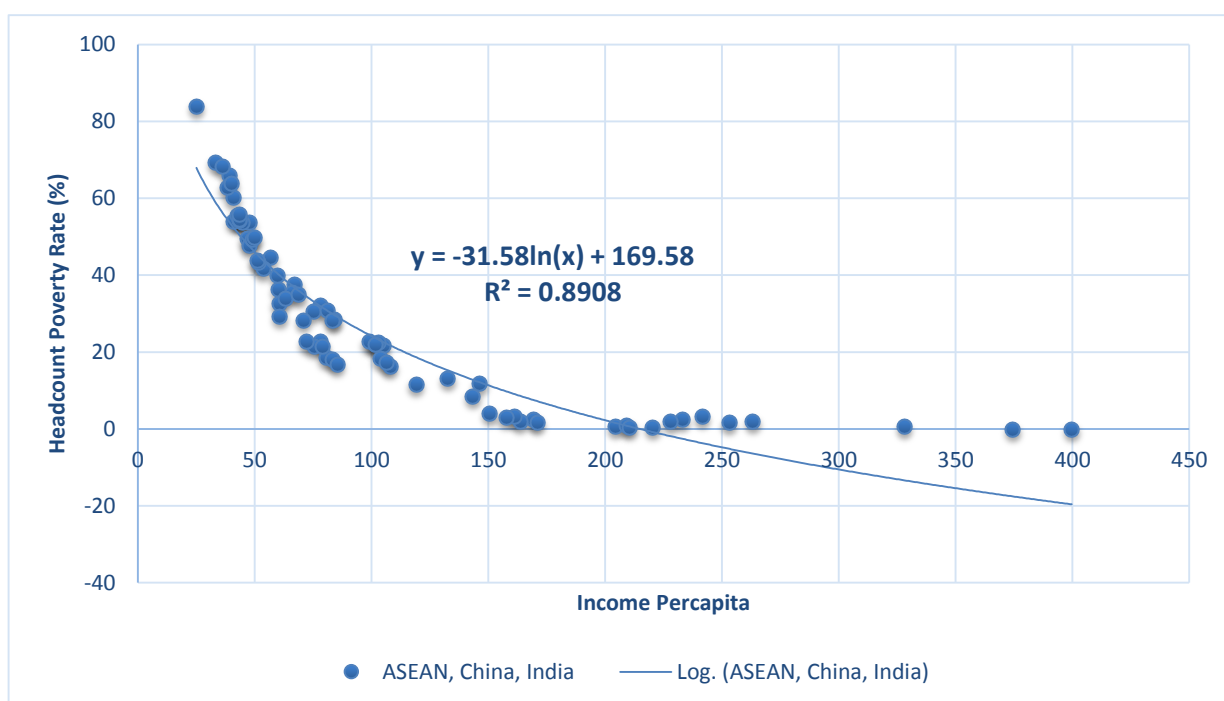
³ Note that there is a difference between per capita family (or household) income and per capita GDP. Family income is based on family income and expenditure surveys; hence, it records what households receive. GDP per capita includes incomes in the corporate sector and the government.

year at 2005 prices using the ASEAN, China and India data or a slightly higher 2, 700 \$ PPP per year at 2005 prices using ASEAN data only.

As will be shown in the succeeding section, the implied growth rate is high but feasible and realistically attainable.

Under the expanded poverty rate definition using \$ 2 PPP per capita per day at 2005 prices as poverty threshold, around **237 million** people in ASEAN lived below the \$ 2 PPP per capita per day at 2005 prices, or an expanded poverty rate of around 42 percent in 2010.⁴ To eliminate the total number of poor (under the expanded poverty definition) by 2030 would require lifting around **303 million** out of poverty.

Figure 2A.1.a: Income Per Capita – headcount Poverty Rate (below 1.25 \$ PPP at 2005 prices) Nexus: ASEAN, China, and India

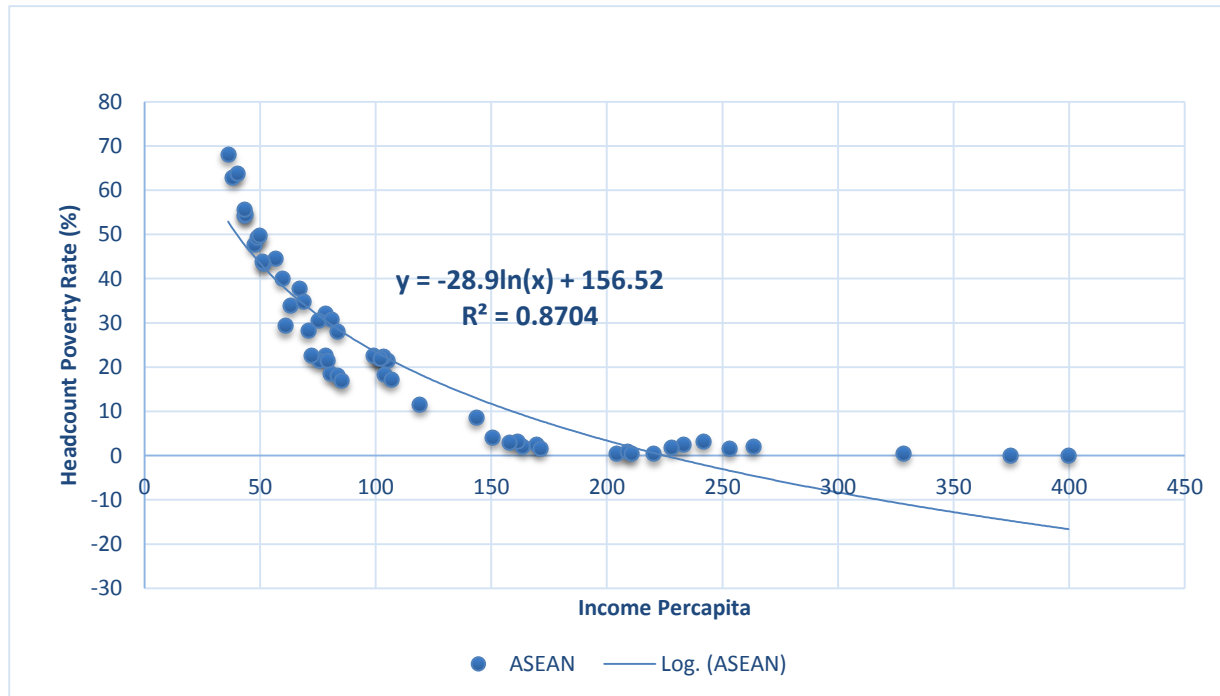


Source of Basic Data: PovcalNet, WorldBank

⁴ This estimate includes that for Myanmar. For the ASEAN – 7, the total number of poor is 196.3 million in 2010 or an expanded poverty rate of around 39 percent. To add Myanmar, we assumed that the ratio of the people earning between \$ 1.25 PPP and \$ 2 PPP per capita per day to the people earning below \$1.25 per capita per day for Myanmar is the simple average of the ratios for Cambodia and Lao PDR. This results in the estimated total number of Myanmar people living below \$ 2 PPP per capita per day at 2005 prices of around 40.3 million, or an expanded poverty rate of around 80 percent.

Note: (i) The per capita income is the average monthly per capita income/consumption expenditure (depends on available data in each country) from survey in 2005 PPP dollar; (ii) Based on the regression result, the household income per capita needed (in 2005 PPP dollar) to have “zero” headcount poverty rate is **US\$ 214.8 (monthly) / US\$ 2578 (a year)**.

