

# Chapter 3

## Engendering an Inclusive and Caring ASEAN Community

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## Chapter 3

### Engendering an Inclusive and Caring

### ASEAN Community

#### I. Introduction

Since the onset of the global economic meltdown in 2008, the movement towards inclusiveness has taken centre stage. Middle-class household income has stagnated in the high-income countries and the growth in the developing countries has been driven by extractive industries, which is associated with wealth accumulation by (a few) capital owners. There has also been discontent on the current measures of economic performance such as national gross domestic product (GDP) and GDP per capita which are not enough for assessing a society's well-being. A society could have an increasing GDP and GDP per capita, but when combined with an increase in inequality, the society could be worse off. Indeed, as Stiglitz, et al. (2009, p.55) pointed out, the '... failure to account for these inequalities explain the "growing gap" between the aggregate statistics that dominate policy discussion and people's sentiments about their own conditions.'

It is widely accepted that economic progress is necessary but not sufficient for an inclusive society. However, what constitutes an inclusive society is still subject to debate and not yet fully understood despite serious consequences from community seclusion (UNDESA, 2009). Some proponents argue an inclusive society requires both economic and social progress. In other words, the measures of inclusive society should not only be about income distribution but also be on broad-based social progress indicators. As such, an inclusive society is characterised by a society that is 'stable, safe and tolerant, and respects diversity, equality of opportunity, and participation of all people, including the disadvantaged and vulnerable groups and persons' (UNDESA, 2009, p.3). On a similar tone, Sachs (2015) argued there are at least five concerns on distribution of wellbeing. These are extreme poverty; income inequality; social mobility; discrimination towards women, racial minorities, or indigenous population; and social cohesion (absence of

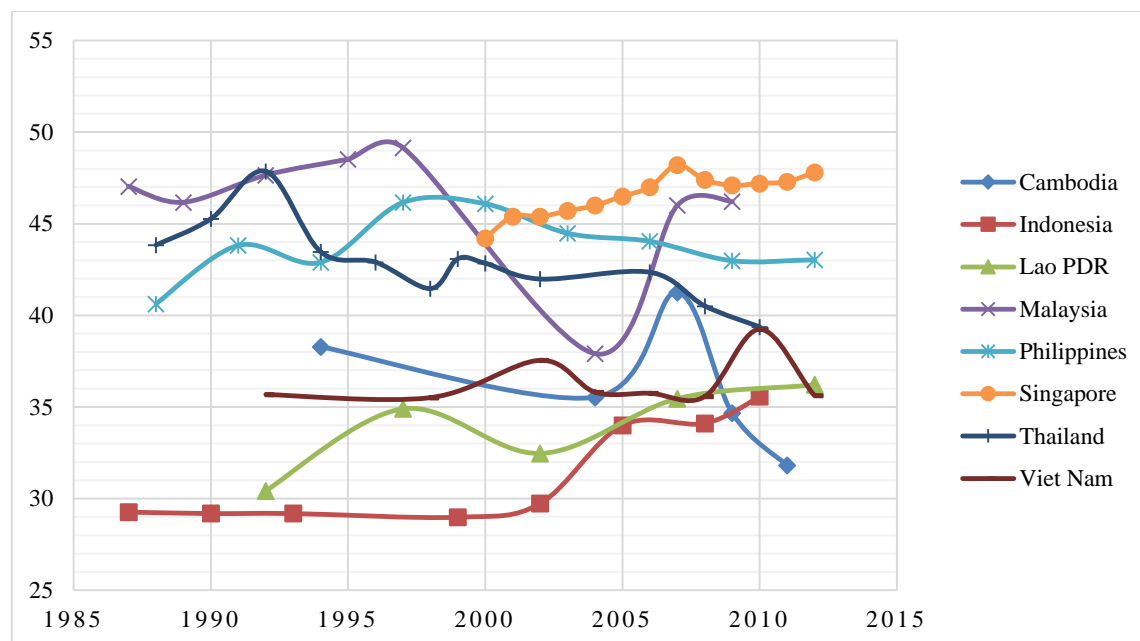
distrust, animosity, cynicism, amongst others). Regardless of what constitutes an inclusive society is, there is consensus that achieving an inclusive society would require inclusive growth (reduction in the poverty incidence and expansion of the middle class), provision of basic education and healthcare, as well as provision of social assistance and protection for the vulnerable such as women, children, migrants, amongst many others.

The relationship between economic development (proxied by income level) and social progress is complex (Porter, et al., 2015). First, the correlation is positive but not linear in trend. The slope of the regression line decreases after a certain income level. This shows higher economic development has many early benefits; yet without appropriate policies, continued economic development would lead to negative social and environmental impacts, thus undermining social progress and society inclusiveness. Second, social progress is not fully explained by economic performance. There are cases where countries with similar income levels have significantly different levels of social progress. The key difference is that some countries are able to allocate their resources in inclusiveness-enhancing areas, for example, well-being, rights and freedom, ecosystem sustainability, and tolerance, which foster inclusiveness. Third, there might be a two-way relationship or even a reinforcing relationship between social progress and economic development. A society with good social progress might be able to exert more innovation and maintain a conducive working environment, thus able to maintain robust economic growth. Correspondingly, a society with higher economic growth will have more resources for promoting social progress. The three characteristics of social progress above point to the need for appropriate policies to ensure that economic development goes hand in hand with social progress.

As society inclusiveness entails both economic and social progress, it is simplistic to assess such inclusiveness only by looking at the widely used measure of (income) inequality, such as the Gini index. Indeed, the Gini index measures only the economic (income) aspect of inclusiveness. By using the Gini index (a crude measure of inclusiveness), inequality in the ASEAN region – the region that recorded amongst the biggest decline in the poverty incidence rate globally – is high despite variation across countries. As **Figure 3.1** shows, the highest inequality is recorded in Singapore, Malaysia, the Philippines, and Thailand. There is also an increasing trend of inequality in Indonesia, Lao PDR, Malaysia (recently), and Singapore. Thailand recorded a steady decline, even though the current level is still higher than many ASEAN member states. Cambodia also shows a declining trend; Viet Nam tends to

maintain stable moderate Gini index with the exception in 2010; while the Philippines is still experiencing high inequality despite a gradual decline since 2000.

**Figure 3.1. Trend of Income Inequality in ASEAN Member States**



Note: The data is based on consumption expenditure, except for Malaysia, where it is based on income.

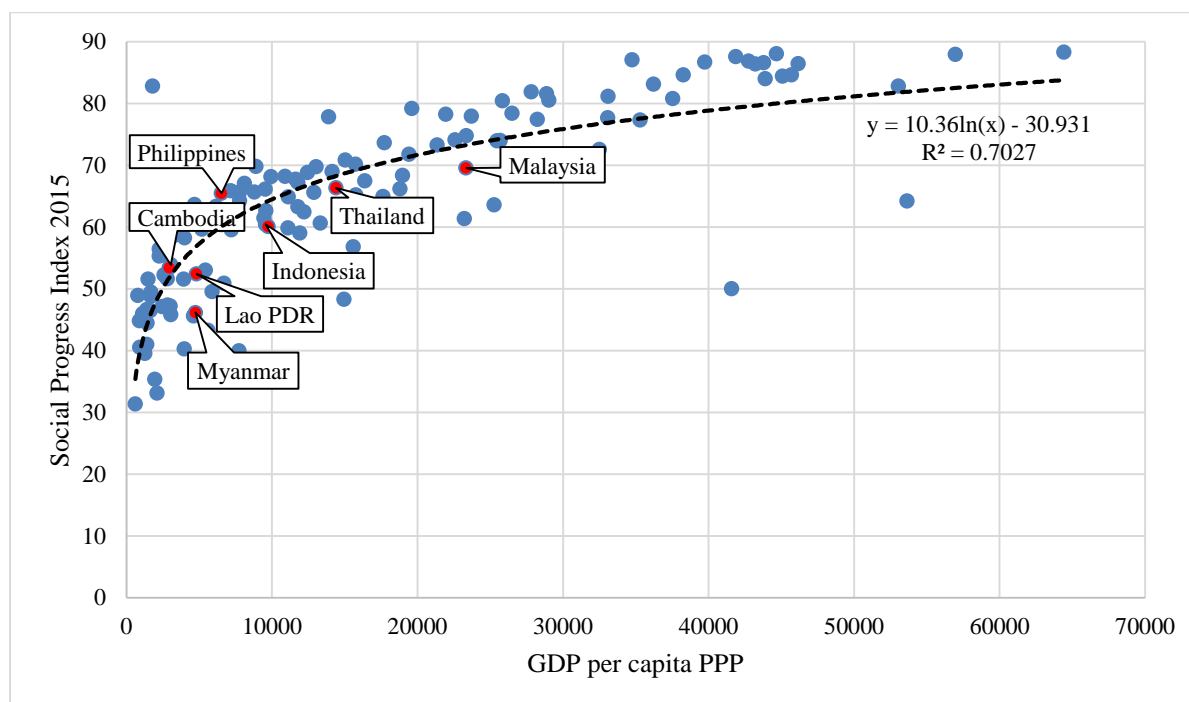
Sources: PovcalNet. <http://iresearch.worldbank.org/PovcalNet/index.htm?0> (accessed 16 April 2015) and communication from the Government of Singapore.

A broader measure of inclusiveness, for example, the social progress index developed by Porter, et al. (2015), measures social progress based on three aspects: (1) sufficiency of basic human needs (nutrition and basic medical care, water and sanitation, shelter, and personal safety); (2) building blocks to sustain well-being (access to basic knowledge, access to information and communication, health and wellness, and ecosystem sustainability); and (3) availability of opportunity (personal rights, personal freedom and choice, tolerance and inclusion, and access to advanced education). The first aspect concerns whether the society has the capacity to meet the most essential needs of its people. The second aspect concerns whether the society has the building blocks in place for its people to enhance and sustain their well-being. The last aspect is whether all individuals have the opportunity to reach their potential.

By using this broader measure of inclusiveness, the picture in ASEAN is slightly different. **Figure 3.2** shows the social progress index in ASEAN amongst 129 countries in 2015. As the figure shows, even though Malaysia,

Thailand, and the Philippines recorded the highest Gini index amongst ASEAN member states, the three countries topped ASEAN countries in terms of social progress, followed by Indonesia, Cambodia, the Lao PDR, and Myanmar (no complete data for Brunei Darussalam, Singapore, and Viet Nam).

**Figure 3.2. ASEAN Member States in Social Progress Index**



Notes: GDP = gross domestic product; PPP = purchasing power parity.

Sources: Porter, et al. (2015) and World Bank. World Development Indicators database.

<http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD> (accessed 17 April 2015).

**Figure 3.2** also shows the logarithmic shape of the social progress index distribution, which means the slope or the gain from an increase in the income per capita until \$10,000 is particularly important for improvement in social progress. This is the area where many ASEAN member states currently sit. **Table 3.1** shows the components of the index. Overall, Malaysia, Thailand, and the Philippines score above the world average. Malaysia scores particularly well for basic human needs and foundation of well-being. The Philippines fell short in basic human needs but scores well on foundation of well-being and opportunity; indeed, it scores second highest in ASEAN in terms of opportunity. Thailand is the only ASEAN country that scores above the world average in the three categories. ASEAN countries in general score particularly well in the foundation of well-being, whereby only two countries score below the world average.

**Table 3.1. ASEAN Member States Score in Social Progress Index, 2015**

Country	GDP per capita PPP 2013	Overall SPI	Basic Human Needs	Foundation of Well-being	Opportunity
Cambodia	3,041	53.96	53.86	67.52	40.52
Indonesia	9,561	60.47	66.52	69.54	45.35
Lao PDR	4,822	52.41	60.43	61.7	35.09
Malaysia	23,338	69.55	86.13	74.87	47.66
Myanmar	4,752	46.12	58.87	49.19	30.28
Philippines	6,536	65.46	68.23	68.86	59.30
Singapore	78,763	n.a.	n.a.	n.a.	62.83
Thailand	14,394	66.34	75.77	72.35	50.90
Viet Nam	5,294	n.a.	74.19	n.a.	36.28
World	14,402	61	68.33	66.45	48.23

Notes: The values are SPI score in 0–100 (highest) scale. GDP = gross domestic product, n.a. = not available, PPP = purchasing power parity, SPI = social progress index.

Source: Porter, et al. (2015).

Amongst ASEAN countries, Viet Nam is one of the good examples in terms of the provision of basic human needs. Its basic human needs score is close to Thailand's even though Viet Nam's income level is only one-third of Thailand's. Furthermore, Viet Nam's GDP per capita purchasing power parity (PPP) increased around fivefold from 1990 to 2014, yet its Gini index in 2012 is 35.6, lower than many countries which recorded an even lower increase in income per capita. Other ASEAN countries could consider lessons from Viet Nam's inclusive growth pathway.

As an inclusive society is a multidimensional concept, policies for promoting an inclusive society are wide ranging. They include economic, social, cultural, and political aspects, for instance, on governance or institutional aspects; innovation and entrepreneurship; respect for human rights, freedom, and the rule of law; participation of society in civic, social, economic, and political activities; strong civil societies; and many others. This report focuses on the importance of inclusive growth, universal access to basic education and healthcare, as well as social assistance and protection for the vulnerable population. The three strategies ensure the provision of basic human needs and foundation for sustaining society's well-being. The strategies also highlight the importance of providing a social safety net for the disadvantaged population. However, the socio-political issues related with society inclusiveness, such as on representation of a minority group in the decision-making process and rights of indigenous people, are beyond the



scope of this report. The following section discusses the above-mentioned strategies in greater detail.

## **II. Inclusive Growth in ASEAN: Current State and Strategies for Post-2015**

Inclusive growth is economic growth, which is marked with a reduction in the incidence of poverty as well as expansion of the middle class. Inclusive growth is also economic growth with equal opportunity (ADB, 2014b), where all members of the society have equal opportunity to improve living standards. In achieving inclusive growth, this report asserts the importance of growth in agricultural productivity and production, connectivity between peripheral areas and growth centres, remunerative employment, and small and medium enterprises (SMEs) development. As the poverty rate is still high in the rural areas of ASEAN member states, the growth in agricultural productivity and production could reduce the incidence of poverty, thus reducing nationwide inequality levels. Furthermore, improvement in agricultural productivity would also improve rural farmers' competitiveness so that they can expand to overseas markets as well as stay competitive to face competition from imported agricultural products. Improving productivity could be achieved by providing incentives to farmers, improving rural infrastructure such as roads, electricity, and irrigation, as well as providing incentives for agricultural research. In connection with improving agricultural productivity, improving market access of rural agricultural products to the growth centres, either through improved infrastructure connectivity or through marketing initiatives, would also have favourable poverty reduction impacts.

