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Narrowing the Development Divide in ASEAN: The Role of Policy

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Abstract

The Association of Southeast Asian Nations (ASEAN) is highly diverse. It is also divided. The most striking example is the development divide that separates ASEAN's newer members of Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam—the CLMV countries—from the organization's original members, or ASEAN-6. More rapid growth in Cambodia, Lao People's Democratic Republic, and Viet Nam since the 1990s—driven by trade, investment, and other market reforms—has reduced income differences between this grouping and ASEAN-6. Yet, while the development divide has narrowed, huge gaps remain. The further narrowing of these gaps will require an increase in the pace and breadth of policy reforms, and start addressing labor mobility. Although rapid growth has resulted in convergence among ASEAN members, it has also increased polarization within individual countries. This can threaten social cohesion and the sustainability of future growth. There is a pressing need to invest more in education and health, and to institute land reform.

Keywords: ASEAN, development divide, convergence, inequality, transition economies, labor mobility

JEL Classification: F15, O24

1. Introduction

Arguably the most striking characteristic of the Association of Southeast Asian Nations (ASEAN) region is its great diversity, which may be unmatched by any other grouping in the world. Indeed, its economic, political, cultural, and linguistic diversity is greater than even that of the European Union (Hill and Menon 2012). Partly as a reflection of the wide range of differences that exist, economic diversity within the region is also vast. Not only is ASEAN's economic diversity conspicuous—especially following the inclusion of Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam, which are collectively known as the CLMV countries—it is also very worrisome. ASEAN includes two high-income countries (Brunei Darussalam and Singapore), one upper middle-income country (Malaysia), five lower middle-income countries (Indonesia, Lao People's Democratic Republic, Thailand, Philippines, and Viet Nam), and two low-income countries (Cambodia and Myanmar).[1] In 2011, the per capita income of Singapore was some 50 times that of Cambodia, 40 times that of the Lao People's Democratic Republic, and more than 35 times that of Viet Nam (Table 1).[2] The average for the CLMV was less than a third of ASEAN's average. Although these differences are less striking when measured in purchasing power parity (PPP) terms, they remain large (Table 2). These economic differences have come to be known as the "development divide."

Members of the regional organization have committed themselves to realizing an ASEAN Economic Community (AEC) by 2015. The third pillar of the AEC Blueprint is Equitable Economic Development, which aims to "address the development divide and accelerate integration of Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam (CLMV) through the Initiative for ASEAN Integration (IAI) and other regional initiatives."[3] The reality is that neither the IAI nor other regional initiatives will have the resources, or the ability, to address the development divide. While aid can play a part, the solution must come from within the countries themselves. This will necessarily involve the adoption of policies that promote rapid economic development and economic convergence.

There is evidence to suggest that the process of convergence has started taking place within ASEAN as the newer members begin to catch-up to the economic conditions prevailing in the original member countries. Strong rates of economic growth since the 1990s—driven by trade, investment, and other market reforms—have reduced differences in per capita incomes. This rapid growth has also been associated with dramatic reductions in poverty. Notwithstanding these achievements, there is still a long way to go and much more needs to be done before the development divide is substantially narrowed.

1 This World Bank classification masks significant variation within the groupings; for instance, the Lao People's Democratic Republic crept up to lower middle income status in 2010, while Viet Nam did so in 2008, and both of these countries are situated at the lower end of this scale.

2 This multiple would be highest for Myanmar, at perhaps 60 or more, but data are particularly sketchy. Continuing with Singapore as a reference, per capita income was five times Malaysia's, while Malaysia's was four times that of the Philippines, and the Philippines' was about twice or more than that of the CLMV countries.

3 While we try and cover all four countries of the CLMV grouping as much as possible, we are sometimes forced to omit Myanmar and focus on Cambodia, the Lao People's Democratic Republic, and Viet Nam (CLV) when the data are either incomplete or unusually inconsistent.

Furthermore, while rapid growth in the CLMV countries has reduced per capita income differentials with other ASEAN members, the distribution of these gains have been uneven and income inequality within these countries has worsened. It would appear that inter-country differences in economic conditions are narrowing at the same time that intra-country differences are increasing. All kinds of intra-country inequities remain stubbornly high or have increased, including across geographical regions (rural–urban), along ethnic lines, and between genders. What is alarming is the increase in polarization, both economic and social, in these countries. These factors can threaten cohesion and pose major risks to social stability. High and/or rising income inequality can also threaten growth itself, as well as the poverty elasticity of growth.

This paper examines the extent to which economic convergence within ASEAN is occurring and the factors that are driving it. In analyzing the determinants of convergence, we look closely at the role that policy has played in the process. In particular, what are the gaps in policy that need to be filled, and the new areas that need to be addressed, to ensure that convergence continues? Finally, we look at whether the rapid growth required for catch-up by the CLMV countries can occur without further intra-country polarization. We begin in Section 2 with some theory, examining the conditions under which we can expect convergence to occur. Section 3 examines policies and experiences relating to ASEAN trade, investment, and labor flows. We document the rapid increase in trade and investment, and how it has contributed to rapid growth across the region, as well as the policies that have delivered these outcomes. The extent to which this growth has contributed to convergence, or the narrowing of per capita incomes, is examined in Section 4. Since the development divide is multi-faceted, we also examine outcomes in relation to a host of other social indicators in comparative perspectives. In Section 5, we identify gaps in the reform agenda that still require attention, and how future growth can be made more inclusive and therefore less threatening to social harmony. A final section concludes.