Figure 2A.1.b: Income Per Capita – headcount Poverty Rate (below 1.25 \$ PPP at 2005 prices) Nexus: ASEAN Countries



Source of Basic Data: PovcalNet, WorldBank

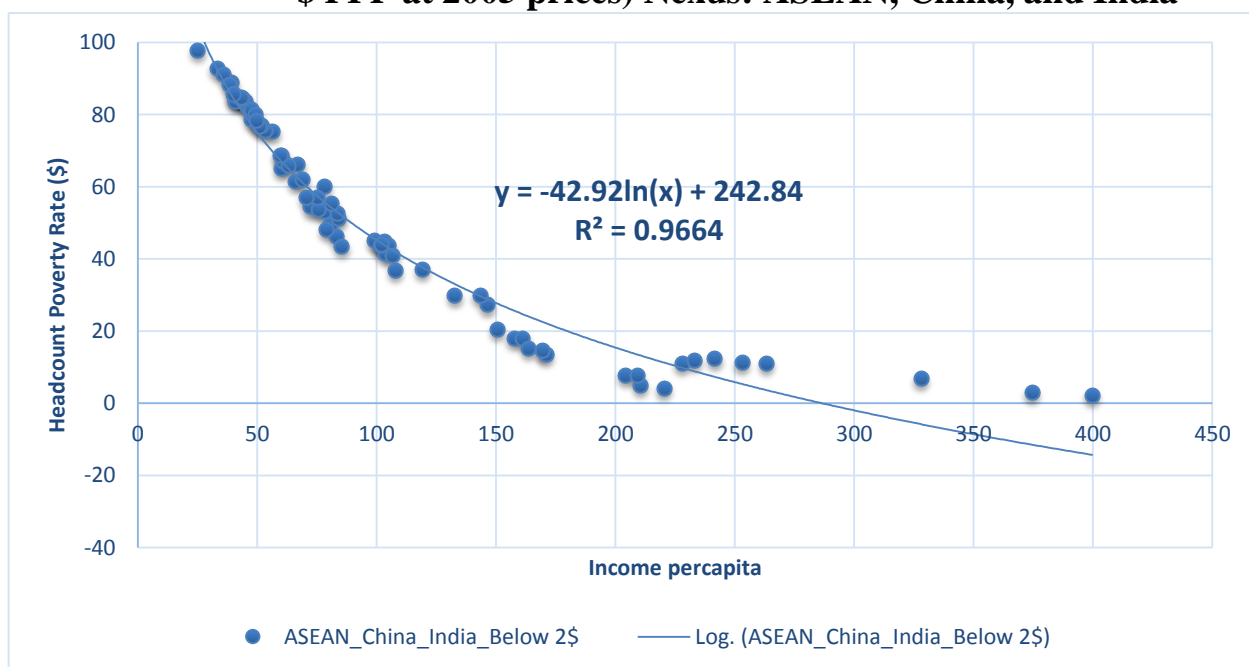
Note: (i) The per capita income is the average monthly per capita income/consumption expenditure (depends on available data in each country) from survey in 2005 PPP dollar; (ii) Based on the regression result, the household income per capita needed (in 2005 PPP dollar) to have “zero” headcount poverty rate is **US\$ 225 (monthly) / US\$ 2700 (a year)**

This is clearly a very tall order and realistically unattainable by 2030. Figure 2.2a and Figure 2.2b present the expected negative relationship between poverty rate, defined in terms of \$ 2 PPP per day per capita at 2005 prices and per capita household income. The results show that the threshold per capita household income to eliminate \$ 2 poverty rate is around \$ 3471 per year, on the average. Since both figures show cases of positive poverty rate even beyond the threshold \$ 3471 per capita per year, it is likely that per capita incomes of Cambodia, Indonesia, Philippines and Viet Nam would have to **quadruple** by 2030 in order to eliminate poverty altogether. The implied growth rate is very high and likely not attainable.

Probably a more realistic target is to dramatically reduce the expanded poverty rate of **42 percent** in 2010 to **12.5 percent** in 2030. This is the implied expanded poverty rate, based on **Figure 2A.2a**, consistent with the threshold per capita income of \$ 2,700 per capita per year in 2005 PPP needed to eliminate dire poverty.⁵ This means that a total of about 213 million people would be lifted out of poverty altogether by 2030. Considering that about 90 million remains poor (at below \$ 2 PPP per day per capita at 2005 prices) by 2030, it means that 22.5 million of the 112.5 million lifted out of dire poverty (at below \$ 1.25 PPP per capita per day) would succeed to be lifted out of poverty (at below \$ 2 PPP per capita per day) altogether by 2030.

In consonance with the elimination of dire poverty and the sharp reduction in the expanded poverty rate, AMSs need to target the near elimination of illiteracy and serious malnutrition in the region. This is because illiteracy and serious malnutrition are deleterious to household’s chances of social mobility, and therefore of getting out of poverty.

Figure 2A.2.a: Income Per Capita – headcount Poverty Rate (below 2 \$ PPP at 2005 prices) Nexus: ASEAN, China, and India



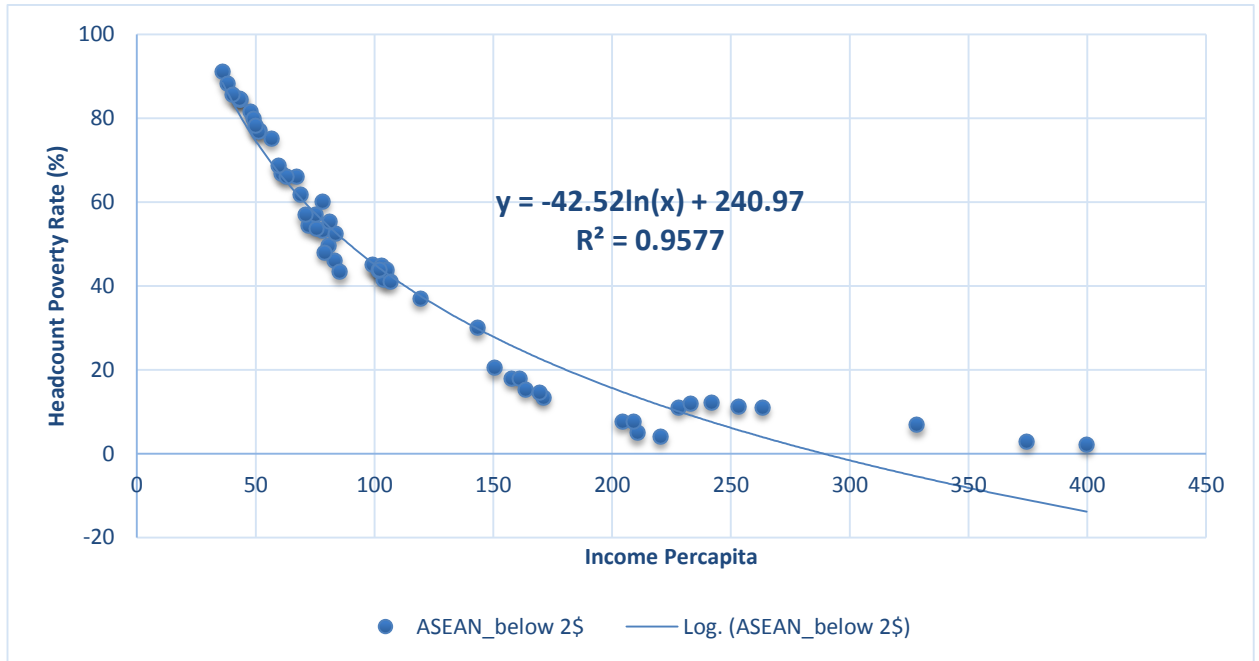
Source of Basic Data: PovcalNet, WorldBank

Note: (i) The per capita income is the average monthly per capita income/consumption expenditure (depends on available data in each country) from survey in 2005 PPP dollar; (ii) Based on the

⁵ This is adjusted for Myanmar, which is assumed to have about 20 percent expanded poverty rate by 2030, as against an estimated 11.7 percent for ASEAN 7 countries.

regression result, the household income per capita needed (in 2005 PPP dollar) to have “zero” headcount poverty rate is **US\$ 286.6 (monthly) / US\$ 3438.8 (a year)**.

Figure 2A.2.b: Income Per Capita – headcount Poverty Rate (below 2 \$ PPP at 2005 prices) Nexus: ASEAN Countries



Source of Basic Data: PovcalNet, WorldBank

Note: The per capita income is the average monthly per capita income/consumption expenditure (depends on available data in each country) from survey in 2005 PPP dollar; Based on the regression result, the income per capita needed (in 2005 PPP dollar) to have “zero” headcount poverty rate is **US\$ 289.2 (monthly) / US\$ 3470.7 (a year)**

2. Sustain high growth rate of per capita income of low and lower middle income AMSs: 5.2 percent to 7.3 percent per year until 2030.

“We pledge to sustain ASEAN’s high economic performance by building upon the foundation of our existing cooperation efforts, consolidating our achievements, expanding our collective efforts and enhancing mutual assistance.” 1997 ASEAN Vision 2020, p.3

Table 2A.2 presents a proposed range of growth indicative outcomes for each of the ASEAN member states until 2030. For the “low growth rate”, it is assumed that the elimination of (dire) poverty would occur by 2030 yet; as such, per capita income in 2030 would be 2.5 times higher than 2012 for

Indonesia, the Philippines and Viet Nam, 3 times higher for Cambodia and 3.5 times higher for Lao PDR and Myanmar. For Malaysia and Thailand, the assumption is the doubling of per capita income by 2030. For Brunei Darussalam and Singapore, the per capita income would be 50 percent higher.