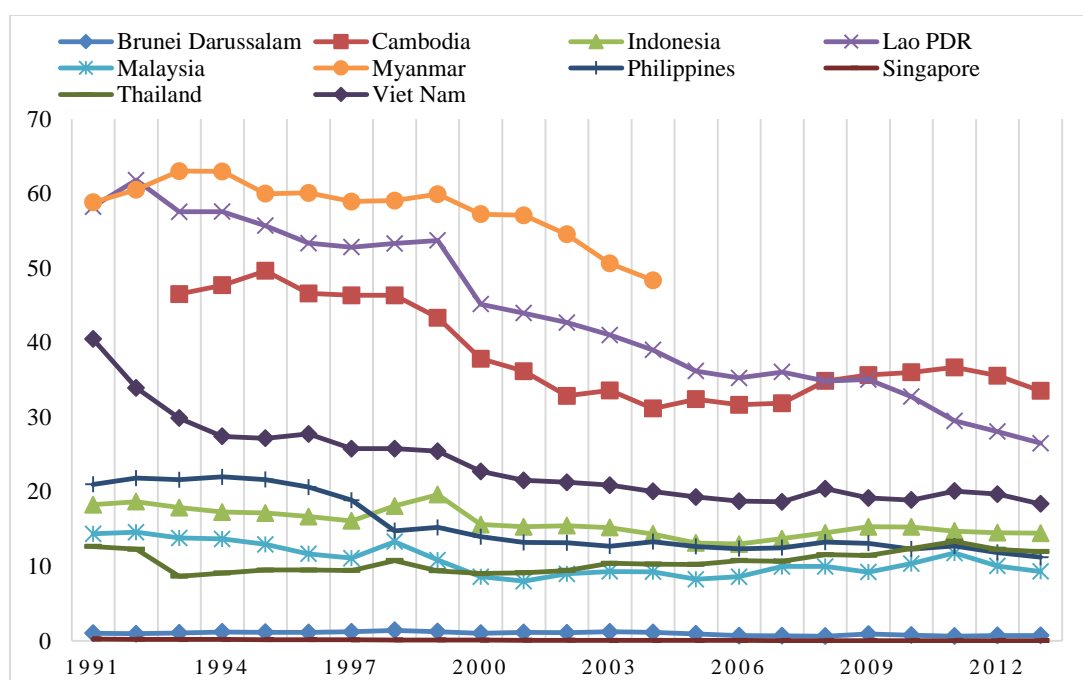
The growth in rural agricultural production and nationwide overall economic growth, combined with regional integration initiatives in the ASEAN region, would lead to structural change in the economy, especially in terms of employment. The share of employment in the manufacturing and services sectors would increase; thus the initiative for ensuring remunerative employment where the wage level reflects the productivity is critical. This calls for implementation of good industrial relations principles. Finally, even though the economic output share of big enterprises in the economy is still dominant, it is the microenterprises and SMEs (MSMEs) that account for the majority of employment share and number of firms. This fact points to the wide gap between big enterprises and MSMEs' labour productivity. As such,

policies for improving access to finance, market access, regulatory environment, and other productivity-enhancing aspects of MSMEs are the ways forward. The following section looks at the four above-mentioned strategies in detail.

## 1. Growth in Agricultural Productivity and Production

The integration of trade in the East Asian region presents both opportunities and challenges for the agricultural sector in ASEAN. The regional integration initiatives will be a source of demand for agricultural export but it will also be constrained by domestic political and social imperatives for food security issues (Intal, et al., 2011). Currently, as **Figure 3.3** shows, agriculture share in output is high in some ASEAN member states: more than 25 percent in Myanmar, Cambodia, and the Lao PDR, followed by Viet Nam at 18 percent and Indonesia at 14 percent.

**Figure 3.3. Share of Agriculture Value Added in Output in ASEAN Member States (%)**



Notes: Agriculture corresponds to International Standard Industrial Classification (ISIC) divisions 1–5 and includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs.

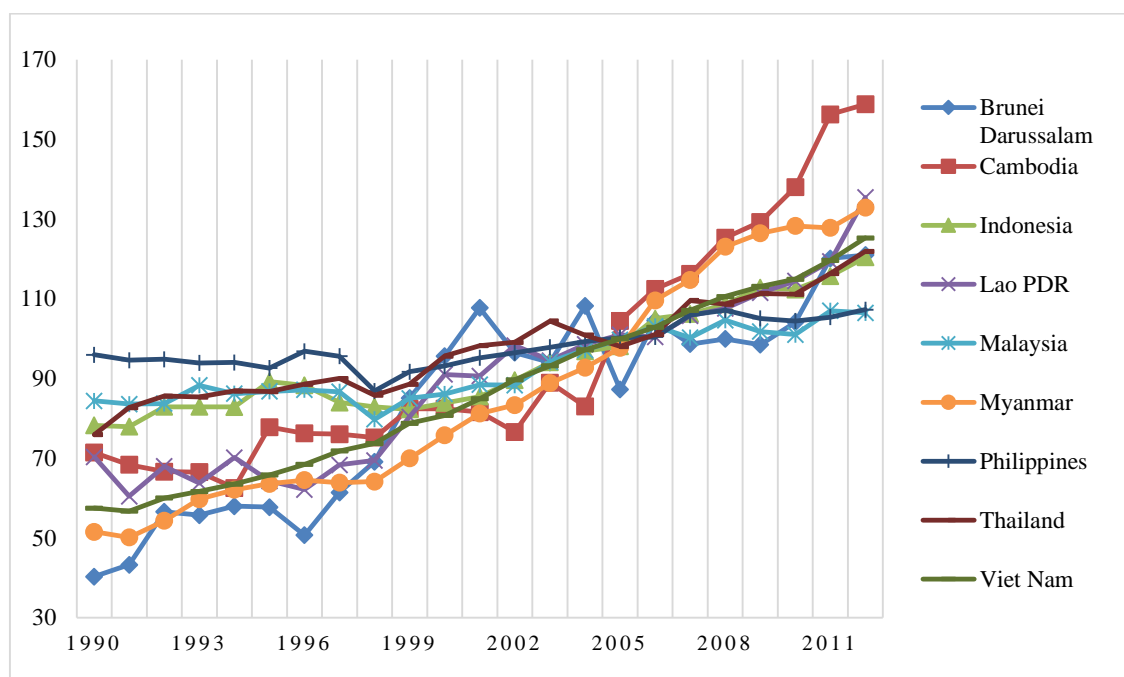
Source: World Bank. World Development Indicators database.

<http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS> (accessed 14 April 2015).

Agriculture development could be an effective poverty reduction tool. It increases the income of the rural poor through higher crop production, as well as stimulating higher labour demand in the non-agricultural sector. As such, strategies to enhance agricultural productivity and production growth should be implemented. The strategies include more public investment in infrastructure, such as irrigation, flood control, roads, and bridges, as well as a more open agricultural trade regime. A Global Trade Analysis Project (GTAP) simulation in Intal, et al., (2011) on a 5-percent increase in agricultural productivity combined with partial and full liberalisation of the agricultural sector in ASEAN shows gains in the real GDP and an increase in export values and volumes. Simulation by Warr (2011) on Indonesia's supply response capability shows that productivity improvement (and expansion of agricultural land) would be bigger under a more open trading regime.

ASEAN member states' conditions with regard to agricultural development and trade vary. For instance, Cambodia recorded amongst the highest agricultural production per capita increase in ASEAN from the mid-1990s to the late 2000s (**Figure 3.4**); even though Cambodia is significantly underinvested in agricultural infrastructure (Intal, et al., 2011). The Lao PDR, on the other hand, faces geographical constraints in developing its agriculture sector. As such, the strategy needs to be area specific. It also needs to move from subsistence to commercial smallholder production. Myanmar is another case study. It has a comparative advantage in agriculture; nonetheless, the performance of agricultural trade has been poor and constrained until recently due to policy bias, problems in incentive structure, and challenges in agricultural market-related institutions (Intal, et al., 2011).

**Figure 3.4. ASEAN Member States' Agriculture Per Capita Production Index (2004–2006 = 100)**



Source: FAO Statistics. <http://faostat.fao.org/site/612/default.aspx#ancor> (accessed 14 April 2015).

The limitations in government resources, which contribute to underinvestment in agricultural infrastructure, as in Cambodia, could be addressed through public–private partnership investment initiatives. In addition, measures to increase production through inviting large land concessionaires should be accompanied with good communication and mutual cooperation with the indigenous small land farmers. Finally, an improved regulatory and facilitation regime and infrastructure are also important.

A country that has a comparative advantage in agriculture could have a non-impressive foreign trade performance, as in Myanmar before the current reformist government, due to policy bias, problems in incentive structure, and challenges in agricultural market–related institutions. As the government implements policies that keep the domestic rice price substantially lower than the world price, it creates income and substitution effects. The farmers would receive less income from their production, thus are incentivised to switch to other agricultural commodities. On institutional support, lack of access to formal rural credit, limited access to foreign exchange to buy fertilizer, and weak agricultural research and development (R&D) have hindered growth in agricultural productivity and production.

Significant improvements in the overall policy regime in Myanmar in the past few years augur well to a better performing agricultural sector, as well as that of the overall economy moving forward.

Viet Nam, as noted in the previous section, is a good example of substantial increases in income per capita, reduction in the poverty incidence, combined with a modest increase in inequality levels (Gini index). The source of growth in Viet Nam's agriculture productivity and production came from efficiency gain by the institutional reforms in the late 1980s, expansion of physical infrastructure in the 1990s, and technical changes in the 2000s (Intal, et al., 2011). Furthermore, the incentives structure is favourable to agriculture and farmers have facilitated the diversification and commercialisation of Viet Nam's agriculture. This in turn has contributed to transformation in the rural sector. As the rural household income increases, so does the education level of the young people. This stimulates expansion of employment in the non-agricultural sectors in the peripheral areas. The net result is a dramatic reduction in the rural area poverty incidence and a reduction in the inequality level nationwide.

Reflecting on Viet Nam's experience, Vo and Nguyen (2015) recommend promoting rural development, employment, and inclusive growth in ASEAN through the following strategies:

- a. Promote trade in agriculture, forestry, and fishery products in an effort to diversify economic activities in rural areas by creating an incentives structure, thus avoiding trade distortion and enhancing prices and product quality.
- b. Facilitate the establishment and development of rural value chains. Promote measures to raise the value-added in final agricultural products, strengthen the links between agricultural and non-agricultural sectors, and address the prevailing role of middlemen in rural areas.
- c. Promote training for rural farmers to improve employability and reduce underemployment. The training could be on adopting new production technologies as well as knowledge in processing, preserving, and packaging agricultural products.
- d. Support industrialisation of agricultural and rural areas, through infrastructure development, land accumulation, change in crop planting system, eco-agriculture, craft village, amongst many others.
- e. Continue to upgrade hard and soft infrastructure in rural areas to support the establishment and development of rural value chains. Hard infrastructure includes roads and irrigation, while soft infrastructure include

services links, for example, rural transport, logistics, and information. The rural–urban link should also be strengthened not only in terms of transport and telecommunications but also in terms of access to information and opportunities.

- f. Promote rural autonomy so that farmers can exert greater control and ownership towards agricultural production.
- g. Facilitate civil society organisation–government cooperation on agriculture and rural development in ASEAN.
- h. Continue the sharing of experiences and best practices amongst ASEAN member states and with ASEAN dialogue partners.
- i. Especially for Cambodia, the Lao PDR, Myanmar, and Viet Nam (known as CLMV countries), the poor and near-poor households should be clearly targeted in the rural development plan and social protection and/or safety net programmes. The countries should also develop consistent frameworks at the national level to promote diversification and commercialisation of the rural economy. To support the implementation, a community-based monitoring mechanism should be strengthened. Finally, countries should also work with development partners as regards rural development plans.

To sum up, an inclusive growth pathway in the agriculture (and rural) sector for ASEAN includes creating an appropriate incentive structure, for instance, on institutional reform, limited market (price) intervention, and decrease in fertilizer relative price, amongst others; promoting infrastructure through public investment and public–private partnership initiatives; as well as promoting innovation (R&D) policies in agricultural research. These productivity-enhancing strategies combined with long-term pathways of gradually opening up the agricultural sector would be a strong foundation for marked reduction in poverty incidence and decline in income inequality across member states.

## **2. Connectivity between Peripheral Areas and Growth Centres**

The benefits of ASEAN regional integration in the agricultural sector are felt not only by urban consumers in terms of lower prices and wider product selection, amongst others, but also by rural farmers, for example, through greater opportunity to expand to regional markets. In this regard, connectivity between the peripheral areas and growth centres should be strengthened. As agricultural productivity and production improve, the non-agricultural sectors, for instance, home industry, wholesale and retail trade, transportation, and construction, will develop in the peripheral areas.

Development in the peripheral areas would facilitate a reduction in the poverty incidence and open employment opportunities for both rural areas and growth centres.

In improving productivity, connectivity between peripheral and growth centres can be facilitated through improved access to information and communication technology, transportation infrastructure, and access to quality education and health facilities. Regional development policies to improve this connectivity should be adopted by the government. In building this connectivity, the resources, for example, human resources and materials, ought to come from the rural and peripheral areas so that they will create a multiplier effect to the community.

The challenges for improving connectivity in most ASEAN member states vary across countries. In general, the challenges include financing, capability, and institutional (regulatory) issues. In terms of financing, the public–private partnership mechanism could be employed. Currently, Malaysia, Indonesia, Thailand, and the Philippines have already adopted public–private partnership; while Cambodia, the Lao PDR, and Myanmar have not yet developed a public–private partnership system (Zen and Regan, 2014). To maximise the use of this framework, ASEAN would need to strengthen its regulatory framework, capacity, and coordination, amongst others.<sup>1</sup>

### 3. Remunerative Employment

The ASEAN region has had stellar growth performance since 1990s. The growth has also been accompanied by a reduction in the poverty incidence rate and expansion of the middle-class population. Nonetheless, as **Table 2.5** in Chapter 2 shows, the share of employed people living below the \$1.25 (PPP) poverty line per day, despite a substantial decline from the 1990s, was still more than 15 percent in many member states in the late 2000s. As the report of the International Labour Organization (ILO) and the Asian Development Bank (ADB) (2014, p.xi) on the ASEAN labour market noted:

*Too many workers are trapped in poor quality jobs. Approximately 179 million workers (or three in five) are in vulnerable employment and 92 million earn too little to escape poverty. Securing decent employment is particularly difficult for*

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<sup>1</sup> Refer to Zen and Regan (2014) for a more detailed description and strategy for public–private partnership implementation in ASEAN.

*young people and women...exacerbated by limited commitments to labor standards and social protection.*

The ongoing ASEAN Economic Community (AEC) initiatives might alter the structure and composition of the labour market in the region. The regional economic integration and increased foreign direct investment (FDI) inflow to the region means more people would be employed in the non-agricultural sector. Indeed, for instance in Viet Nam, the share of employment in industry doubled from 10.6 percent in 1996 to 21.2 percent in 2013 (ILO and ADB, 2014). The ILO and ADB (2014) simulation shows the AEC initiatives would accelerate structural changes, thus increasing the aggregate output by 7 percent. Nonetheless, there will be job losses and gains, the distribution of which will be unequal across countries. The demand for highly skilled workers would outpace the demand for low-skilled labour. The interaction issues, for example, minimum wage, decent working conditions, contract workers, amongst others, between the workers and the firm would come onto surface as well. Without concerted policy actions, this dynamic would lead to an increase in inequality across skill groups, across gender, and between migrants and domestic workers, amongst other social groups.

To address this condition, ASEAN member states would need to promote policies that close the skills gap by strengthening the education and training system. Other member states could emulate the lifelong learning concept as practised in Singapore. This policy could help increase labour productivity, thus reducing the working poverty, the incidence of vulnerable employment, informal employment, and support decent employment. The education and training system should also be designed to prepare the workforce for industrial upgrading and entering high productivity economic sectors. The following is the recommendation by Lim (2015) on investing in workers and firms as learning centres for industrial upgrading.

a. ASEAN member states need to set up a continuing education and training (CET) master plan. CET infrastructure needs to be enhanced and connected to pre-employment education institutions. As part of the master plan, governments and firms could set up (1) an adult education network to provide a pool of CET practitioners; (2) industry-based training, whereby company training centres which meet specific requirements can apply to be approved training centres and thus are authorised to provide training to workers in the industry. These companies can have access to a publicly funded skills development fund and a workforce development fund; (3) customised skills training provided by institutions such as an institute of



technical education; (4) a certified on-the-job-training training centre scheme to encourage and upgrade the quality of on-the-job-training; and (5) national trade certification and public trade tests.

b. Develop and improve the quality of the vocational training system as part of the national education system.

c. Manage the trade union by (a) changing the trade union's basic objective from employment security to employability and from a confrontational approach to a collaboration approach; (b) enhancing employability through lifelong learning and national skills certification; (c) promoting collaboration amongst labour unions and management; (d) promoting workplace health and safety; (e) contributing to community development; and (f) increasing union membership as well as strengthening union leadership.

d. Governments should also commit resources for workers, for instance, through the skills development fund model in Singapore. Employers have to pay for the fund, which then could be used as grants for companies that send their workers for training.

e. Promote SMEs as learning and training centres for growth and industrial upgrading through (1) facilitating networking and clustering of learning and training amongst the SMEs, especially amongst SMEs located in certain geographical areas and share the same product categories; (2) fostering collaboration between large firms and small firms as suppliers (sub-contractors), especially when embedding the small firms into the production network; (3) establishing partnerships between government and firms to provide training, for example, through tax benefits, subsidised training, and public investment in human and physical resources of the business community.

f. In the regional context, ASEAN member states could set up an ASEAN academy to promote workers' skills training and upgrading and an ASEAN labour exchange initiative for skills training and upgrading as well as conferring regional awards.

Following the 1997–1998 Asian financial crisis, the trend in the labour market in many ASEAN member states shows increasing flexibility, for example, in the form of sub-contracting employment systems, and a surge in informal employment. The integration initiatives in the AEC will also increase the flow of high-skilled workers. To manage the labour adjustment in the integrating ASEAN, the following recommendations by Ofreneo and Abyoto (2015) could ease the adjustment process.

- a. ASEAN needs to ‘sustain and deepen the social dialogue process amongst the social production partners’. Achieving consensus is only possible by forging a social dialogue.
- b. ASEAN companies and industries should strive to develop sound industrial relations systems. This includes using tripartite or bipartite social dialogue to form policies and rules.
- c. At the regional level, ASEAN could organise dialogues between the ASEAN Business Advisory Council and the ASEAN Services Employees Trade Union Council or the ASEAN Trade Union Council on good practices in labour and service contracting.
- d. Harmonise labour law in the region while taking into account the economic, historical, political, and cultural realities in each country. This could be done in the area of ‘strengthening the laws and supporting rules and institutions for the core labor rights outlined in the 1998 ILO Declaration on Fundamental Principles and Rights at Work, that is, freedom of association, collective bargaining, non-discrimination, prohibition of forced labor, and elimination of extreme form of child labor.’
- e. ASEAN needs to collaborate in upgrading the capacity of member states in labour inspection, for example, through an inspectorate system that can minimise labour abuses and violations.
- f. Create definitive timelines for the adoption and implementation of measures protecting the rights of migrant workers.

In 2013, there were around 6.5 million workers intra-ASEAN (Hatsukano, 2015). Most of them were low-skilled workers and moved across the borders illegally. Improving the regulatory and support environment for migrant workers are necessary to enhance productivity and competitiveness as well as social welfare in ASEAN. To that end, Hatsukano (2015) recommends:

- a. A mutual recognition arrangement (MRA) on lower-skilled and semi-skilled workers should be designed as a path to achieve a free flow of lower-skilled workers’ scheme in ASEAN. This could also improve workers’ productivity and their social welfare.
- b. On managing migrant workers, ASEAN member states need to create a more transparent and efficient recruitment process. In doing so, it is important for member states to promote official migration channels. Overall, improvements could be done by (1) improving the administration process at the sending countries; (2) sharing employment data amongst the

recruitment agencies to promote fair competition; (3) creating a monitoring system, for instance, on recording whether workers have returned to home country; (4) engaging the local government in the issues; and (5) taking into account the employers' responsibility. Employers could be provided with incentives to employ regular workers.

c. On productivity and competitiveness, vocational training systems and training centres should be established in the sending and receiving countries to increase migrant workers' productivity.

d. On social welfare, the social welfare of migrant workers needs to be respected. With regard to social welfare for unregistered workers, a minimum standard across member states could be agreed upon.

In summary, policies to prepare the ASEAN labour force for industrial upgrading and high productivity sectors are key to achieving inclusive growth. This could be promoted by improving the education and training system, including measures to invest in workers and creating learning centres. This pathway should also be combined with the implementation of good industrial relations practices as well as protection of the migrant workers.

#### **4. Development of Micro, Small, and Medium Enterprises (MSMEs)**

MSMEs are critical in providing employment and income for the majority of ASEAN member states' population. As **Table 3.2** shows, the share of SMEs in total establishments is more than 97 percent for most member states. It provides jobs to 51 percent of the population in Viet Nam to 97 percent in Indonesia. Nonetheless, this number does not correspond to its share in the economy, where it accounts for around one-third to one-half of the economy. This shows a huge discrepancy in labour productivity between the SMEs and large enterprises.

**Table 3.2. Significance of Small and Medium Enterprises in ASEAN Economies**

Country	Share of total establishment		Share of total employment		Share of GDP		Share of total export	
	(%)	Year	(%)	Year	(%)	Year	(%)	Year
Brunei Darussalam	98.20	2010	58.00	2008	23.00%	2008	n.d.	n.d.
Cambodia	99.80	2011	72.90	2011	n.d.	n.d.	n.d.	n.d.
Indonesia	99.90	2011	97.20	2011	58.00	2011	16.40	2011
Lao PDR	99.90	2006	81.40	2006	n.d.	n.d.	n.d.	n.d.
Malaysia	97.30	2011	57.40	2012	32.70	2012	19.00	2010
Myanmar	88.80	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Philippines	99.60	2011	61.00	2011	36.00	2006	10.00	2010
Singapore	99.40	2012	68.00	2012	45.00	2012	n.d.	n.d.
Thailand	99.80	2012	76.70	2011	37.00	2011	29.90	2011
Viet Nam	97.50	2011	51.70	2011	n.d.	n.d.	n.d.	n.d.

Note: n.d. = no data.

Source: Reprinted from ERIA (2014a).

The MSMEs in ASEAN are in a critical period to improve their competitiveness as they face stronger competition following regional integration initiatives. They face challenges from both domestic large corporations as well as imported goods. As the competitiveness and development of MSMEs in the region are critical to reduce the region's poverty incidence and inequality level, concerted policy actions are needed to strengthen the MSMEs.

The ASEAN SME Policy Index developed by the Economic Research Institute for ASEAN and East Asia (ERIA) and the Organisation for Economic Co-operation and Development (OECD) in conjunction with the ASEAN SME Working Group shows there are

'... uneven levels of performance in the implementation of SME development policy at the national level between the two traditional groups of the AMSs, namely, (a) the less developed members of the CLMV countries... and (b) the more advanced members of the ASEAN-6' (ERIA, 2014a, pp.8–9).

The index was created by assessing member state policies against eight SME policy dimensions, namely (1) institutional framework, (2) access support services, (3) cheaper and faster start-up and better legislation and regulation for SMEs, (4) access to finance, (5) technology and technology transfer, (6) international market expansion, (7) promotion of

entrepreneurial education, and (8) more effective representation of small enterprises' interests.

The results show the biggest gap amongst member states and the lowest score regionally are in the policy area of technology and technology transfer; access to finance; access to support services; promotion of entrepreneurial education; and cheaper, faster start-up, and better regulations. Therefore, the following strategies are recommended for ASEAN member states to improve their SMEs (ERIA, 2014a):

a. Enhancing SMEs' technological upgrading and innovation capacity

The main bottleneck in this area is on the provision of information and databases on innovation support services and the inability to provide financial incentives for R&D activities. Improvements could be done by (a) providing capacity building to less developed member states on institutional building and programme design; (b) providing information and advisory services on quality control management, technology adoption and commercialisation, and training; (c) providing incentives in R&D, incubators, and links between research at universities and SMEs; and (d) establishing a regional network for sharing best practices.

b. Improving SMEs' access to finance

The root causes for lack of access to finance is the absence of credit risk management system (credit guarantee, rating, and information) and more flexible collateral provisions. In addition, the equality and risk capital finance markets are not yet well developed. In addressing the challenges, ASEAN member states could focus on (a) providing technical assistance for setting legal frameworks, system building, and sharing best practices; (b) establishing and strengthening the credit risk management system and a more flexible collateral provision; (c) promoting alternative financing options, such as equity fund, venture capital finance, angel capitalists, and crowd-funding platform.

c. Promoting entrepreneurial education

The disconnect between basic education and non-formal training could be addressed by streamlining and incorporating entrepreneurial education into education curriculum and by integrating entrepreneurial education with human resources development, skills development, and upgrading programmes.

d. Ensuring easy start-up and a business-friendly regulatory environment

The reform in the ease of doing business procedures could be carried out through setting specific targets for reduction in time and monetary cost of formal business registration as well as through providing e-government services.

e. Improving SMEs' access to support services

The establishment of an ASEAN SME portal and trade repository could provide clearer and more accessible information on trade-related regulations and events thus fostering joint cooperation amongst the SMEs.

Although the SME Policy Index did not include microenterprises, virtually all the above recommendations are apparently supportive of the development of micro enterprises. Nonetheless, micro-entrepreneurs would also likely need support in entrepreneurship and managerial skills.

In summary, the four strategies for an inclusive growth in ASEAN – agricultural productivity and development, connectivity between peripheral areas and urban centres, remunerative employment, and MSMEs development policies – are necessary concerted efforts for ASEAN member states to achieve an inclusive society. To lock in these initiatives, an agreed regional commitment, in the form of target indicators and a monitoring system is needed. The following section outlines several target indicators for ASEAN post-2015.

## **5. Indicative Outcomes on Inclusive Growth for ASCC post-2015<sup>2</sup>**

Based on the inclusive growth strategies outlined in the section above, ASEAN member states would first need to set targets on reducing the poverty incidence and its related indicators. The targets could cover reduction and elimination of the extreme poverty rate, value of national poverty incidence, value of hunger indicators, and value of multidimensional poverty rate.

On reducing the income inequality between and within countries in ASEAN, the indicative outcomes, for instance, on growth rate of the CLMV countries, the Gini index, and income or consumption growth rate of the bottom 40 percent of the population, could also be specified.

On improving infrastructure and connectivity between peripheral and urban centres, some infrastructure targets, such as on access to improved

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<sup>2</sup> The details of the indicative outcomes are presented in section II of Chapter 2.

water sources, improved sanitation, electricity, and information and communication technology, could be adopted.

Finally, on addressing the structural change in the labour market, targets on employment indicators, for instance, on open employment rate, percentage of working poor, share of own-account workers, and contributing family members to total employment, as well as incidence of child labor, could be adopted in post-2015.

The area of indicative outcomes above is not exhaustive because several important indicators for inclusive growth are not yet included. Examples are targets on agriculture productivity, infrastructure connecting the peripheral areas and urban centres, industrial relations, and MSMEs, as well as broader indicators on society inclusiveness. These indicators, along with many other ASCC indicators, mainly fall on the national governments. Thus, concerted national efforts underlined by common understanding and commitment in the region could facilitate the implementation.

### **III. Access to Education, Healthcare, and Standard of Living**

#### **1. Introduction**

Human development is a key to a nation's sustainable development (the term 'development' itself is actually broader than just economic sense, but cannot be detached from economic well-being<sup>3</sup>). The United Nations (UN) defines two main dimensions of human development, namely, 'directly enhancing human abilities' and 'creating conditions for human development'. Education, healthcare, and access to infrastructure for a decent life are the dimensions directly related to enhancing human abilities.