For the “high growth rate” scenario, per capita incomes in Indonesia, the Philippines, and Viet Nam would increase by 2.5 times by 2025, and those in Malaysia and Thailand would double by 2025. These growth rates are maintained until 2030. In effect, the assumption is that (dire) poverty rate would be eliminated in Indonesia, the Philippines and Viet Nam by 2025 instead of 2030. For Cambodia, Lao PDR, and Myanmar, the per capita incomes in 2025 would be 2.5 times higher while those for Brunei and Singapore would be 50 percent higher.

Table 2A.2: Range of Indicative Outcome Growth rate, 2012 – 2030, annual in percent

Country	Per Capita GDP		GDP	
	Low	High	Low	High
Brunei Darussalam	2.3	3.2	3.4	4.2
Cambodia	6.3	7.3	7.7	9.1
Indonesia	5.2	7.3	6.2	8.6
Lao PDR	7.2	7.3	8.8	9.2
Malaysia	3.9	5.5	5.2	6.8
Myanmar	7.2	7.3	8.1	8.2
Philippines	5.2	7.3	6.8	9.0
Singapore	2.3	3.2	3.5	4.4
Thailand	3.9	5.5	4.0	5.5
Viet Nam	5.2	7.3	6.0	8.4

Source: Authors

For the range of growth indicative outcomes of overall national output, GDP, the projected annual population growth rate is added to the target growth rates of per capita income. **Table 2A.2** shows that the “high growth” targets are substantially high for countries like Indonesia and the Philippines and possibly even Viet Nam given the recent growth experience. From the table, a simple average of the low and high growth rates of GDP would suggest that Lao PDR, Myanmar, Cambodia and the Philippines have the biggest growth challenge in order to ensure that poverty is eliminated after more than a decade. Note that

the GDP growth targets for Thailand are modest: this reflects the extremely low growth of population. Indeed, if there would barely be any increase in population in the country over the next one and a half decades, Thailand may need significant infusion of labour from its neighbors or the country would have to rely on high growth of total factor productivity in order to have robust growth rate comparable to the other AMSs. Either is feasible for Thailand, and therefore the growth targets for the country can be viewed as conservative.

Rationale:

What is the implied growth rate required to attain zero headcount poverty rate by 2025-2030? This depends on each ASEAN Member State. As noted in the previous section, AMSs need to attain per capita household income at 2005 prices of at least \$ 2,700 per year to eliminate dire poverty.

With per capita household (or family) income of 4, 800 \$ PPP and 2,644 \$ PPP at 2005 prices per year in 2010 for Malaysia and Thailand, both Malaysia and Thailand have virtually zero headcount poverty rate based on the 1.25 \$ PPP per day per capita threshold.

With per capita household income per year at 2005 prices of between 1,000 \$ PPP to 1,270 \$ PPP in 2010, it would require, *on the average*, 2.1 times (Philippines) to 2.7 times (Cambodia and Indonesia) higher level of per capita household income to eliminate dire poverty. However, the Philippines has a more unequal distribution of income while Indonesia and Viet Nam have more equal distributions of income. (Cambodia has unstable income distribution measures but seems to have income inequality that is closer to the Philippines.) This suggests that the Philippines would require more than 2.1 times level of per capita family income to eliminate poverty. Obversely, with more equitable distribution of income in Indonesia, it is possible that Indonesia would not need 2.7 times higher per capita household income to have zero headcount poverty rate. Thus, it is likely that Indonesia, the Philippines and Viet Nam would need levels of per capita household income that is around **2.5 times higher**, and for Cambodia, about **2.7 times higher**, than the 2010 levels in order to have zero headcount poverty rate during 2025-2030.

Assuming that the growth of per capita household income mirrors the growth of per capita income, this implies an average growth rate of per capita income

for Indonesia, the Philippines and Viet Nam of **7.3 percent per year** in order to eliminate poverty by **2025** or a per capita income growth of **5.2 percent per year** in order to eliminate poverty by **2030**. The implied target growth rates for Cambodia would be slightly higher than the three countries; nonetheless, a **tripling of the per capita income over the period to 2030** would eliminate poverty in Cambodia.

Lao PDR would need about 3.2 times higher per capita household income than in 2010 in order to eliminate poverty rate. Given the reliance of Lao PDR on capital intensive mining and energy and the relative isolation of some of its peoples in the highlands, it may well be that per capita income would have to be about **3.5 times** higher than the 2010 level to have zero poverty rate. This implies that Lao PDR would need to have an average per capita growth rate per capita of **7.2 percent per annum until 2030** to eliminate poverty.

There is no comparable and reliable family income data for Myanmar. But it is likely that Myanmar would need to grow at the same rate as Lao PDR, and possibly even higher, in order to virtually eliminate poverty in the country by 2030. This is relatively a tall order for the country, but the apparent indicative target average growth rate in the Myanmar Comprehensive Development Plan is around 7.5 percent per year.

In summary, the average growth rate of per capita income of the low and lower middle income AMSs until 2030 would have to range from **5.2 to 7.3 percent per year** in order to eliminate dire poverty and drastically reduce the number of the (expanded) poor by 2030. These growth rates are high but attainable. The average growth rate of per capita income in ASEAN during 1991-1995 was in fact 5.6 percent per year; the average growth rate of per capita income of Viet Nam during the past two decades was almost 6 percent per year; that of Cambodia during 2001-2005 was 7.8 percent per year, and that of Thailand was 8.4 percent per year during 1986-1990 and 7.6 percent per year during 1991-1995. That is, a number of AMSs have experienced growth rates that are comparable to the indicative target growth rates set out above. The challenge is to sustain the high growth rate over a period of one and a half decades, which is longer than the experience of most AMSs, except for Viet Nam.

Malaysia had virtually no people in dire poverty and about 400,000 people living below the \$ 2 PPP per day per capita in 2010. Thailand had less than

300,000 people in dire poverty and about 2.8 million living below \$ 2 PPP per day per capita in 2010. It is clear that Malaysia will have no absolute poor people earning below \$ 2 PPP per day per capita even with only modest growth of the economy in a few years; indeed, it is already on the verge of moving into the high income country status. Thailand's growth indicative target that allows for, say doubling of per capita income over the period to 2030, is more than enough to eliminate absolute poverty (at \$ 2 PPP per day per capita) in the country altogether. Thailand's growth target, as well as that of Malaysia, is to join or be firmly in place in the high income group of countries during 2025-2030.

Being high income countries and with the need to strictly control the growth of population via migration or temporary employment in view of the very limited and increasingly expensive living space, it would be realistic to assume a far more moderate growth target for Brunei Darussalam and Singapore in the next one and a half decades.

3. Engender more equitable growth in ASEAN: Aim for Gini index of less than 40 (out of 100).

Our work these days and our expectations of how things will evolve may inspire us to think of ASEAN beyond 2015 which is...fairly equal, inclusive....”

Chairman's Statement, 18th ASEAN Summit, Jakarta, 8 May 2011

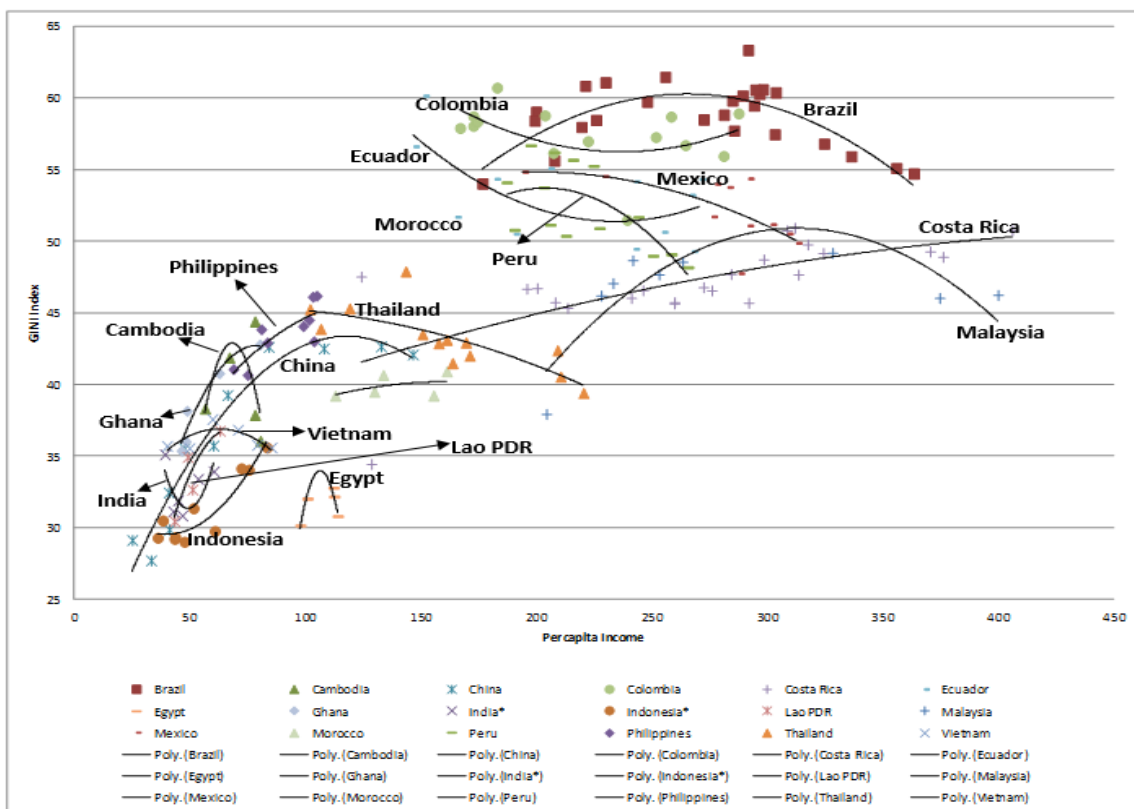
“We are committed to ensure that equitable development helps set our agenda so that our population benefits from the economic integration and cooperation”

Chairman's Statement, 19th ASEAN Summit, Bali, 17 November 2011

One of the most enduring stylised facts in economic development is the “inverted U curve” or ‘Kuznets curve’, which means that income inequality worsens in the course of economic development before it improves at a higher level of per capita income. However, there is nothing immutable about the inflection per capita income after which income inequality secularly improves,

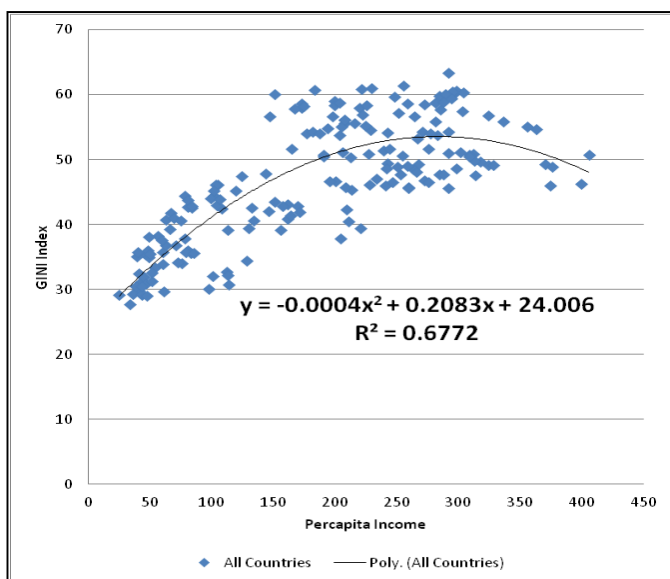
as **Figure 2A.3** shows. **Figure 2A.3** shows the pattern of income inequality and per capita income of ASEAN countries, China, India and a few Latin American and African countries. The inverse U or Kuznets curve relationship is apparent from the figure. At the same time, the figure shows that income inequality in Latin America tends to be significantly higher than Asian (and a few African) countries; only Malaysia seems to be somewhat closer to the Latin American experience. It is likely that there are structural reasons for the relatively high income inequality in these countries.

Figure 2A.3: Per capita Household Income – GINI Index Nexus: ASEAN, China, India, Latin America, and North Africa Countries (By Countries)



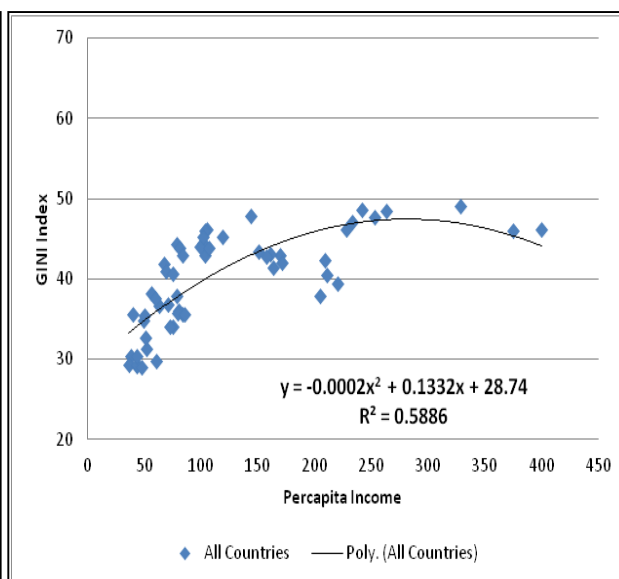
Source of Basic Data: Povcal Net, World Bank (2013) Note: The per capita income is the average monthly per capita income/consumption expenditure (depends on available data in each country) from survey in 2005 PPP dollar

Figure 2A.4.a: GINI-Income per capita Nexus: ASEAN, China, India, Latin America, and North Africa Countries



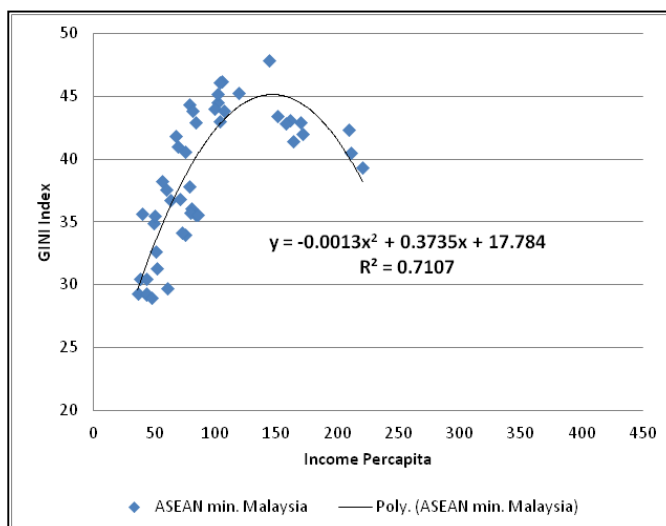
Threshold inflection Per capita Income required to start lowering inequality:
USD 260.4 (Monthly per capita) / **USD 3124.5** (annual per capita)

Figure 2A.4.b: GINI-Income per capita Nexus: ASEAN Countries



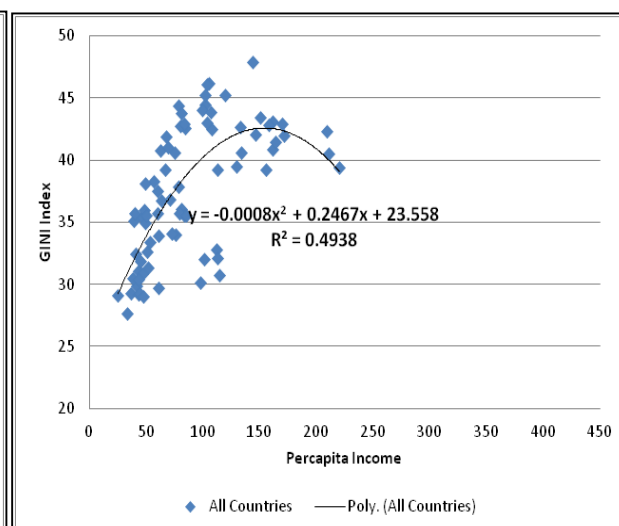
Threshold inflection Per capita Income required to start lowering inequality:
USD 333 (Monthly per capita) / **USD 3996** (annual per capita)

Figure 2A.4.c: GINI-Income per capita Nexus: ASEAN Countries (Malaysia Excluded)



Threshold inflection Per capita Income required to start lowering inequality:
USD 143.65 (Monthly per capita) / **USD 1723** (annual per capita)

Figure 2A.4.d: GINI-Income per capita Nexus: ASEAN Countries (Malaysia Excluded), Egypt, Ghana, Morocco, China, India



Threshold inflection Per capita Income required to start lowering inequality:
USD 154.19 (Monthly per capita) / **USD 1850.3** (annual per capita)

Source: Povcalnet, World Bank (2013)

Figures 2A.4a, 2A.4b, 2A.4c. and 2A.4d present alternative Kuznets curves depending on the sample or reference countries used, with correspondingly different inflection per capita income (with highest income inequality and after which there would be secular reduction in income inequality). The figures show that the inflection per capita income is highest based on ASEAN experience, including Malaysia (**Figure 2A.4b**), even higher than the estimate based on the more global experience that includes selected Latin American and African countries plus China and India. At the same time, the figures also show that the lowest inflection per capita income is the one based on ASEAN experience excluding Malaysia. That is, the structural factors and the growth process in ASEAN countries, excluding Malaysia, appears to have been comparatively more equitable than other regions such as Latin America.