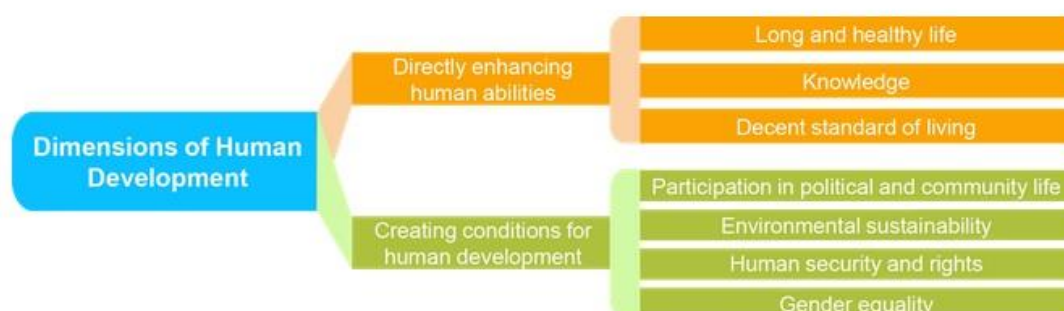
Enhanced human abilities which comprise three components (long and healthy life, knowledge, decent standard of living) can simultaneously be viewed from two perspectives: (1) as the basic rights for all, and (2) as a nation's investment towards better growth. The terms of investment here cover a broader perspective because they apply to any level of spender and beneficiaries: households, communities, countries, regions, and the world. Any progress made by an individual will create a positive impact at one or

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<sup>3</sup> As said earlier, there is a complex relationship between economic development and social progress; the Social Progress Index tries to disentangle social indicators with a country's GDP status (Porter, et al., 2015).

more levels. Human development creates positive externalities for a greater environment.

**Figure 3.5. Dimensions of Human Development**



Source: United Nations Development Programme (UNDP).  
<http://hdr.undp.org/en/humandev> (accessed 15 April 2015).

The UN Millennium Development Goals (MDGs) are relevant measures in regard to human development; therefore, they must be sustained and expanded to the next level. In the context of the MDGs adopted by the ASCC Blueprint, human development is proxied by some indicators of education, health, gender equality, environment, and decent standards of living. **Table 1.3** summarises the performance of MDGs showing different rates of countries' achievement. Indicators of education, gender, health, and environment are heavily determined by the performance of the education, health, and infrastructure sectors.

The inter-linkages between the three main components – education, healthcare, and access to adequate infrastructure – are tight-knit. Education can be optimally implemented if the pupils are healthy and have no barriers to access the school. Educated parents (especially mothers) will have a greater influence to enhance the health status of their family. Empirical data shows that education for girls can delay child marriage, reduce disease risks on women, and reduce mortality rates of mothers and infants.

Education offers opportunities to learn more about health and health risks, both in the form of health education in the school curriculum and by giving individuals the health literacy to draw on – later in life – and absorb messages about important lifestyle choices to prevent or manage diseases. People who are more educated tend to be more aware of health risks and may be more receptive to health education campaigns. Adults with higher



levels of education also tend to have lower exposure to the types of stress that are related to economic deprivation or relative deprivation (Pampel, et al., 2010). Individuals with more education tend to have greater socioeconomic resources for a healthy lifestyle and a greater relative ability to live and work in environments with the resources and built designs for healthy living (Estabrooks, et al., 2003; Brownell, et al., 2010).

To obtain access to education and healthcare facilities, adequate infrastructure support and decent standards of living are imperative. Children of families with a good socio-economic status will have a bigger chance to obtain access to education and healthcare.<sup>4</sup> Parents and households with secured income have a bigger ability to finance children's good education and healthcare.

Infrastructure will influence the attainment of education and healthcare indicators through at least two mechanisms: (1) provision of access to education and healthcare facilities in the form of accessible, affordable, and safe transportation mode (for example, ambulances can reach the sick, children do not need to travel far or under unsafe conditions, expecting mothers can reach clinics easily); and (2) provision of quality of education and health facilities (such as sufficient electricity and clean water at home, school, and clinics; access to information and communication technology [ICT], and better sanitation). Insufficient infrastructure will increase barriers for accessing health and education facilities, and opportunity costs for many poor households.

The UN human rights grant the right to development for everyone (Declaration on the Right to Development, 1986); this includes the right to have equality of opportunity for all in their access to basic resources, education, health services, food, housing, employment, and the fair distribution of income. The human development process will accumulate human capital that is a key investment for a country's sustainable development. Thus, investing in human development is not a cost of development or a burden of a country; instead it is an *essential element* for sustainable development. The cost of not investing in human development is expensive since human capital is accumulated not in linear trends, meaning, stagnation or deterioration will inflate the gap with other developed nations.

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<sup>4</sup> A composite measure that typically incorporates economic, social, and work status. Economic status is measured by income, social status is measured by education, and work status is measured by occupation. Each status is considered an indicator. These three indicators are related but do not overlap (Adler, 1994).

## 2. Access to Quality Education

Education must become a main priority; it has a significant role on the accumulation of human capital, which is an important endowment for economic growth. For example, countries with better human capital – as shown by a bigger proportion of educated workers – show higher technological adaptation and innovation abilities compared to those dominated with less-educated workers.

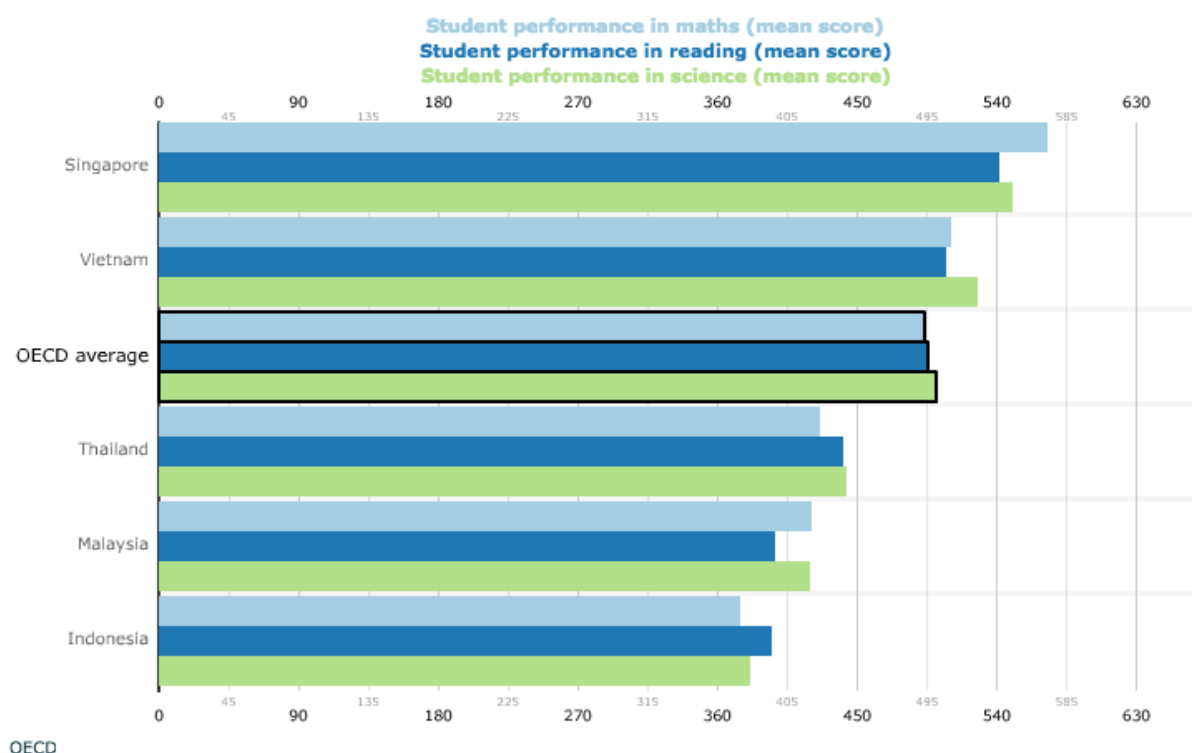
The ASCC Blueprint focuses on establishing and strengthening networking amongst related institutions in member states, developing higher education through technology application and innovation, supporting an ASEAN identity through cultural teaching and exchanges, allowing credit transfer, and fostering skills learning to prepare young people for regional and future labour markets. These programmes are important and the achievements are valued. As for the MDGs status for education, especially the enrolment rate at primary and secondary education, almost all members are on track; however, for survival rates, Cambodia, Indonesia, the Lao PDR, Myanmar, and the Philippines have to work further to improve the current rate.

Strengthening regional cooperation to prepare a labour market to comply with an ASEAN integrated market is important. An integrated market entails support by educated people as the main resources to cooperate and create synergy. As the survival rate is still a challenge for some members, this problem should be well addressed. The survival rate at previous levels of education will determine the size and quality of supply for the later stages of education; thus, it is crucial to pursue goals for higher education development. Since education is not only for employment purposes but also for personal, social, and cultural developments (Tullao, et al., 2015), it also should be viewed from the perspective of nurturing a balanced life as a human being.

Apart from addressing survival rates in primary and secondary education, improving the quality of education at all levels and narrowing quality gaps are also significant challenges for ASEAN countries. To monitor the attainment of better education quality, several measurements can be utilised. For example, the Programme for International Student Assessment (PISA) scores – even though its measurement is debatable – can be used as comparative and consistent measures amongst some countries. The 2012 scores indicate a diverse condition of education measures. Indonesia with the largest population has the lowest ranking compared with Malaysia,

Thailand, Viet Nam, and Singapore. On the other side, PISA scores of Viet Nam and Singapore are higher than those of the OECD average (Figure 3.6). Convergence in education standards shall be one of the focuses in the post-2015 ASCC Blueprint.

**Figure 3.6. PISA Scores for Math, Science, and Reading of Select ASEAN Member States, 2012**



Note : OECD = Organisation for Economic Co-operation and Development, PISA= Programme for International Student Assessment.

Source: Organisation for Economic Co-operation and Development. <http://gpseducation.oecd.org/> (accessed 19 April 2015).

It is important to note that achievement of the education goals – be it of the economic, welfare, or social dimensions – entails support from linked sectors, including that which is output of education itself or, in other words, a two-way causal relationship. This situation has a spiral effect and shows the high importance of investing in education.

Education is also a structured and systematic means of levelling the playing field in a competitive market. It is an effective way to enable people, including the less fortunate, to participate in fair economic activities through improved human capacity. Thus, **countries that want to have inclusive growth should invest in education.** It is coherent that many developed countries have provided free basic and high education for all residents,

regardless of their citizenship. A famous example is Germany that waives the tuition fees for higher education for all students, even when they do not have German or European Union citizenship.

Each level of education is designed for different objectives suited to students' potential ability. Primary education equips children with basic knowledge without specific skills to respond to complex issues. Fighting illiteracy is the common goal. Primary school graduates who enter the labour market will be categorised into unskilled labour. Secondary education usually has two paths: one path in general high school – for those who may want to pursue higher education – and another path in technical high school, for those who are more prepared to enter the labour market. The supply of these graduates usually responds to the demand from the industrial sector.

The ASEAN data show that despite overall progressive achievements, some countries fall behind others in some indicators for various reasons. Some countries still have to deal with large numbers of poor and narrow fiscal space to provide free education for all. **Table 3.3** presents the critical issues classified in problems, causes, and policy options for the education sector in ASEAN.

**Table 3.3. Summary of Critical Issues in the Education Sector**

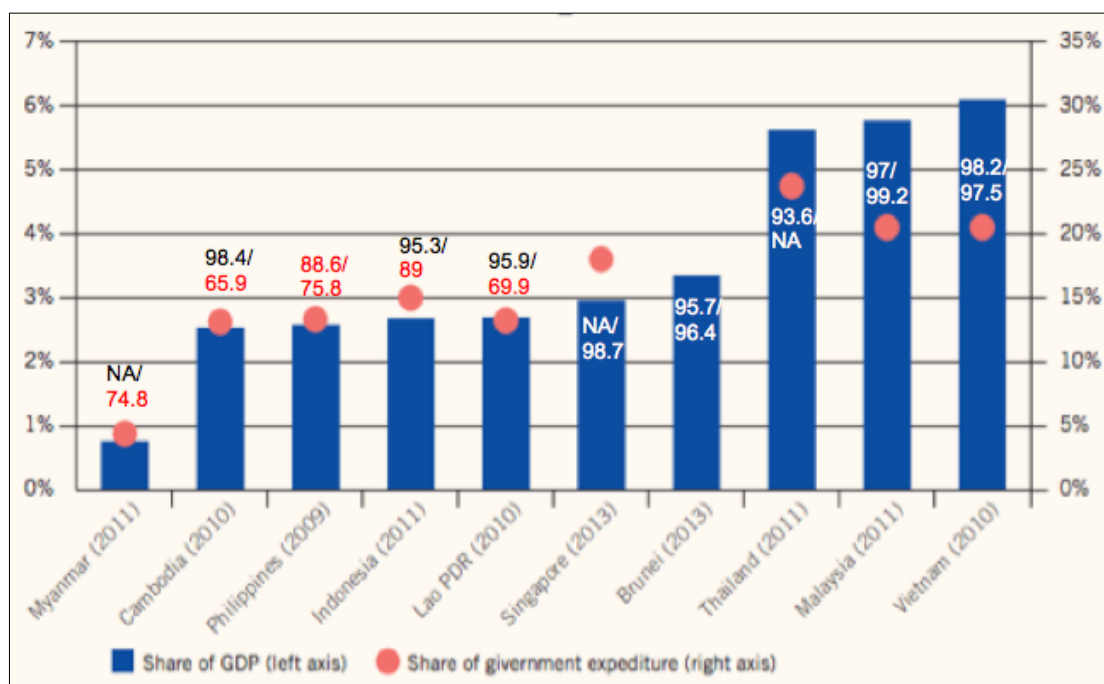
Problem	Cause	Policy options
Low survival rate for primary school	<ul style="list-style-type: none"> <li>- Poor access to reach school</li> <li>- Children shifted to labour market</li> <li>- High out-of-pocket cost to support study</li> </ul>	<ul style="list-style-type: none"> <li>- Community-based and participatory approach to support survival rate and creative learning</li> <li>- Distribution of schools to make these accessible</li> <li>- Provide education and related costs of education for free/targeted subsidy</li> <li>- Design incentives to encourage parents in sending children to school</li> <li>- Improve ease and safety to reach school</li> </ul>
Unequal quality of basic and secondary education	<ul style="list-style-type: none"> <li>- Low quality of teachers</li> <li>- Uneven distribution of teachers</li> <li>- Poor school facilities</li> </ul>	<ul style="list-style-type: none"> <li>- Teacher training</li> <li>- Curriculum should be adaptive to international</li> </ul>

Problem	Cause	Policy options
	<ul style="list-style-type: none"> <li>- Health-related factors (nutrition, healthy environment, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>standards, and encourage creativity</li> <li>- Teacher exchange programmes</li> <li>- Provide supplementary healthy food, basic immunisation, and regular medical check for primary school students at school</li> </ul>
Low coverage of higher education	<ul style="list-style-type: none"> <li>- Low inputs</li> <li>- High out-of-pocket cost</li> <li>- Poor access</li> <li>- Uneven distribution of schools and teachers</li> </ul>	<ul style="list-style-type: none"> <li>- Free or almost free cost to enrol in secondary and tertiary education especially for the poor</li> <li>- Spend more on improving teacher quality</li> <li>- Encourage private participation</li> <li>- Provide accessible schools in rural and remote areas</li> </ul>
Standardised higher education	<ul style="list-style-type: none"> <li>- Participation of universities in joining accreditation body is low and progress is slow</li> <li>- Language barrier</li> <li>- Cost barrier</li> </ul>	<ul style="list-style-type: none"> <li>- Encourage private participation</li> <li>- Eliminate unnecessary constraints for accreditation of credit transfer</li> <li>- Provide ASEAN language courses in universities</li> <li>- Lecturer exchange programmes</li> </ul>

Source: Compiled by authors.