Based on **Figure 2A.4c**, both Malaysia and Thailand have per capita incomes that are higher than the inflection per capita income; and both countries are now experiencing secular decline in income inequality. The Philippines also seems to be starting to have some reduction in income inequality but so far, only modestly. Viet Nam has a remarkably equitable growth experience so far. It is Indonesia and Lao PDR where the trajectory is still for greater inequality, albeit from a base of relative equality.

The challenge for ASEAN and AMSs is to engender or sustain a more equitable growth process. A reasonably good indicative outcome supporting equitable growth is to have the GINI INDEX of less than or equal to 40 (out of 100, with 100 as the most inequitable). This means that:

- Malaysia and the Philippines will have to do more to ensure greater income equality and reduce their GINI index to 40 and below
- Thailand sustains its trajectory towards a GINI index lower than 40
- Cambodia, Indonesia and Lao PDR ensure that they undertake more equitable growth path in order that their GINI indices would not rise to more than 40
- Viet Nam sustains its relatively equitable growth path

A more equitable growth path generally engenders higher farm and rural incomes relative to national average (for countries with an agricultural and rural hinterland), higher employment especially in better paying jobs, and raising real wages consistent with productivity growth. On the supply side, this also entails greater investment in worker skills and for more educated and healthy populace and workforce.

4. Raise the intra-ASEAN trade share to total ASEAN trade, from the current 25 percent, to say 30 percent, in 2030.

“We commit ourselves to moving towards closer cohesion and economic integration...” **1997 ASEAN vision 2020**, p. 3

“.... We reaffirm our commitment to accelerating the establishment of the ASEAN Community....” **Cha-Am Hua Hin Declaration on the Roadmap for the ASEAN Community (2009-2015)**, p.1

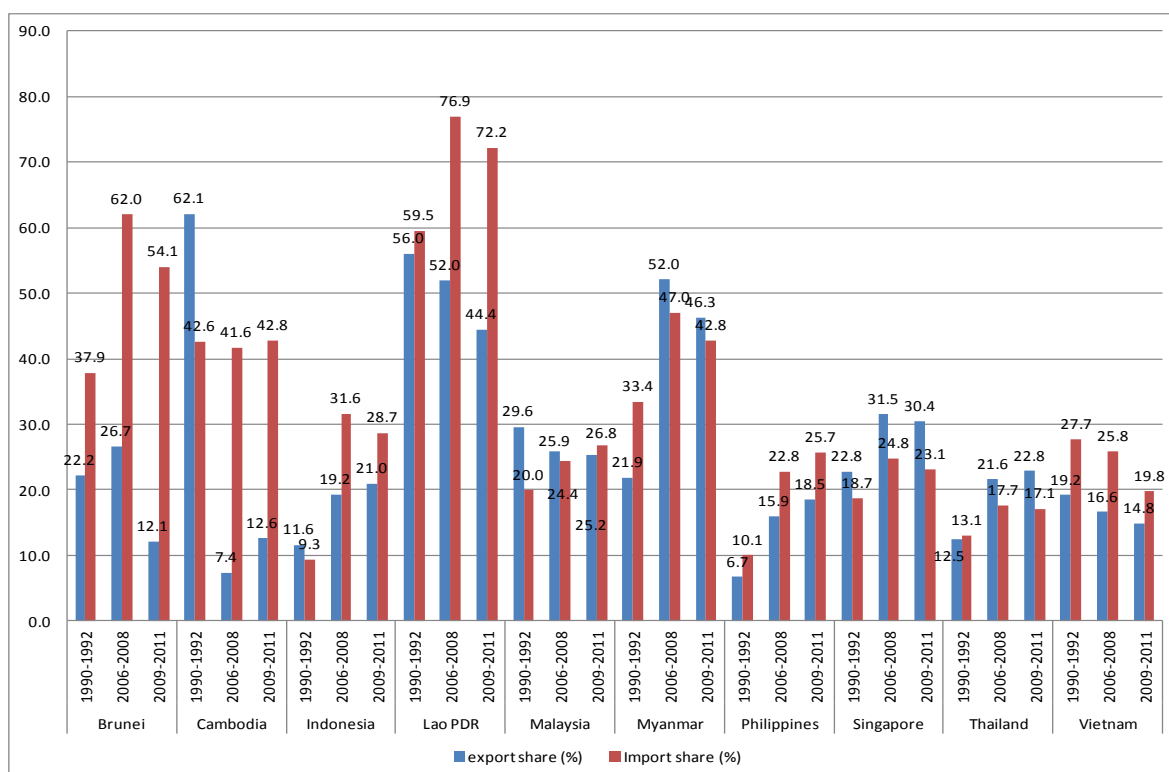
The share of intra-ASEAN to total ASEAN trade was 25.1 percent in 1993, 24.5 percent in 2003 and 25 percent in 2011 (ASEAN Economic Community *Chart book 2012*, p.20). Thus, the intra-ASEAN trade share has been largely constant at around 25 percent of total ASEAN trade during the past two decades. Considering that the past two decades have seen the marked expansion of regional integration initiatives in the ASEAN, including the elimination of intra-ASEAN tariffs for the early ASEAN 6 countries, the virtual constancy of the intra-ASEAN trade share seems to suggest that regional integration initiatives in ASEAN have been largely ineffective so far.

However, this is a misleading interpretation. The underlying developments lead to a much more nuanced and, indeed positive, interpretation. **Figure 2A. 5** shows the direction of trade of each of the AMSs since the early 1990s. Three AMSs that were once very heavily dependent on ASEAN for their trade have significantly reduced their reliance as non-ASEAN export markets opened up, especially for Cambodia and to a less extent Lao PDR, and will most likely be the case for Myanmar in the future as the sanctions against it have been effectively lifted. Viet Nam has also substantially diversified from ASEAN

given that some of its main exports are geared more for regions outside ASEAN (e.g., garments, shoes).

In contrast to the CLMV countries, Indonesia, the Philippines and, to a large extent, Thailand increased their ASEAN linkages in both exports and imports. Malaysia and Singapore, which dominated intra-ASEAN trade in the early 1990s, also expanded their ASEAN share in imports (Malaysia) and exports (Singapore). As will be apparent later in the Integrative Report, the underlying changes in the ASEAN shares of AMSs trade reflect the redirection of trade according to each AMS' comparative advantage that was facilitated in part by improved market access within ASEAN, within East Asia, and in the rest of the world (mainly the developed Western countries).

Figure 2A.5: Share of ASEAN Trade (Export and Import) to Total Trade in Each ASEAN Member Country



Source of basic data: ARIC ADB Indicator (2013)

Be that as it may, it is nonetheless reasonable to aim for a higher intra-ASEAN share to the total ASEAN trade in the future, **from the current 25 percent to say around 30 percent by 2030**, as an important manifestation of the deepening economic integration within ASEAN under the ASEAN Economic

Community. However, the increase by 20 percent of the percentage share of intra-ASEAN trade to total ASEAN trade within one and a half decades will **not** be **easy** because the implementation of the ASEAN + 1 FTAs and of the Regional Comprehensive Economic Partnership (RCEP) during the period would mean that there is virtually little margin of tariff preference for ASEAN products relative to the products from the rest of East Asia. As such, there will be very little incentive for ASEAN firms to divert import sources or export destinations to ASEAN from the rest of East Asia.⁶

Thus, the increase of the intra-ASEAN trade share would have to come primarily from expanded linkages in regional production and distribution networks within ASEAN, creation of new supply chains within the region, and the substantial increase in intra-industry trade even in final goods arising from the diversifying consumption patterns of an increasingly middle class population. Such developments would require efficient movement of goods within the region, much improved connectivity, more harmonized standards and technical regulations and/or much improved and efficient conformance assessment procedures, and much greater information and acceptance by ASEAN consumers of the various products and brands from other ASEAN member states.

5. Raise significantly the share of ASEAN to total trade, GDP, and FDI of all developing economies and of the world by 2030.

“We will create ahighly competitive ASEAN Economic Region”

1997 ASEAN Vision 2020, p.3

The share of ASEAN to total trade, GDP and FDI of all developing economies and of the whole world can be considered as reasonably good indicators of the impact, and therefore suggestive, of ASEAN relative to competing major

⁶ The baseline simulation results of Itakura (2013) show that the share of intra-ASEAN trade to total ASEAN trade would NOT increase to 30 percent by 2030 assuming that tariffs in RCEP region go down to zero and services trade barriers and trade costs are reduced significantly. This can be attributed to the elimination of trade diversion effect from AEC given the implementation of RCEP. Nonetheless, Itakura’s assumptions do not include the possible intra-ASEAN trade creation effect of improved intra-ASEAN connectivity, more facilitative standards and conformance, regulatory coherence, etc. that deeper AEC aims to achieve.

producing, exporting and FDI destination countries and regions in the developing world.