Some of the abovementioned problems are caused or hampered by an inadequate and inefficient financing system. Good education needs adequate financing. Spending for education has higher shares in the countries with good performance in achieving MDG #2 (achieve universal primary education) and gender disparity in education. However, financing adequacy is not the only concern; the fund should also be allocated properly to minimise inefficiency.

**Figure 3.7. Public Spending on Education as a Share of GDP and as a Share of Total Government Expenditure in ASEAN**



Notes: Number X/Y: X = NER in Primary School (%), Y = Survival rate in Primary School (%) as shown in Chapter 1 Appendix 1.A.

Source: ADB (2014a); UNESCO Institute for Statistics database.

<http://www.uis.unesco.org/Pages/default.aspx> (accessed 5 March 2015).

The report on *Education Spending Review in Indonesia* (World Bank, 2013b) shows that education spending has problems centred in efficiency rather than in size. The report suggests that improvements can be made through efficient use of resources, correcting uneven distribution of teacher qualifications, and designing better incentives for performance.

Strengthening the capacity of human resources – especially in producing qualified educators – has two problems: the lack of qualified teachers and uneven distribution of qualified teachers. Rural and remote areas typically suffer from both problems: under teacher–pupil ratio, and low quality teachers. To improve the situation, the government needs to review funding allocation and pay more attention to improving teachers' quality. Other avenues to produce more qualified teachers are by designing specific courses and modules concentrating on the competence of curriculum requirement, instead of just requiring teachers with degrees. Regional cooperation and the utilisation of ICT modes can increase the coverage, and improve the efficiency of the enhancement programmes. Private

participation can help shape a better distribution of schools and qualified teachers, by providing parents with equal options of not sending their children to big cities to get quality education. Scholarships from the private sector can increase the number of children from poor families to enjoy private school as well. In some remote areas, community participation provides additional resources for the school to have qualified teachers and uphold the school system.

Low survival rates in primary school are typically triggered by economic reasons because the cost of sending a child to complete primary school is still perceived as high. The breakdown of the cost will provide policymakers with a clearer picture of the problems, beyond the tuition fee problem since in almost all ASEAN member states tuition is free in public primary schools. The costs of sending a child to school include all associated costs including transportation, uniforms, books, extracurricular activities, administrative requirements, meals, and the costs paid by the parent or carer to accompany the child to school. Further, it may also involve the opportunity cost of not having the child as labour supply.

In rural and remote areas, whereas a school might be difficult to access, sending a child to school also has safety concerns and travel time issues. Not only does it affect the survival rate at primary school but it also produces non-optimal conditions for a child to learn. The country should reach the unreached by providing easy and safety access for children to go to school. Infrastructure is vital in this case since the school needs safe access roads, but also electricity and clean water to function.

Different countries face different situations. Amongst many challenges, the most critical ones are:

- Geographical condition in accordance with distribution of pupils. Archipelagic countries with mountainous topography such as Indonesia and the Philippines face tough challenges to reach the unreached. China and Viet Nam provide excellent examples of the importance of universal access to education. The policy applied in their early stages of development directed to cover all school-age children even in the most remote areas. Viet Nam, Malaysia, and Thailand have consistently allocated more funds than other member states for public spending on education (**Figure 3.7**). Reaching pupils in remote areas also means making teachers and learning facilities available in those areas. The use of technology, such as distance learning, education videos, and teleconferences can be useful to some extent. Teachers should be given appropriate incentives to compensate for the hardship of serving in

isolated areas. However, once isolated areas get connected with other areas through infrastructure, the areas are no longer isolated and have potential to grow faster. In the long term, the associated costs for socio-economic activities will decline. Thus, in this case infrastructure is a key to remove isolation.

- The quality of teachers is the most important thing as education input (Tullao, et al., 2015). To narrow quality gaps in education, teachers' knowledge should be upgraded regularly and teachers should be equipped with the necessary tools and facilities. Internet access has a tremendous effect on the dissemination of knowledge; it can be utilised with a design to improve the quality of education.
- Study also requires preconditions. Pupils must be healthy to be able to learn properly. Schools should be safe and comfortable as a learning place. Children are sent to school instead of working for the family. It means families have incentives to prefer school rather than work; the condition that usually occurs in households with secured income, or obliged to do so. In some countries including China, parents will be charged with a criminal act for not sending their children to school during mandatory years of primary education.

The above illustration shows the inter-linkage across three sectors: health, education, and infrastructure.<sup>5</sup> The monetary value of the return to education in terms of health is perhaps half of the return to education on earnings, so policies that impact educational attainment could have a large effect on population health (Cutler and Lleras-Muney, 2006). One can see the examples shown by Viet Nam that has relatively high achievement in various health, education, and infrastructure indicators.

Viet Nam's investment in infrastructure, education, and health sectors started in early 1990. Viet Nam borrowed from the multilateral agencies to finance power and transport projects, and it evolved over time to include assistance for the rural sector, which has been the mainstay of the local economy. The projects aimed to provide more rural families and businesses with electricity, better roads, education, health care, and advice on agricultural issues. Within the first decade, the health and education

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<sup>5</sup> Research based on decades of experience in the developing world has identified educational status (especially of the mother) as a major predictor of health outcomes, and economic trends in the industrialised world have intensified the relationship between education and health (Zimmerman and Woolf, 2014).



indicators in Viet Nam have improved remarkably and continued into the next decade. The composition of the labour force also shifted; the number of unskilled labour has dropped by 20 percent from 2001 to 2011, while the number of workers ‘trained at work only’ has increased by 20 percent (General Statistic Office, 2008–2011; MOLISA, 2006–2007). This condition followed was by higher wages and productivity as shown in **Table 3.4**.

Thus, the recommendation from Lim (2015) as mentioned in the earlier part of this chapter (II.3 on remunerative employment) on investing in labour skills is supported and highly recommended.

**Table 3.4. ASEAN Labour Education and Skills, Wage, and Productivity**

	Labour force (000s) <sup>(a)</sup>	Education and skills development <sup>(b)</sup>			Average monthly wage (\$) <sup>(c)</sup>	Labour productivity (constant 2005 international \$) <sup>(d)</sup>
		Literacy rate, ages 15+ (per cent)	TVET enrolment as share of total secondary enrolment (per cent)	Tertiary gross enrolment rate (per cent)		
Brunei Darussalam	186	95.4	11.4	24.3	...	100 015
Cambodia	7 400	73.9	2.3	15.8	121	3 989
Indonesia	118 193	92.8	18.0	27.2	174	9 848
Lao PDR	3 080	72.7	0.8	16.7	119	5 396
Malaysia	13 785	93.1	6.8	36.0	609	35 751
Myanmar	30 121	92.7	...	13.8	...	2 828
Philippines	41 022	95.4	...	28.2	206	10 026
Singapore	3 444	95.9	11.6	...	3 547	98 072
Thailand	39 398	93.5	15.4	51.4	357	14 754
Viet Nam	53 246	93.4	...	24.6	181	5 440

Note: "... " = data not available. 2013 labour force data, except for Brunei Darussalam (2011), Cambodia (2012) and Lao PDR (2010).  
Source: (a) Official national sources; ILO estimates; (b) Chapter 4, Table 4-1; (c) Annex F, Table F1-8; (d) Annex F, Table F2-4.

Note: TVET = technical and vocational education and training.

Source: ILO and ADB (2014).

Viet Nam’s experience shows that investing in three basics of infrastructure, health, and education is beneficial not only for the recipients but also for the whole country. In a larger and massive scale, China has also applied the policy focusing on the provision of key infrastructure (transport connectivity and electricity), education, and healthcare. China also provides an excellent example of a successful development story, transforming the country from dire poverty to one of the largest economies in the world during four decades.

While converging to universal access to basic education, ASEAN member states also work towards improving higher education. It is needed especially for improving the quality and sustainability of growth, including avoiding the middle-income trap.

Sakamoto (2015) identifies that critical challenges for higher education are to have affordable and high quality higher education. Regarding the context of ASEAN as community, she suggests that using a 'Unity in Diversity' approach will frame the cooperation to enhance the quality of higher education in ASEAN. The model consists of four interconnecting modules for learning: academic foundation, community service, regional placement, and incubation. If the modules are placed within the context of regional cooperation, it will not only improve the quality of domestic universities but also support the convergence of higher education in ASEAN. Some regional cooperation institutions have been working towards the model; for example, the ASEAN University Network accreditation programme has allowed credit transfer for exchange students.

Actions and strategies to provide universal access to basic education are as follows:

- Make education a public good, meaning that government intervention is needed and justified (Tullao, et al., 2015). Since the length of mandatory education will have fiscal implications for the country to finance it, a gradual approach can be used according to each country's condition. Thailand and Viet Nam may put the mandatory target increase from 9 years to 12 years school attendance.
- Put special effort to increase primary school survival rate and enrolment and completion of secondary school in Cambodia, Indonesia, the Lao PDR, Myanmar, and the Philippines. The problems that may be unique to each country or in each subnational region should be identified and addressed appropriately. The prevalence is higher in rural areas and amongst low-income families. Evidence from China shows that improved primary school availability has a significant positive effect on girls' middle school attainment (Li and Liu, 2014). A scholarship programme in Indonesia during the 1998 crisis had reduced dropout rate by about 3 percentage points (or 38 percent) and costs were recovered (Cameron, 2009). Thus, free and easy access is vital to improve enrolment rates in primary school. Aligning with relevant programmes in health (for example, supplementary food and medical checks in school) can give incentives to the poor and simultaneously support healthcare performance.

- Reach the unreached: build appropriate infrastructure to allow access for schooling/going to school, including using ICT, flying teacher, combination of home-open schooling, amongst others.
- Improve quality of schools and teachers to increase survival rate. Systemise capacity building domestically, teacher training, and teacher exchange as part of regional cooperation.
- Provide adequate funding through long-term loans borrowed through the state budget, reallocate expenditure posts, and increase private (including state-owned enterprises) participation.
- Encourage private participation by incentivising workplace training.
- Strengthen regional cooperation to facilitate best practices exchange and training for teachers.
- Accelerate harmonisation for MRA certification to widen labour market, facilitate knowledge exchange and technology spillover, as well as encourage greater connectivity through people and culture.

Tullao, et al. (2015) specifically suggest the following:

- A public–private mix in financing and operation.
- A supplementary food programme done in Malaysia, which provides breakfast, to improve attendance and address malnutrition can become good practice for other countries struggling with the problems of low survival rate.
- Using technology to provide distance learning as practised in some countries such as Thailand, Indonesia, Malaysia, and Singapore. At the regional level, the Southeast Asian Ministers of Education Organization (SEAMEO) Regional Centre for Innovation and Technology (SEAMEO INNOTECH) is a significant initiative to solving the education problems and addressing the needs of the ASEAN countries using innovative and technology-based solutions, training and human resource development, research and evaluation, ICT, and other special programmes (SEAMEO INNOTECH, 2014).
- On difficulties in measuring desirable outcomes, including present versus future outcomes, a pragmatic approach may be done by looking at the inputs. It is not important what outcomes should be pursued, but improvement in inputs can result in better outputs.

- Improving the quality of teachers is also important in light of the differences in the qualifications of teachers in the region. Even though an MRA has not been entered into for teaching, it may be said that the practice of inviting guest lecturers and undertaking faculty exchanges amongst member states are almost akin to the employment of foreign teachers. Teaching services have been quite mobile within ASEAN even without an explicit MRA, providing some credence for a potential MRA in teaching.

Further, the advancement of the ASEAN education system shall also cover higher education. Skilled labour is important to move member states into developed economies and avoid the middle-income trap. However, providing higher education is expensive. While 94 percent of total expenditure per student is devoted to core educational services at the primary and secondary levels of education, much greater differences are seen at the higher education level because of expenditures on R&D, which represent an average of 31 percent of total expenditure in OECD countries (OECD, 2013). Table 3.5 shows high variances of government spending for tertiary education in member states with the figures from Brunei Darussalam and Singapore comparable with those of the United Kingdom.

**Table 3.5. Expenditure per Student on Tertiary Education**

Country	% of GDP per capita	in PPP dollars	as % of total education
Brunei Darussalam	32.2	15,905	n.d.
Cambodia	27.8	606	14.5
Indonesia	23.8	1,088	18.9
Lao PDR	n.d.	n.d.	n.d.
Malaysia	60.9	9,753	37.0
Myanmar	11.8	n.d.	19.1
Philippines	9.7	366	12.0
Singapore	27.9	14,232	35.6
Thailand	21.3	1,909	13.8
Viet Nam	39.8	1,353	14.7
United Kingdom	25.6	15,862	44.0
United States	20.9	25,576	52.0

Notes: GDP = gross domestic product; n.d. = no data, PPP = purchasing power parity.

Sources: OECD (2013) and UNESCO Institute for Statistics. [www.uis.unesco.org](http://www.uis.unesco.org) (accessed 5 April 2015).

Sakamoto (2015) has particular suggestions for improving higher education in ASEAN:

- Excellence initiatives: Universities are asked to prepare a strategic plan, which will show how funding can provide them the opportunity to develop as an institution and reach higher status – hopefully achieving the rank of a world-class university. This initiative has been applied in China (The China 211 Project), the Republic of Korea (Brain Korea 21 Programme in 1999), and Japan (Global Centre of Excellence Project in 2001), as well as comparable programmes applied in Germany, France, and Russia.
- North–South capacity building: The findings from the International Association of Universities (Global Survey suggest that the ASEAN Community should consider providing excellence initiatives for all students regardless of socio-economic background and the opportunity to become involved in international activities. This could be accomplished through a north–south capacity building focusing on the six ASEAN flagship programmes currently in operation.
- ASEAN flagship programmes: They focus on biofuels, climate change, development and application of open source, early warning system for disaster and risk reduction, functional food, and health. Each programme is led by an ASEAN country, and thus a collaborative approach amongst ASEAN universities could result not only in north–south capacity building but also in north–south–south capacity building.