Table 2A.3 presents the ASEAN shares and compares them with other competing regions and countries like China, India, Black Sea Economic Cooperation (BSEC) region, and the Latin American Integration Area (LAIA).

Table 2A.3: The Share to GDP, Trade, and FDI of All Developing Economies and the World: ASEAN and Selected Partners

Indicator	Country/ Grouping	Share to All Developing Economies (in %)			Share to the World (in %)		
		1990-1992	1999-2001	2009-2011	1990-1992	1999-2001	2009-2011
Real GDP Share	ASEAN	8.6	8.6	8.1	1.5	1.8	2.3
	China	10.7	17.2	26.5	1.9	3.6	7.6
	India	6.5	7.2	8.4	1.2	1.5	2.4
	ROK	7.1	8.0	6.9	1.3	1.7	2.0
	BSEC	14.6	15.7	14.0	2.6	3.3	4.0
	LAIA	30.9	26.4	20.8	5.5	5.6	6.0
Trade Share	ASEAN	19.3	20.2	15.9	4.7	5.9	6.4
	China	7.7	12.2	23.6	1.9	3.6	9.4
	India	2.3	2.5	4.7	0.6	0.7	1.9
	ROK	8.3	8.1	7.1	2.0	2.4	2.9
	BSEC	6.8	9.0	11.5	1.7	2.7	4.6
	LAIA	14.3	17.1	13.2	3.5	5.0	5.3
FDI Inflow Share	ASEAN	31.8	10.6	13.1	7.6	2.4	5.8
	China	13.9	17.9	17.6	3.7	4.1	7.8
	India	0.4	1.6	5.0	0.1	0.4	2.2
	ROK	2.2	3.0	1.6	0.5	0.6	0.7
	BSEC	5.5	3.8	11.9	1.4	0.9	5.3
	LAIA	25.6	31.9	17.7	6.5	7.1	7.9
FDI Inward Stock share	ASEAN	13.0	14.6	17.0	3.2	3.4	5.3
	China	4.8	11.2	9.4	1.2	2.6	3.0
	India	0.3	1.0	3.1	0.1	0.2	1.0
	ROK	1.1	2.7	2.1	0.3	0.6	0.7
	BSEC	3.4	5.0	14.0	0.8	1.2	4.4
	LAIA	20.7	24.2	21.8	5.1	5.7	6.8

Source: UNCTAD Stat (2013)

On foreign trade, the share of ASEAN to total trade of all developing economies declined from around 19.3 percent in the early 1990s to an average

of **15.9 percent during 2009-2011**. This decline is primarily due to the surge in the contribution of China to the total trade of developing economies to nearly a quarter by the late 2000s as compared to only an average of 7.7 percent in the early 1990s. The shares of India and BSEC increased secularly during the period, albeit from relatively low base in the early 1990s.

Can ASEAN aim for the turnaround in fortunes and **raise its share** of the total trade of the developing economies, by say 20 percent **to an average ASEAN share of about 19 percent by 2030**? This effectively means that ASEAN recovers its lost share of the total trade of all developing economies in the early 1900s. This is quite a challenge because it would mean that ASEAN international trade may have to grow faster than China's and much of the developing world. There may, however, be some possibility for this because of the rising cost in China and the growing emphasis on the domestic market in the country. It can also be expected that the greater economic integration within ASEAN would raise the region's share to total trade of the developing economies.

Nonetheless, returning to its old glory when the region had the largest share among the major integration areas and countries in the developing world would indeed be a tough one to accomplish, requiring substantial improvement in the region's competitiveness in the international arena. A **moderate indicative outcome** would be an increase in the share of ASEAN to total trade of the developing economies by about 10 percent (instead of 20 percent) to about **17.5 percent by 2030** from the current 15.9 percent.

On output, ASEAN share to the total GDP of all developing economies declined from about 8.6 percent in the early 1990s to about **8.1 percent during 2009-2011**. Can ASEAN aim to raise its share by 10 percent to **8.9 percent** in 2030, surpassing the share in the early 1990s? This is probably a very tall order given that China's growth remains virtually the highest in the region, India would likely be gaining more share, as well as probably Africa. Nonetheless, as China's growth decelerates further, it may be that the indicative target growth rates for the AMSs in **Table 2A.3** would lead to the increased share of ASEAN to the total GDP of all developing economies.

Given the indicative outcome of significantly higher share of ASEAN to the total trade and output of all developing economies (and therefore of the whole world given the rising share of developing economies to total global trade and output), it is imperative that ASEAN endeavours to substantially increase its share to the total FDI inflow to all the developing economies. The past two decades have in fact seen a marked decline in the share of ASEAN from a lofty **31.8 percent** in the early 1990s to about **13 percent** during 2009-2011. It may be unrealistic to go back to the early 1990s performance when China and India were not yet very much in the picture.

What may be more realistic is to raise the share by about 20 percent to about **15.6 percent** by the late 2020s or 2030. This share would still be lower than China's performance in the 2000s, as other regions like Africa would become major competitors for FDI. Perhaps, what is more important here is the share of ASEAN to global FDI inflow. Recovering its **global share of 7.6 percent** in the 1990s would necessitate that the current developed countries would have significantly lower share of FDI inflows in favor of the emerging markets or the developing economies.

The ambitious goal on the FDI above must mean that ASEAN needs to be a markedly attractive investment destination, to which we turn next below.

6. Raise dramatically the international standing (scoring and ranking) of the (lagging) ASEAN member states in ease of doing business, logistics performance, and global competitiveness indices: aim for all AMSs belonging to the top half, and most of the AMSs belonging to the top third by the early 2020s.

Raise substantially AMSs ranking and scoring in the global innovation index: aim for most AMSs to be in the top half of the global rankings by the latter 2020s.

“Sustained inflows of new investments and reinvestments will promote and ensure dynamic development of ASEAN economies”

Roadmap for an ASEAN Community, 2009-2015,
p. 27.

The business environment for both investment and operations is an important factor for firms, especially transnational firms, in deciding where to locate their operations. This is a key reason for the growing popularity of indices and indicators on the business environment of countries such as Ease of Doing Business, Logistics Performance Index, and Global Competitiveness Index. Not surprisingly, many countries have used these indices to improve their business environments and thereby help them generate foreign investment, among others.

Table 2A.4 presents the rating and ranking of the AMSs in the abovementioned indicators. It is apparent from the table that there is an extremely wide dispersion among the AMSs, from virtually the world's best to among the lowest ranking. The challenge for the lagging AMSs is to improve much further their ratings and rankings. As the table shows, Singapore is either the first or the second highest in the world. Both Malaysia and Thailand also count among the top 20 percent in the world. Both Lao PDR and Myanmar tend to belong to the bottom third in the world. AMSs tend to rank better in Logistics Performance Index than in Ease of Doing Business. Indeed, both Indonesia and the Philippines rank poorly in ease of doing business ranking as compared to their much better performance on logistics performance and global competitiveness indices. At the same time, Indonesia, the Philippines and Cambodia have been among the largest advancers in the world in their rankings in global competitiveness.

Despite the imperfections of the indices, **Table 2A.4** suggests that there is much to be done in order to improve the ease of doing business environment in a number of AMSs. At the same time, considering that most of the measures in the AEC Blueprint and other initiatives of the ASEAN do not only facilitate economic integration but also improve the business environment in the region, the objective of improving ratings and rankings would not be empty and without basis.

Table 2A.4: ASEAN Member States Ranking and Score in Business Environment Indices

Country	Logistics Performance Index				Global Competitiveness Index				Doing Business Indicator: Rank	
	2007		2012		2006		2013		2006	2013
	Rank	Score	Rank	Score	Rank	Score	Rank	Score		
Brunei*	N/A	N/A	N/A	N/A	39	4.54	26	4.95	78	79
Cambodia	81	2.5	101	2.56	105	3.44	88	4.01	133	133
Indonesia	43	3.01	59	2.94	54	4.18	38	4.53	115	128
Lao PDR	117	2.25	109	2.5	N/A	N/A	81	4.08	147	163
Malaysia	27	3.48	29	3.49	19	5.15	24	5.03	21	12
Myanmar	147	1.86	129	2.37	N/A	N/A	139	3.23	N/A	N/A
Philippines	65	2.69	52	3.02	75	3.98	59	4.29	113	138
Singapore	1	4.19	1	4.13	8	5.46	2	5.61	2	1
Thailand	31	3.31	38	3.18	28	4.76	37	4.54	20	18
Viet Nam	53	2.89	53	3	64	4.09	70	4.18	99	99
China	30	3.32	26	3.52	34	4.55	29	4.84	91	91
India	39	3.07	46	3.08	42	4.47	60	4.28	116	132
Total Countries	150		155		2006: 122/ 2008: 134		148		2006: 155/ 2008: 178	185

Notes: * = The Data for Brunei for Global Competitiveness Index and Doing Business Indicator are only available from 2008.