The implementation of the above-mentioned strategies is expected to make ASEAN member states achieve the following indicative outcomes in 2025:

- a.1. Net enrolment ratio in primary education: 100 percent
- a.2. Net enrolment ratio in secondary education, male and female: 85 percent minimum
- b. Survival rate in primary education ideally 100 percent by 2025, indeed preferably well before 2025
- c. Youth literacy rate, male and female ideally 100 percent by 2025, indeed preferably well before 2025.

### **3. Access to Universal Health Care and Promotion of Healthy Lifestyle**

On health sector development, MDGs performance has remarkable achievements in majority of ASEAN member states in goals #4, #5, and #6; yet more work needs to be done. Some indicators, such as maternal mortality ratio and child mortality, are still issues in some member states. The agenda of the ASEAN Vision Post-2015 has three major thrusts: promoting healthy lifestyle, strengthening health systems and access to care, and ensuring food safety.

The thrust of promoting healthy lifestyle covers seven thematic priorities, namely, (1) prevention and control of non-communicable diseases (NCDs), (2) reduction of tobacco consumption and harmful use of alcohol, (3) prevention of injuries, (4) promotion of occupational health, (5) promotion of mental health, (6) promotion of healthy and active ageing, and (7) promotion of good nutrition and healthy diet.

Thematic priorities in strengthening health systems and access to care consist of (1) universal healthcare (UHC), (2) health financing, (3) pharmaceutical development, (4) human resource development, (5) health-related MDGs, (6) traditional medicine, and (7) migrant's health. Meanwhile the thematic priorities in ensuring food safety area cover two issues: food safety, and potable water and sanitation.

Long and wide lists of health sector targets can exhaust limited resources. Given limited resources and challenging situations, especially for some member states, members should prioritise. At first, to continue the current achievement towards UHC and to have a healthy community that is ready to advance to the later stage of health issues, basic health should consistently be maintained. A healthy community should not and cannot be destroyed by basic illness that is actually preventable.

To have a healthy community, UHC is vital; it grants basic healthcare for all. The main and common challenges in ASEAN member states (except Singapore, Brunei Darussalam, Thailand, and Malaysia) are lack of health facilities and health personnel. Developing health infrastructure is not an easy undertaking; due to its specific characteristics, it takes longer time, more funds, and specific resources to train medical workers, especially specialists. UHC can be implemented gradually, given gradually increasing supply and other current constraints. The problem of fiscal capacity to finance UHC can be tackled, together with the same obstacle faced by

education and infrastructure sectors. These three sectors shall be approached and coordinated as a set of integrated and mutually inclusive objectives.

Countries in the early stages of UHC implementation usually suffer from inefficiencies sourced from immature regulatory systems or unprepared implementation. Improving efficiencies can be a useful way to have larger fiscal space and to progress to the more advanced stage.

The prevalence of under-5 mortality rate, infant mortality rate, and maternal mortality ratio are still high in most ASEAN member states. These countries also have lower figures of 'proportion of births attended by skilled health personnel' and a higher percentage of underweight children under 5 years old. Thus, having skilled health personnel available in healthcare facilities that are accessible by the public, especially in rural areas, is a key measure that should be pursued in the health sector.

Some countries face a shortage of health personnel and others have been struggling with distributional issues. UHC in Indonesia that was just launched last year still faces multifaceted challenges that are not unique for Indonesia; instead those are common problems faced during the early stage of a system's transition or reform. The first challenge is poor design of the insurance rule. The caveat of designing health protection is when it fails to protect the system from moral hazard; instead it induces moral hazard by not fencing out exit options from enrolment, providing no waiting time, very generous or unlimited services, and no prioritisation for the poor.

Indonesia's UHC recorded 103.88 percent claims in the first year, a rate higher than a sustainable one, which is set at around 90 percent target. Higher claiming caused by poorly designed implementing rules can induce moral hazard and push towards excessive demand. A sustainable insurance system must always link the benefits closely with the premiums paid. Indonesia's UHC suffers loss because the tariffs are set lower than the cost. Increasing budgets to compensate the loss is not a sustainable solution. Instead it induces further moral hazard – including from the management body given no sanction system is in place – and creates an illusion of fiscal adequacy.

Second, the currently uneven distribution of health facilities and health personnel favours urban areas. Private sector participation is also concentrated in cities with high demand from the rich. This also creates a significant quality gap between urban and rural areas. Uneven distribution also provides less chance to increase supply side in rural areas, since

resources are not enough to establish medical training institutions in the rural areas.

Third, the owner of the programme – the authority – does not pay serious attention to the whole administrative system. No reports or analyses on the relationship between actual unit cost and service are provided; health workers often handle administrative work without proper training on governance issues; no procedure is systemised to tackle the issues of potential moral hazard done by patients, doctors, or health service providers, as well as overemployed and underpaid doctors in big public hospitals due to uneven workload. With no robust and convincing analysis on the whole system, the management and the government have no solid argument to ask parliament for reforms.

The Thailand UHC system has been regarded as one of the successful examples. It consists of three major schemes, namely, (1) Civil Servants' Medical Benefit Scheme, (2) Social Security System's Medical Benefit, and (3) Universal Coverage Scheme or the National Health Security Programme. Each scheme has been developed and implemented for different groups of beneficiaries. Different management bodies with different costs and packages are indicated to lead to inequality of health benefits and inefficiency due to duplicate administration and management (TDRI, 2013). However, Thailand has achieved universal coverage (uncovered citizens are 0.12 percent) and remarkable achievement in MDGs for education and health sectors given its size and diversity across its regions.

The lessons from the experiences of various countries in implementing UHC are worth attention, especially for other countries that have not yet implemented UHC. **Table 3.7** summarises the major issues and challenges of ASEAN member states in implementing UHC. Amongst the important challenges are elaborated further as follows:

a. Financing and fiscal space. Similar to education, a good healthcare system is expensive. Financing usually becomes a major obstacle in healthcare provision including in developed economies. **Table 3.6** shows health expenditure in three forms: (1) as a percentage of GDP, (2) government spending as a percentage of total budget, and (3) out-of-pocket payment as a percentage of private expenditure on health. The first two figures have increased in ASEAN from the last decade, except for Brunei Darussalam, Cambodia, and Myanmar. Out-of-pocket spending is also increasing in Indonesia, Malaysia, and the Philippines, showing the possibility of adjustment from under-spending condition, or increasing service costs



that may include new technology or wider access to private providers, or regressive government health expenditure towards private health expenditure. The burden of out-of-pocket cost can be an obstacle for accessing health service and health compliance, especially for the poor. Nevertheless, adequate financing is a necessity, but it is not sufficient without improving efficiency and allocating it properly.

**Table 3.6. Health Expenditure according to GDP, Government Expenditure, and Out-Of-Pocket Expenditure in ASEAN Member States (2000 and 2011)**

Country	Total exp. on health in GDP, 2000/2011 (%)	General gov't exp. on health, 2000/2011 (%)	Out-of-pocket, 2000/2011 (%)
Brunei Darussalam	3.0/2.2	6.3/6.2	98.8/97.8
Cambodia	6.3/5.6	8.7/6.2	89.6/80.3
Indonesia	2.0/2.9	4.5/6.2	72.9/76.3
Lao PDR	3.3/2.8	5.8/6.1	91.8/78.2
Malaysia	3.0/3.8	5.2/6.2	77.6/79.0
Myanmar	2.1/1.8	8.6/1.5	100/93.7
Philippines	3.2/4.4	8.4/10.2	77.2/83.5
Singapore	2.7/4.2	6.2/8.9	95.7/94.1
Thailand	3.4/4.1	11.0/15.3	76.9/55.8
Viet Nam	5.3/6.8	6.6/10.1	95.6/83.2

Notes: GDP = gross domestic product.

- Total expenditure on health as a percentage of gross domestic product (2000/2011).
- General government expenditure on health as a percentage of total government expenditure 2000/2011.
- Out-of-pocket expenditure as a percentage of private expenditure on health 2000/2011.

Source: World Health Statistics (2014) from Kumaresan and Huikuri (2015).

**Table 3.7. Challenges in Providing Universal Health Care**

Issues	Policy options
Lack of budget	<ul style="list-style-type: none"> <li>- Careful design to prioritise the poor for which the services should be focused on to address critical challenges of unachieved MDGs</li> <li>- Regional and global support, especially in providing affordable medicines and equipment</li> </ul>
Inadequate number of and distribution of health personnel	<ul style="list-style-type: none"> <li>- Incentivise doctors to serve in rural areas</li> <li>- Liberalise health education with a foreign partnership scheme (specific regulation for each country might be applied)</li> <li>- Harmonise regulations amongst member states to facilitate movement of health workers</li> </ul>
Reach the unreached	<ul style="list-style-type: none"> <li>- Public–private partnership scheme</li> <li>- Redistribute physicians to cover isolated areas with proper scheme</li> <li>- Establish centres of specific diseases in accordance with regional specific challenges</li> <li>- Strengthen surveillance system</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>- Careful choices of mandatory services</li> <li>- Stage plan to achieve full mandatory enrolment</li> <li>- Design the rules at appropriate regulatory level</li> </ul>

Notes: MDG = Millennium Development Goals.

Source: Compiled by authors.

b. Uneven distribution of health personnel. The government can provide rural-biased incentive for general practitioners to encourage them to move from crowded and oversupplied urban areas. At the same time, the programmes should be accompanied by establishing adequate numbers of health facilities outside urban areas. Programmes – such as Doctor Services for Rural that once applied in Indonesia as mandatory and later turned into a voluntary programme, or similar programmes applied in Thailand (mandatory), in Australia (incentivised voluntary), or in other countries – are worth considering to improve doctors' redistribution. Middle-level health workers such as midwives and paramedics in rural areas should have their skills strengthened, be updated on progress in the medical field, and have access to specialists for immediate consultation (through ICT supporting system).

While redistribution of paramedics and general practitioners is manageable, the same methods are hard to apply in case of redistribution of specialists, especially those in rare fields. Thus, promoting healthy lifestyle and prevention programmes become importantly significant for the whole country, without exception.

c. Unreached by health facilities. A significant number of marginalised people based on ethnicity, religion, or geography should still be included in the healthcare system. The right to access basic healthcare services is a human right. Additionally, exclusion from the system means these people are outside the surveillance system. Communicable diseases and their new strains can spread uncontrollably and endanger many lives. This problem is also related to illegal immigrants that are outside the country's legal system. Moreover, some countries exclude non-citizens from the public healthcare service, making it costly for these people to receive health services.

d. Uninsured people. Expanding UHC coverage especially for newly implementing countries is challenging. Given limited fiscal and human resources, a typical trade-off is prioritising the number of people covered or increasing the benefits or reducing out-of-pocket payments. A large number of insured with low level of benefits are usually perceived as a pro-poor approach, yet the number of complaints for the services and high administration costs is increasing. Designing the stages of UHC expansion should therefore be carefully considered.

e. Incentive design. The system should be carefully designed; otherwise, it would risk heavy misuse. Potential sources of system misuse are (1) unnecessarily generous coverage that induces 'doctor shopping' and discourages prevention efforts; (2) prioritising less urgent services; (3) inefficient resource allocation (health workers, types of hospital, amongst others); and (4) weak check and balance system that can be abused by health providers and patients. These problems should be understood from the 'economic incentive' point of view, to avoid wasting limited resources.

f. Implementation issues. Before entering the implementation stage, the government should develop strategies of implementation as well as a monitoring and evaluation system. The pathway of implementation includes (1) building and mapping database of supply and demand; (2) providing standard operating procedures as well as guidelines, alignment with previous programmes, socialisation of the programme with stakeholders (health workers and administrators, related insurance companies, healthcare card holders, media, amongst others); (3) providing a back-up system, fast and

efficient dispute settlement, and stages of gradual implementation (both on supply and demand sides). On the operational stage, a monitoring and evaluation system is important to ensure that the system is responsive to feedback and can be improved in an effective way.

Further, the prevalence of communicable diseases, non-communicable diseases (NCDs), and injuries as causes for mortality is also high in ASEAN member states. Communicable diseases are influenced by several factors, including socio-economic, environmental, and behavioural, as well as international travel and migration. Most NCDs are preventable by enabling health systems to respond more effectively and equitably to the healthcare needs of people with NCDs, and influencing public policies in sectors outside health that tackle shared risk factors – tobacco use, unhealthy diet, physical inactivity, and the harmful use of alcohol (Kumaresan and Huikuri, 2015).

Having UHC cannot address all health problems. At least two vital aspects should be implemented simultaneously: (1) prevention from diseases and promotion of healthy lifestyle, and (2) the enabling environment to support a healthy community.

**Table 3.8. Challenges in Combating Non-communicable Diseases**

Issues	Policy options
Lack of baseline data	- Improve and standardise database
Budget	<ul style="list-style-type: none"> <li>- Reallocate funds to focus on prioritised targets</li> <li>- Find optimum formulation by estimating cost–benefit analysis of having low coverage but sufficient benefit vs. wide coverage but low benefit</li> <li>- Promotion of healthy lifestyle does not need to be an expensive programme</li> <li>- International cooperation</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>- Coherent and solid regulatory framework to reduce risk factors of NCDs, especially in tobacco control, harmful consumption of alcohol, road and occupation safety, drugs control, food safety</li> <li>- Law enforcement</li> </ul>
Most of the drivers of NCDs and their risk factors lie outside the health sector	<ul style="list-style-type: none"> <li>- Put multidimensional goals as national effort</li> <li>- Call for all stakeholders to cooperate and make measures for each sector</li> </ul>

Issues	Policy options
Human resources	<ul style="list-style-type: none"> <li>- Lack of doctors and specialists: allow cooperation with foreign medical institutions/schools to open/expand medical schools/training in host countries. There could be country-specific adjustment in order to fulfil the demand without sacrificing local schools.</li> <li>- Distribution of specialists: map the demand of specialists based on prevalence and potential risks of each region, design appropriate medical school/training to fill the gap, redistribute excess supplies of doctors with appropriate incentives, possible arrangement with an MRA on medical specialists.</li> </ul>
Misperception or myths	<ul style="list-style-type: none"> <li>- Campaign for healthy lifestyle includes promoting awareness of NCDs risks especially to all adults.</li> </ul>

Notes: MRA = mutual recognition arrangement, NCD = non-communicable disease.