Source: The World Bank (2013)

Thus, it is proposed that the **indicative outcome for AMSs** is that **all** of the AMSs need to be at the **top half of the rankings** in those indicators. In addition, given that 3 AMSs already belong to the top third, it is better **if most, if not all**, of the AMSs would belong to the **top third** among all countries in the world by the early 2020s. Note that the target date is in the early 2020s because sustained high growth calls for high investment rate which in turn would require a much improved business environment. Hence, there is the need to improve the business environment appreciably early on, especially in the lagging AMSs.

As technology adaptation and diffusion and innovation are important for productivity growth and long term dynamism of AMSs, it is important

that AMSs take a concerted effort to improve their technological and innovation capability. It is proposed that most, if not all, AMSs belong to the top half of the global innovation index by the latter 2020s. AMSs have been in fact improving in their global rankings in the global innovation index but much more needs to be done.

7. Ensure robust system for food security outlook in ASEAN:

- a. reduce prevalence of undernourishment to less than 5 percent by 2030*
- b. increase AMSs Rice Bowl Index to at least 60 (out of 100) by 2030;*

“We envisionASEAN where hunger, malnutrition, deprivation and poverty are no longer basic problems....”

1997 ASEAN Vision 2020, p.5

Food security is most salient in the face of hunger and undernourishment because the poor and the malnourished are the most vulnerable to food supply and food price shocks. At the same time, food shortages and significant price hikes especially of basic food commodities like rice affect virtually everybody and, as experiences during the past decade show, can have substantial socio-political ramifications. Thus, food security is of particular concern for ASEAN Leaders. It is also an important indicator of the resiliency of ASEAN.

Food security is a multi-dimensional concept wherein “...all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life” (FAO). There are four main dimensions of food security, all of them needed to be fulfilled simultaneously; i.e., physical availability of food, economic and physical access to food, food utilization, and stability of the previously mentioned three dimensions over time. Food insecurity can be either chronic or transitory, each of which calls for different approaches to address the insecurity.

We propose two indicators that would help AMSs guide their efforts to engender food security in the region. The first indicator, **Rice Bowl index**, is like a capability indicator that measures the robustness of a country’s system to ensure food security. The second one, **prevalence of undernourishment**,

measures the key challenge of food security which at the household level is starkly brought out by the extent of the problem of hunger and malnutrition. Prevalence of undernourishment is the United Nations' Food and Agricultural Organization (UN-FAO) indicator for "hunger" in the Millennium Development Goals.

There are three more indicators that are also important but which quantitative targets are difficult to make. Two of them, *relative price of food to the general price level*, and *the variability of that relative price of food*, can be expected to be especially important to the already dire poor and malnourished as rising food prices and price hikes have large adverse impact on their well-being. The third is an indicator that provides information on the availability of national and regional safety net arrangements, e.g., APTERR, to address transitory food insecurity. So far, there is yet no adequate measure, say *food safety net index* that captures all the needed information for the third indicator.

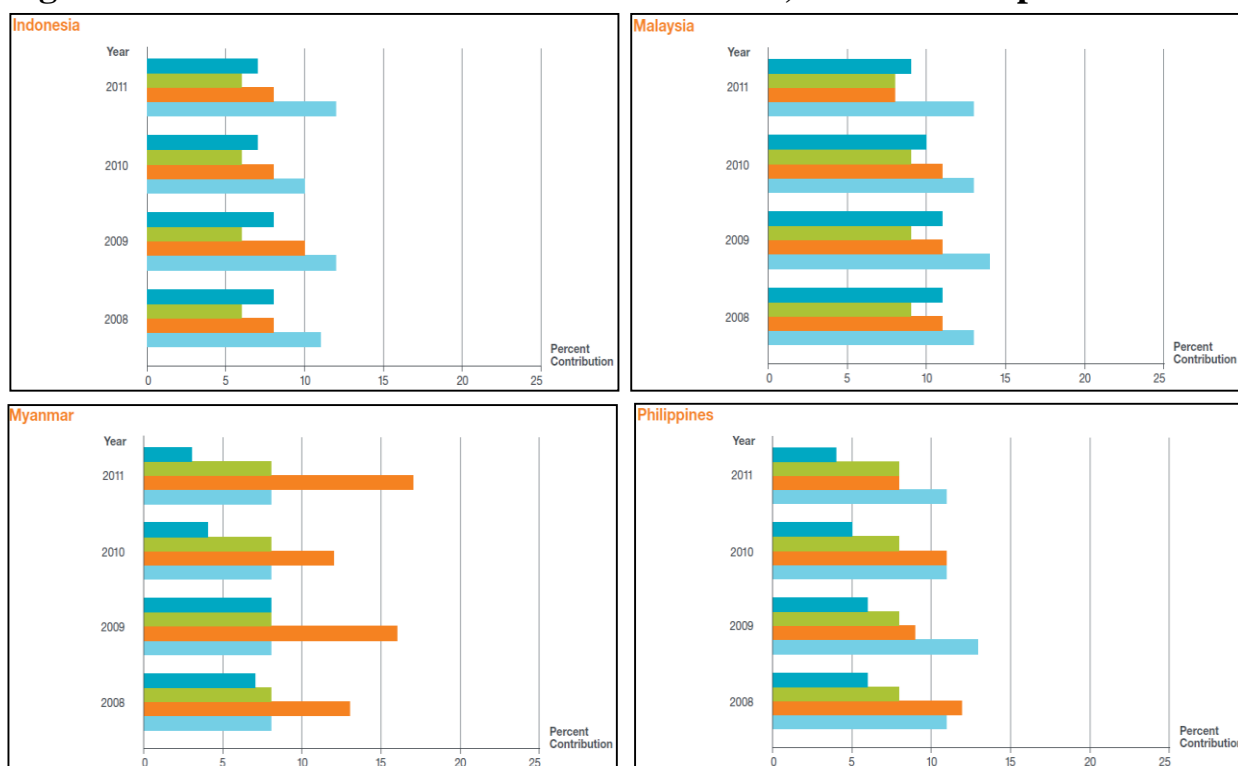
a. Rice bowl index. This is an index developed by Syngenta as an indicator of how robust a country's system is to ensure food security. The index captures four sets of factors, with their own weighted set of indicators (each factor accounts for 25 percent) and with each factor addressing well defined questions (Rice Bowl Index, 2012, pp. 16, 26). The statements below are direct quotations from the Report :

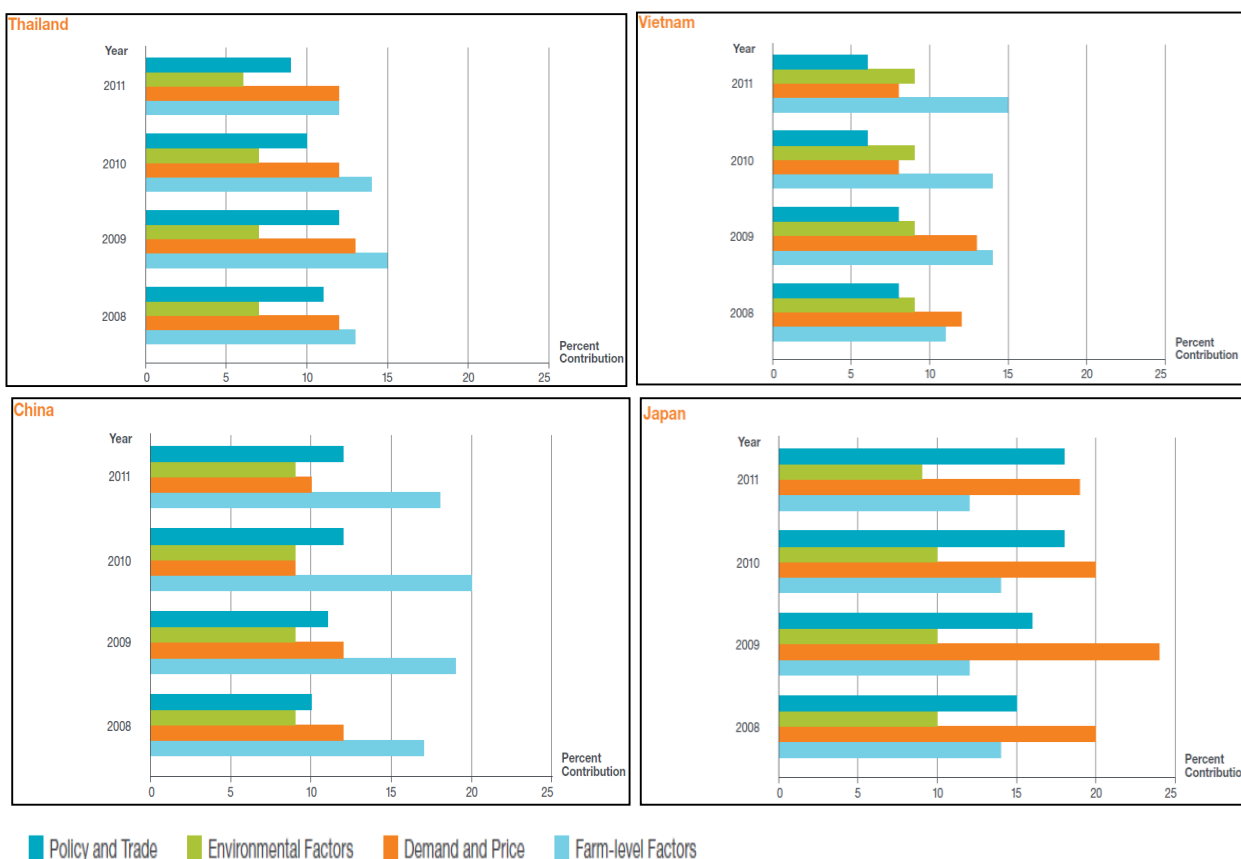
- **Farm level factors (30%):** *Do farmers have the capacity and means to be productive over the long term?* A high score is an indication that the farmers have the capacity and means to be productive.
- **Policy and trade factors (25%):** *Does the trade and policy environment encourage open markets, investment and innovation on an on-going basis?* A high score indicates that the trade and policy environment encourages open markets, investment and innovation in support of food security.
- **Environmental factors (15%):** *Does the environment capacity in the country provide for long-term agricultural productivity and sustainability?* A high score indicates that the environmental capacity in the country is favorable to provide long term agricultural productivity and stability.