Source: Compiled by authors.

Living in a healthy environment is also a prerequisite to maintain healthy people especially children, pregnant mothers, and aged people; it means that basic infrastructure, particularly clean water, proper sanitation, electricity, and adequate space, should be provided for free or at an affordable price.

Food safety, proper sanitation, and access to clean water are equally important as basic healthcare. In 2012, around two-thirds of people in Cambodia, half in Indonesia, one-third in the Lao PDR, and one-fourth in Myanmar, the Philippines, and Viet Nam had no access to improved sanitation (ADB, 2014a). It was a challenging situation given the size and constraints. Rapid urbanisation often exceeds the speed of urban governments in providing adequate facilities. However, some actions can be useful and have already been proven successful in other cities, such as wider and more incentive for community participation and public–private partnership to improve efficiency and expand services (**Table 3.9**).

**Table 3.9. Challenges in Ensuring Food and Water Safety**

Issues	Policy options
- Food inspection	<ul style="list-style-type: none"> <li>- Authority at both national and regional levels</li> <li>- Common regional standards and inspection procedures</li> </ul>
- Poor logistics and inventory system (food is	<ul style="list-style-type: none"> <li>- Improve supply chain system</li> </ul>

Issues	Policy options
spoiled during transportation)	<ul style="list-style-type: none"> <li>- Enhance warehouse management to improve efficiency and reduce cost of inventory</li> <li>- Utilise simple and economical refrigerating system for transportation and inventory</li> </ul>
<ul style="list-style-type: none"> <li>- Usage of uncontrolled groundwater well and unclean water resources (river, lake, etc.) – tragedy of commons</li> </ul>	<ul style="list-style-type: none"> <li>- Standards of utilisation and enforcement</li> <li>- Public–private partnership /privatised services for clean water</li> </ul>
<ul style="list-style-type: none"> <li>- Sanitation (waste management, sewerage system, hazardous materials)</li> </ul>	<ul style="list-style-type: none"> <li>- Community participation</li> <li>- Public–private partnership /privatised services for sanitation</li> <li>- Standards of waste management</li> <li>- Clean technology for waste management</li> </ul>

Source: Compiled by authors.

Strategies and actions in health sector include:

- Prioritising ASEAN Post-2015 Health Development Agenda. Suggested top priorities are:
  1. Maintain good achievements and improve MDGs on basic health (#4, #5, #6)
  2. Universal health coverage (UHC)
  3. Migrant’s health
  4. Prevention and control of communicable diseases
  5. Prevention and control of NCDs
  6. Promotion of healthy lifestyle
- Promote productive ageing, by establishing the necessary services and facilities for the elderly to support their quality of life and to facilitate their contribution to society (Kumaresan and Huikuri, 2015; Asher and Zen, 2015). This is also part of improving fiscal efficiency efforts that provides opportunities for the elderly to keep contributing to the economy and to reduce healthcare expenditure.
- Harmonise regulatory regimes across ASEAN member states to reach agreement in specialised areas (medical workers and medical education/school) which allows less strict labour and investment flows.

- Strengthen ASEAN cooperation with regional, subregional, and international organisations. Invite the private sector to participate (Kumaresan and Huikuri, 2015).
- Use both social and economic perspectives as the rationale for pushing towards better health and education status, especially inclusive growth arguments. Benefits resulting from improved health and education status are obvious but are often not highlighted in policymaking, leading to low prioritised efforts.

Further, to support and provide a healthy and sufficient foundation in improving the learning process and a healthy life, infrastructure should also be provided. The main functions of infrastructure to support education and health are:

- Provide access to education and health facilities.
- Improve the quality of life with a healthier environment, such as clean water, proper sanitation, adequate light at night, and clean ecosystem.
- As a prerequisite for inclusive growth through facilitating people (both in urban and rural areas) to get better connectivity. Greater connectivity opens opportunities for exchanging knowledge, accessing market opportunity, reducing transaction costs, cutting travel time and cost, speeding up processes, enlarging social economic networks, simplifying procedures, widening options, and increasing both supply and demand.
- Studies have proven that infrastructure has important and significant impacts on productivity output and poverty alleviation.

Challenges in providing adequate infrastructure include:

- Access to transportation is sometimes challenging. Reviewing and applying optimum spatial planning would offer larger options of connectivity, and be less constrained by typical infrastructure that was used to build in the country.
- Water resources and sanitation management are often regarded as less important targets in government programmes. Problems of underperforming indicators are usually due to poor regulatory systems (monopoly market or government-only provider), weak monitoring systems on health standards, and inexperienced city administration especially in rapidly urbanised areas.
- Geographically challenging countries, such as Indonesia and the Philippines, have remote areas that are not economically feasible for power

investment plans, given their economies of scale for conventional electricity provision. This part will be elaborated more in Chapter 4, Energy Poverty and Clean Energy Provision.

- Apart from large- and medium-scale infrastructure provided for urbanised areas, governments should also offer small- and micro-scale infrastructure customised for remote villages. This type of system usually benefits from local uniqueness, local culture, and solid community participation.

Strategies and actions to address the challenges:

- Strengthen urban administration nationally and promote knowledge/experience exchange amongst leaders in the region (say, amongst mayors, governors).
- Review and coordinate with environmental authorities to standardise and monitor the use of underground water.
- Make sanitation an integral part of both health and infrastructure programmes at all tiers of government (national and subnational programmes with cooperation of regional efforts). Exploring public–private partnership schemes to provide water and sanitation facilities merits consideration. Investigate the possibility of utilising local advantages in providing small and micro infrastructure. Management of fiscal incentives can be directed to design incentive systems and monitoring tools for central governments to encourage subnational governments’ contribution in providing local infrastructure.
- Prepare for adopting technology that enables the use of suitable alternative energy (solar or wind, amongst others) to allow remote areas to have sufficient electricity access.

Indicative targets for 2025 in health sector are as follows:

- Reduce by one-third the percentage of stunted and wasting children below 5 years of age.
- Reduce by one-half the mortality rate of children below 5 years of age for Cambodia, Indonesia, the Lao PDR, Myanmar, the Philippines, Thailand, and Viet Nam; reduce to or maintain at 10 per thousand live births or less for Brunei Darussalam, Malaysia, and Singapore.
- 100 percent immunisation rate against measles and DPT.<sup>7</sup>

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<sup>7</sup> Which are diphtheria, pertussis (whooping cough), and tetanus, to be administered until the final third dose (DPT3).



- Reduce the maternal mortality rate by two-thirds in Cambodia, Indonesia, the Lao PDR, and Myanmar; by one-half in Malaysia, the Philippines, Thailand, and Viet Nam; and maintain at 15–28 per 100,000 live births for Brunei Darussalam; and at less than 10 per 100,000 live births for Singapore.
- Births attended by skilled health personnel should be no less than 90 percent of live births.
- Reduce by one-half the incidence of malaria and tuberculosis per 100,000 population.

**Table 3.10** shows the key influential points of the three basic sectors.

**Table 3.10. Key Points for Education, Health, and Infrastructure in ASEAN Member States Post-2015**

Category	Education	Health	Infrastructure
Input	<ul style="list-style-type: none"> <li>• Quality teachers</li> <li>• Healthy pupils (H, I)</li> <li>• Decent and accessible schools/facilities (H, I)</li> <li>• UHC (regulated)</li> </ul>	<ul style="list-style-type: none"> <li>• Quality medical workers</li> <li>• Sufficient and accessible health facilities (I)</li> </ul>	<ul style="list-style-type: none"> <li>• Quality infrastructure</li> <li>• Renewable energy sources (E)</li> <li>• Environmentally complied infrastructure (buildings, roads, water/sanitation, etc.) (E)</li> <li>• Road to open isolated regions/valleys</li> <li>• Electricity for everyone</li> <li>• ICT</li> </ul>
Process	<ul style="list-style-type: none"> <li>• Safe and healthy learning process (I)</li> <li>• Well-designed curriculum</li> <li>• Match with current and future labour market demand</li> <li>• Creative learning</li> <li>• Participatory process</li> <li>• Adaptive</li> <li>• Compatibility with regional and global standards</li> <li>• Share ASEAN identity</li> </ul>	<ul style="list-style-type: none"> <li>• Safe working environment</li> <li>• Proper ratio of patients to medical worker</li> <li>• Proper state intervention to minimise moral hazard</li> <li>• Participative (E)</li> <li>• Preventive before curative (E, I)</li> <li>• Promote healthy lifestyle (E, I)</li> <li>• Integrated with programmes in education and infrastructure (E, I)</li> <li>• Controlled population (E)</li> </ul>	<ul style="list-style-type: none"> <li>• Adopting climate change principles (E)</li> <li>• Domestic to regional/global connectivity</li> <li>• Consideration of zonation: production centres, markets, urban-rural connectivity, etc.</li> <li>• Anticipate rapid urbanisation (E, H)</li> </ul>

Category	Education	Health	Infrastructure
		<ul style="list-style-type: none"> <li>• Continuous effort to improve medical training centres/ schools (E)</li> </ul>	
Output	<ul style="list-style-type: none"> <li>• Education indicators</li> <li>• Cultured and creative youths</li> <li>• Skilled workers</li> </ul>	<ul style="list-style-type: none"> <li>• Health indicators</li> <li>• Ability to cope with advanced medical methods</li> <li>• Controlled communicable diseases</li> <li>• Integrated database</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure indicators</li> <li>• Green indicators</li> <li>• Utilisation of ICT to support education and health sectors</li> <li>• Sufficient infrastructure for vital facilities</li> <li>• Cost efficiency</li> <li>• Sustainable infrastructure</li> </ul>
Regional level	<ul style="list-style-type: none"> <li>• Regional accreditation</li> <li>• Credit transfer, joint programmes, teachers and students exchange</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperation to handle communicable diseases</li> <li>• Cooperation in the forms of knowledge sharing, laboratory enhancement, science development, etc.</li> <li>• Cooperation with international organisations (WHO, IRC, UN bodies etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Connectivity in transportation and energy</li> <li>• Regional cooperation to finance and build infrastructure</li> </ul>

Notes: ICT= information and communication technology. The parentheses show influential factors: E = level of education, H = health literacy and status, I = infrastructure sufficiency.

Source: Compiled by authors.

## **IV. Social Assistance and Protection in ASEAN**

### **1. Social Protection and Social Protection Floor**

Social protection has become an indispensable policy measure to improve the well-being and insure against many vulnerabilities of the people, be it based on the logic to pursue higher growth, or based on the rights of the people. There are varying definitions of social protection. ADB (2010) defines social protection programmes to include (1) social insurance to cushion risks associated with unemployment, poor health, disability, work injury, and old age; (2) social assistance for groups with no other means of adequate support such as social services, conditional/unconditional transfers, and temporary subsidies; (3) other schemes to assist communities and the informal sector.

In making sense of the characteristics of a country's social protection system, ADB utilises the Social Protection Index (SPI) to highlight the importance of major social protection programmes and assess their depth and breadth and distributional impacts. Although it is not a comprehensive tool, the SPI is useful to judge the condition of social protection systems, which comprise social assistance, social insurance, and labour market programmes.<sup>8</sup>

In 2009, eight countries in ASEAN had an average GDP per capita of \$6,678, where the average social protection spending is only 2.6 percent of GDP. This low rate might be due to a relative lack of commitment to expanding social protection, the importance attached to other development priorities, or a historical legacy of past practices. Viet Nam has the highest spending ratio, at 4.7 percent of GDP, which is significantly higher than that in Malaysia, Singapore, and Thailand, all of which have a spending ratio below 4 percent. The other three countries (Cambodia, Indonesia, and the Lao PDR) spend only around 1 percent of their GDP on social protection. For some countries in ASEAN member states with relatively higher incomes, such as Malaysia, Singapore, and Thailand, the expenditure ratio for social protection expressed as a percentage of GDP is relatively low, only in the range of 3.5–3.7 percent, which does not seem high enough for their income per capita.

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<sup>8</sup> The ADB 2010 study only included Cambodia, Indonesia, the Lao PDR, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam (excluding Brunei Darussalam and Myanmar).

The 2009 SPI for ASEAN is at 0.095, which means that on average, ASEAN countries (excluding Brunei Darussalam and Myanmar) spent almost 2.5 percent of their GDP per capita for social protection.<sup>9</sup> According to the unweighted SPI score, social insurance dominates other forms of social protection in ASEAN member states. By component, social insurance spending excelled compared to the social assistance and labour market programmes. In this regional mix of high-, middle-, and low-income countries, only the social insurance SPI is relatively high (0.152). Malaysia, Singapore, and Viet Nam have extensive social insurance systems, but they have relatively high incomes or a transition background. In Malaysia, social insurance makes up over 93 percent of all social protection expenditures.<sup>10</sup> Retirement benefits dominate, either through the government pension scheme or through the private Employees Provident Fund. But overall, Malaysia's social insurance reaches only about 1 million beneficiaries (out of a total population of about 28 million in 2009). This imbalance appears to be common in Asia and the Pacific. Thus, a key policy challenge is how countries throughout Asia and the Pacific can expand beyond their narrow systems of social protection, which are often dominated by social insurance, which in turn benefits only a small number of the population.

Narrowness is particularly characteristic of contributory social insurance such as pension systems. The most common programme that is part of the category of 'other forms of social insurance' in Asia and the Pacific is the provident fund, which is a type of savings system that is often used to finance pensions, particularly in the private sector. However, these savings can be drawn on in some cases for other purposes, such as buying a house or covering medical expenses.

Southeast Asia's social assistance SPI is the lowest of any region (0.039). Only Indonesia, the Philippines, and Thailand – sizeable middle-income countries – have significant programmes. This lack of social assistance in Southeast Asia, which has the second-highest average GDP per capita of all regions, is a matter of concern, especially as financial capacity in many of the region's countries should not be a major

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<sup>9</sup> For better understanding on how SPI is calculated, see ADB (2012b).

<sup>10</sup> In Singapore, social insurance also accounts for 93 percent of all social protection expenditures. Health insurance accounts for 17 percent while the compulsory comprehensive savings plan accounts for most of the remaining 76 percent. This country's social insurance reaches about 1.8 million beneficiaries, out of a total resident population of 3.8 million – a good performance by the standards of Asia and the Pacific.

constraint. The region's SPI for labour market programmes is even lower (0.026) than its social assistance SPI. However, its labour market programme SPI is still higher than that of Central and West Asia (0.004). No country in Southeast Asia – except the Philippines – has a noteworthy labour market programme.

ASEAN's breadth of coverage – meaning the receipt of the social protection programme to the intended recipient – is about 47 percent. Its success is most significant for social assistance at about 62 percent, while the breadth for social insurance is at about 47 percent. Since many countries in this region are at least at middle-income level, they should be striving to boost their coverage rates substantially, by moving perhaps to more universal forms of social insurance.

On the issue of gender equity, ASEAN falls behind, as the disaggregation of the SPI based on gender (which measures gender equity of recipients of social protection) stands at 44.2 percent. It means that females receive slightly smaller benefits than males. Women benefit decidedly less from social insurance than from social assistance, largely owing to their lack of access to formal sector employment, which is usually the prerequisite for being members of contributory insurance schemes.

The social protection floor (SPF) is one amongst the policy initiatives sounded by policy influencers to address, amongst others, the challenges of poverty and inequality. Going beyond the traditional social protection framework, SPF has been described as 'a set of nationally defined basic social security guarantees that enable and empower all members of a society to access a minimum of goods and services at all times' (Satriana and Schmitt, 2012). The SPF aims to achieve a situation where:

- All residents have access to affordable essential healthcare, including maternity care.
- All children receive basic income security including access to nutrition, education, care, and any other necessary goods and services.
- All persons of an active age who are unable to earn sufficient income, particularly due to sickness, unemployment, maternity, and disability, receive basic income security.
- All residents in old age receive basic income security through pensions or transfers in kind.

In adopting an SPF, a country will expand its social protection programmes to include the four basic components mentioned above. Such ambitious – albeit virtuous – goal does have its caveat. The ILO realises this, saying ‘... not all countries will be able to immediately put in place all components for the whole population,’ but continues to argue that ‘the social protection floor provides a framework for planning progressive implementation that ensures a holistic vision of the social protection system and that exploits synergies and complementarities between different components’ (Satriana and Schmitt, 2012).

For the people of ASEAN, determining the direction of their respective countries’ social protection policies will have a profound effect on the course of growth and thus development. Several countries have actually had social protection programmes in place, which are similar with the components of ILO’s SPF. However, there is great disagreement with respect to unemployment benefits, and it is best not to consider this as part of the social protection floor for ASEAN member states. Nonetheless, sickness, maternity, and disability support for workers are important elements of a good industrial relations regime for the region.

## **2. ASEAN Social Protection Floor**

In substance, social assistance and protection works to ensure that the basic needs of the targeted poor and vulnerable groups are covered. Challenges are limited fiscal resources and capacity to reach universal coverage. Since the ILO has defined the SPF measurements, ASEAN member states can use them according to an individual country’s preference. However, regional wise, member states have diverse challenges, capacity, and status, that make ILO’s SPF hard to achieve, and if fully adopted can shift aside other urgent tasks.

It is proposed that ASEAN develops an SPF with these three basic components:

- a. The basic income security for older persons, in view of the rapidly rising share of the aged to total population in a number of member states;
- b. Social services and protection for migrant workers in view of the large number of migrant workers in the region; and
- c. Assistance to the poor during disasters.

The reason that the ASEAN SPF does not include #1 and #2 of ILO’s SPF is that primary healthcare (including children and maternal services),

income security, and education security for children are already covered in UHC and education-for-all programmes. Thus, the main difference with ILO's SPF is that ASEAN's SPF does not include unemployment benefits since this can be covered by pension insurance and it is expensive for emerging economies in terms of managing moral hazard and work disincentives, as well as fiscal liabilities. On the other hand, the ASEAN SPF encompasses two crucial issues. The first is social protection for migrant workers to accommodate and anticipate regionalisation. With increasing numbers of migrants in the region, it is imperative to manage it seriously because of the large impact of benefits and costs. Second is social assistance for those severely hit by natural disasters to manage one of the important real problems in this disaster-vulnerable region. Studies show that post disaster, the poor are the ones that recover slower; subsequently, prolonged poverty can lead to poverty trap with higher social and recovery costs.<sup>11</sup>

To make the regional SPF workable, it is proposed that ASEAN member states develop an ASEAN Social Protection Adequacy (SPA) Index to elaborate measures and targets at national and regional levels, and to ensure that the region works progressively to tackle these three important issues. For inputs, some dimensions merit further consideration:

- a. On basic income security for the elderly:
  - Subsistence allowance (social pension) for those without pension benefits
  - Combination of cash and in-kind transfers
  - Inclusion of UHC
  - Facilitation for productive engagement for the elderly
- b. On the protection of migrant workers:
  - Equal access for all migrants for emergency services and epidemic control
  - Equal access for all legal migrants for healthcare and portability in healthcare–pension insurance
  - Employers shall enrol all migrant workers in the company into healthcare insurance
- c. On social assistance for the poor affected by natural disaster:

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<sup>11</sup> Hallegatte, et al. (2007) and Hallegatte and Dumas (2009) showed that short-term constraints for recovery can cause poverty traps and result in reduction of long-term macroeconomic growth rates.



- Facilitation for having financial access to help the victims start life/business
- Prioritising the poor to receive housing assistance
- Scholarships for the child victims
- Prioritising the poor to be included in vocational training

The components of the index may include:

- Coverage of risk (for example, old age, workers injury and severance, sickness, medical care, maternity, invalidity)
- Legal and effective coverage of persons (for example, migrants, old people)
- Efficiency and effectiveness of administration of the instruments and institutions (for example, administrative costs relative to efficient reference institutions, financial sustainability)
- Nature and degree of protection (for example, contributory, non-contributory, social protection floor)
- Systemic issues (complementary reforms, tiering of social protection, financing and budget reforms)

**Social pension.** Most people in ASEAN economies will age at relatively low incomes, and the pace of ageing will allow for a small window of opportunity in terms of time to adjust the design of pension programmes and to reform institutions needed to support social protection systems. The demographic trends and trends on labour force participation rates suggest that greater funding through transfers primarily from the government would play an important role in providing old-age income security through pensions. Three dimensions of pension coverage need to be tackled: (1) the number of people covered by the various forms of insurance against risks during old age, (2) the range of risks covered, and (3) the adequacy of pension benefits that covers both inflation risks and the variability of consumption over lifetime. Legal and effective coverage as well as adequacy of benefits differ markedly amongst member states. The challenge for ASEAN post-2015 is how to gradually and effectively grow its support infrastructure for its senior citizens who can have affordable access to a bundle of services to allow productive ageing.

In this regard, Asher and Zen (2015) recommend the following:

- a. ASEAN member states, with the support and coordination of ASEAN, plan and develop capacities to support productive ageing for their citizens. Planning needs to be outcome based with clear outcomes,

concrete initiatives, time frames, and implied resource requirements and allocations. This initiative needs to be in tandem with the ASEAN social protection forum discussed below.

b. Improve the management and administration of the pension system and health care system, amongst others, to increase efficiency and generate resource savings. This includes enhancing professionalism that, together with strong regulations, would enable member states to provide higher levels of pension benefits from lower contributions than is the case now.

c. Promote financial education and literacy.

d. Invest in ‘evidence-based policy-relevant research on pensions and healthcare issues’ capability, such as strengthening databases on morbidity and mortality patterns, and individual’s and firm’s behaviour on savings and retirement.

At a regional level, the current discussion on social protection runs slowly and there is no expert and regulator forum to work on systematic programmes and responsive actions relevant to the dynamics of demographic and migration patterns in the region. For example, agreements on healthcare and pension portability discussed at high-level forums shall be backed by the findings and recommendations from this expert and regulator forum. The forums can commission task force(s) to conduct specific research and come up with robust findings and suggestions.

***Protection of migrant workers.*** The 2007 ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers reflects the concern in ASEAN on the welfare of migrant workers in the region, the majority of whom are lower-skilled or middle-skilled labour in the so-called 3d sectors – that is, dirty, dangerous, and difficult sectors – such as construction, fishing, and domestic work. One challenge is that the informal process of recruitment and migration is cheaper, faster, and more flexible than the formal process, resulting in a large number of informal workers amongst the region’s migrant workers. This adds to the challenge of providing access to social services by migrant workers. There is also little emphasis in utilising the opportunity of the migration process for improving the human capital of migrant workers.

To strengthen protection of migrant workers as well as improve their access to social services and opportunities for skills improvement, Hatsukano (2015) recommends the following:

- a. Create a more transparent and efficient recruitment formal process. 'It is important to promote official migration channels.' Other aspects of migrant workers' management need to be improved, including the administration process in the sending countries, sharing employment data amongst recruitment agencies to promote fair competition, monitoring systems, engaging local government in the issues, as well as clarifying employers' responsibilities.
- b. Training centres (or vocational training systems) should be established in the sending and receiving countries to increase migrant workers' productivity.
- c. The social welfare of migrant workers needs to be respected. A minimum standard across member states should be agreed upon.
- d. An MRA on lower-skilled workers and semi-skilled workers should be designed. This includes the harmonisation of the regulatory regime on migrant labour with the intention to protect their rights when they work, to provide uninterrupted pension security protection, and to obtain a standardised service for health and legal aid (related to their job).

In addition, drawing from Mathiapparanam (2015) and Asher and Zen (2015), the following are recommended:

- a. ASEAN member states should develop indicative, country-specific SPF pathways that will provide member states with goals, determination of social services of member state interest, and approaches for gradual implementation over time. ASEAN can facilitate harmonisation and coordination amongst member states in preparing such indicative SPF plans.
- b. Establishment of ASEAN best practices in the SPF, including conceptual framing and related measures, would benefit the region.
- c. A national task force on SPF could be set up with regional consultations from all communities for greater collaboration and synergies.
- d. Monitoring and evaluation as well as greater involvement by civil society in the process of SPF implementation.

## **V. Critical Issues and Regional Cooperation for Post-2015**

The discussion in this chapter covers the most critical issues on the efforts to have well and secured people: inclusiveness (remunerative jobs); determinants of inclusiveness (health, education, infrastructure, and social protection); and resilient community (as the outcome). These issues are interrelated and influential to one another. There are also challenges in terms of the diversity of the size, the characteristics, the capacity, and the depth of difficulties faced by each ASEAN member state. The diverse problems require different efforts of individual countries and of the region to converge towards a sustained and prosperous region.

However, the elaboration of key challenges and policy options leads to the following concerns:

- a. The need to improve efficiency and stimulate innovation;
- b. The efforts to reduce unnecessary and inefficient spending (prevention programmes, healthy lifestyle, productive ageing, and eliminate moral hazard, amongst others);
- c. The urge to create additional fiscal space and estimate future fiscal liabilities; and
- d. The importance of increasing non-government participation.

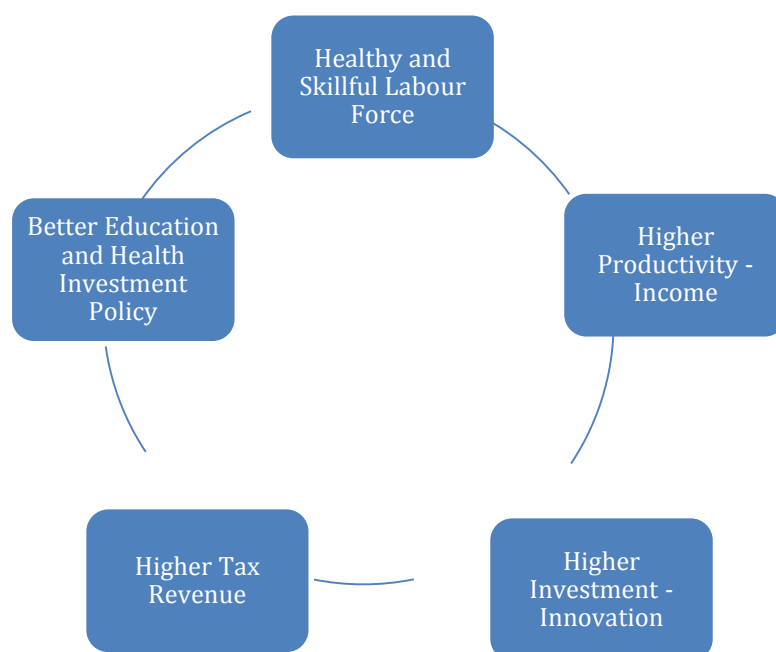
These factors are important, especially because the majority of member states are emerging economies that usually face problems of narrow fiscal space and limited sources of financing. Improving efficiency can be achieved by eliminating unnecessary programmes, reallocating funds according to prioritisation, fixing the loss, and redesigning programmes to have appropriate incentives. Innovation is increasingly relevant under a globalised economy and the efforts to boost productivity and quality. The tools consist of both soft and hard infrastructure, such as systems, software and hardware, technology, organisation, and financing models. Innovation can be applied in various stages and aspects of the programmes: planning, funding, implementation, and monitoring and evaluation.

Before launching a new public programme, the government should look carefully at the potential problems that can threaten its sustainability and its impact on economic stability. Amongst caveats in the social assistance programmes are generous subsidies without balancing these with fiscal capacity and without designing the optimal reduction of inefficiency.

Furthermore, the private sector can contribute to the success of programmes through financing and in-kind participation, coherent programmes with government objectives, applying local wisdom appropriate to localities, conserving common resources, enforcing informal transactions, direct community participation, and support from non-governmental organisations, amongst others. None of the economic and welfare objectives can be detached from private entities since there are major players in the economy: the state, market, and community. In the end, the goals of development are to develop human welfare in a sustainable way. It is a long and permanent journey and, therefore, should be planned and viewed with a long-term vision.

Human development is an individual basic right as well as an investment for the country. Human capital<sup>12</sup> is gained through developing education/skills, accumulative assets, and productive labour. Thus, elements of health and education are inseparable when talking about labour productivity. The nexus of investing on education and health with the economy is shown in **Figure 3.8**.

**Figure 3.8. The Nexus of Inclusive Growth**



Source: Compiled by authors.

<sup>12</sup> Human capital is productive wealth embodied in labour, skills, and knowledge (United Nations Glossary, NY, 1997).

Regionalisation provides both challenges and opportunities. With diverse endowment, capacity, and characteristics, the challenges vary across the region. As one community, one of ASEAN's main challenges is to realise the potential gains and to handle the problems wisely or even turn them into opportunities. At the regional level, efforts should be devoted to the following actions:

- a. Harmonisation to facilitate the services sector (health, education, and social security);
- b. Strengthen cooperation in knowledge exchange in all sectors including improved quality and coverage of survey statistics/database and technical cooperation.
- c. Initiate efforts to raise pool of fund(s) for tackling basic and regional issues, such as providing free basic immunisations, controlling communicable diseases, strengthening laboratory capacity, and disaster response.