- **Demand and price factors (30%):** *How are food security needs in the country likely to evolve in terms of quantity, affordability, access?* A high score indicates a comparatively low food security pressure resulting from demand and price drivers.

Figure 2A.5 presents the yearly Rice Bowl Indices for selected AMSs, China and Japan for the period 2008-2011. The figure indicates that farm level factors improved while policy and trade factors worsened a little bit in Viet Nam during 2008-2011. For Myanmar, it was demand and price factors that improved while policy and trade factors deteriorated. For the other AMSs, there was no clear pattern of movement among the factors. Nonetheless, it is worth noting that Myanmar and the Philippines have particularly low rating on policy and trade factors, suggesting relatively more protectionist stance on trade and investment in the two countries. Virtually all of the AMSs in the sample have scores that are still very far from the best score; indeed, China and Japan beat AMSs in most of the factors, especially on farm factors and on policy and trade factors (see Syngenta, 2012 for the detailed methodology and results).

Figure 2A.5: Rice Bowl Index for selected AMSs, China and Japan





Source: Syngenta, The Rice Bowl Index Report (2012)

b. Prevalence of undernourishment. Prevalence of undernourishment is the percentage of population estimated to be at risk of caloric inadequacy. It is also the traditional indicator of hunger used by the UN FAO.

As **Table 2A.5** shows, the percentage of undernourishment is still very high in Lao PDR, Cambodia and the Philippines, which are all higher than the world average and the average for all developing countries. The table also shows the remarkable progress in the reduction of undernourishment in Viet Nam, Thailand, and even Lao PDR and Cambodia. Both Brunei and Malaysia have rates of undernourishment that are below 5 percent.

Table 2A.5: ASEAN Member States Ranking and Score in Food Security Indicators

Country	Prevalence of undernourishment (in %)			Domestic Food Price Level Index Volatility (Index)		Food Price Level Index (Index)		Vulnerability Index (Index)*	
	1990-92	2000-02	2010-12	2000-02	2010-12	2000-02	2010-12	2000-02	2010-12
Brunei	< 5	< 5	< 5	11.9	14.1	1.5	1.6	7.7	8.7
Cambodia	39.9	32.8	17.1	28.2	446.3	1.7	1.2	16.7	363.1
Indonesia	19.9	17.4	8.6	165.2	41.2	1.7	1.9	95.1	21.7
Lao PDR	44.6	38.4	27.8	64.6	23.7	2.0	2.2	32.7	10.9
Malaysia	< 5	< 5	< 5	22.6	9.9	1.5	1.6	15.1	6.2
Myanmar	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Philippines	24.2	21.0	17.0	17.1	21.3	1.6	1.6	10.4	13.5
Singapore	N/A	N/A	N/A	6.7	6.8	1.4	1.3	5.0	5.1
Thailand	43.8	17.4	7.3	20.5	16.9	1.6	1.9	13.0	9.0
Viet Nam	46.9	20.9	9.0	30.7	59.0	1.7	N/A	18.4	N/A
China	21.4	14.3	11.5	56.8	41.6	1.5	2.0	38.9	20.9
India	26.9	21.6	17.5	17.3	21.3	1.6	1.6	10.8	13.3
World	18.6	14.9	12.5	11.5	11.9	1.3	1.4	8.8	8.3
All Developing countries	23.2	18.2	14.9	23.7	22.0	1.5	1.7	15.7	12.7

Source: FAO Food Security Indicators (2013)

The other two indicators relate to the price of food and the variability of the price of food, both of which are of particular importance especially to the poor and the undernourished. The table indicates that food prices in AMSs have been rising relative to the general price level, which other things being equal, would make it more difficult for the poor to cope. In addition, in some AMSs, especially Cambodia, Indonesia and the Philippines, food prices relative to the general price level have been comparatively more variable, thereby creating more unexpected shocks to poor households. It is more difficult to have specific targets on the two indicators because they are substantially affected by what would be the state of affairs in the next decade or two. Nonetheless, it is expected that *AMSs would aim to temper the secular rise in food prices and to reduce the variability of the price of food.*

The food safety net set of indicators is yet to be put together. Nonetheless, the major regional food security initiative in the ASEAN, the ASEAN Plus Three Emergency Rice Reserve (APTERR) is already operational. At the national level, the popular food safety net measures involve buffer stocks and emergency reserves. Food for work programs are geared more to address chronic food insecurity, but they can also be used to address transitory food insecurity especially after disasters or in cases of seasonal food insecurity.

8. ASEAN shall aim high to cut energy demand by 10 percent in 2030 and 15 percent in 2035 from energy efficiency improvement.

The Cebu Declaration adopted on the occasion of the Second East Asian Summit on 15 January 2007 in Cebu, Philippines includes:

“WE, the Heads of State/Government of the Member Countries of the Association of Southeast Asian Nations (ASEAN), Australia, People's Republic of China, Republic of India, Japan, Republic of Korea and New Zealand..., declare to work closely together towards the following goals: (1) Improve the efficiency and environmental performance of fossil fuel use; (2) Reduce dependence on conventional fuels through intensified energy efficiency and conservation programmes, hydropower, expansion of renewable energy systems and biofuel production/utilisation, and for interested parties, civilian nuclear power; (3) Encourage the open and competitive regional and international markets geared towards providing affordable energy at all economic levels...”

ERIA and the International Energy Agency (IEA) conducted the special study on energy outlook for Southeast Asia until 2035. The results show that ASEAN has huge potential for energy savings through efficiency improvement. ERIA & IEA (2013) found that ***ASEAN's energy demand could be cut by 10 percent by 2030 and 15 percent in 2035 under an alternative policy scenario relative to the business-as-usual scenario.*** See **Table 2A.6**. The sources of energy saving include the use of more efficient industrial equipment, more efficient power plant, more efficient appliances, and more energy efficient vehicles. To realize the above energy saving

potentials, ASEAN countries would need huge amounts of EEC and LC investments. Thus, policy will and appropriate investment regime are important. Lowering the upfront cost of investments through appropriate financial and support framework at the international level would also help ASEAN countries gain greater access to efficient technologies.

Table 2A.6: Energy demand under Business as Usual (BAU) and Alternative Policy Scenario (APS)

	Energy Demand under BAU Million tonnes of oil equivalent (Mtoe)						Energy Demand under APS (Mtoe)			
	2011	2015	2020	2025	2030	2035	2020	2025	2030	2035
TPED	549	629	718	804	897	1,004	692	753	807	870
Coal	90	118	156	192	232	279	141	163	184	210
Oil	208	230	255	274	293	313	249	263	272	281
Gas	117	136	151	168	186	208	146	158	169	185
Nuclear	-	-	-	4	6	8	-	4	6	8
Hydro	6	9	10	13	16	18	10	13	15	17
Bioenergy	103	108	111	114	117	120	110	112	114	116
Other renewables	25	28	34	40	48	57	34	40	46	53

Source: IEA & ERIA, 2013.