2. The Theory Underpinning Economic Convergence

A longstanding economics debate centers on the question of whether or not integrating economies converge in terms of per capita income, productivity, and technology. Some even trace this debate all the way back to the Scottish Enlightenment and the publication of an essay by David Hume in 1742 (Elmslie 1995).[4] Whatever its origin, and whenever it started, what is clear is that the debate continues to rage and remains largely unresolved. Theory offers some insights. One reason to expect convergence or catch-up is the difference in the marginal efficiency of capital between poorer and richer countries. With little access to capital, workers in poor countries have relatively low levels of productivity that can be raised substantially by increasing the amount of capital available to them by even a small amount. Unlike countries with higher capital–labor ratios, poorer countries have much more capacity for capital accumulation before diminishing returns set in.

[4] Elmslie (1995) claims that the ensuing “rich country–poor country” debate—between David Hume on the convergence side and Josiah Tucker on the non-convergence side—represents one of the first major doctrinal debates in economics.

There is also the latecomer's advantage hypothesis, which postulates that late adopters of technology may be better positioned because they can avoid mistakes and adapt to technologies in a way that benefits them more than early adopters, assuming that the technology is available for purchase or is easily diffused. This was noted as far back as Veblen (1915) and modernized by Gerschenkron (1952) as "the advantage of relative backwardness." In certain instances, they are even able to leapfrog early movers, further consolidating their advantage (e.g., by avoiding costly investments in telephone lines and focusing instead on mobile telephone infrastructure).

There is both anecdotal and empirical evidence to support these views on convergence. It is likely that differences in the productivity of capital accounted for some of the catch-up observed in the so-called newly industrializing economies (NIEs) of East Asia—Hong Kong, China; Republic of Korea; Singapore; Taipei,China—and when their incomes per capita rapidly converged with those of developed countries during the 1980s and most of the 1990s. Another oft-cited example is the rapid growth of Japan and Germany during the reconstruction period after the Second World War, compared with the United States (US) and the United Kingdom (UK).

A common element across all of these countries is a policy framework that was open and outward-oriented. Indeed, there is a vast body of cross-national statistical evidence linking trade and growth, and a positive association between economic openness on one side and growth and convergence on the other (Dollar 1992; Edwards 1998; Sachs and Warner 1995; Rodriguez and Rodrik 2001; Bhagwati and Srinivasan 2001; Rodriguez 2007). Greater openness appears to have played a huge role in this story of growth and convergence.

3. Trade, Investment, and Labor in the CLMV: Policy and Experience

The opening up of Cambodia, Lao People's Democratic Republic, and Viet Nam to trade and investment occurred almost concurrently in all three countries in the late 1980s. Cambodia's government was the first to embark on a market-oriented reform process in 1985. In the Lao People's Democratic Republic, the process of transition to a market-oriented economy began in 1986 with the implementation of the New Economic Mechanism, a major program of economic reforms. The opening of Viet Nam's economy to trade and foreign direct investment (FDI) was part of *doi moi* (renovation) reforms initiated in 1986.

3.1 Trade Policy and Experience

3.1.1 Trade Policy

Although unilateral policy actions drove reforms in the early stages, expanded economic cooperation through the Greater Mekong Subregion (GMS) program and then later through membership in ASEAN and the ASEAN Free Trade Agreement (AFTA) also played an important role. While the GMS program focused on the provision of much needed physical infrastructure, membership in AFTA committed countries to an ambitious program of tariff reduction on trade with ASEAN members. Cambodia and Viet Nam became members of the World Trade Organization (WTO) in 2004 and 2007, respectively, while, the Lao People's Democratic Republic is at an advanced stage in negotiations for WTO accession. The most important contributions of WTO membership to date have been to enshrine the principles of most favored nation (MFN) status and national treatment (NT), and to apply binding reductions in tariff rates.

In all three countries, trade reforms focused on reducing technical barriers, mainly in the form of tariffs, and converting quantitative restrictions into tariff equivalents (Menon and Melendez 2011). Although some progress has also been made in reducing trade costs through trade facilitation, this is where most of the remaining barriers to trade exist.

Trade facilitation activities are taking place under the auspices of the GMS program and ASEAN, in addition to unilateral and bilateral initiatives. Apart from hardware in the form of physical infrastructure construction, which increases connectivity and reduces transport costs, the GMS program has also tried to address complementary software issues by improving trade facilitation. A key initiative toward this end is the Cross-Border Transport Agreement (CBTA), a comprehensive multilateral instrument that supports a range of measures to facilitate trade, which in turn promotes integration. These include one-stop customs inspection; cross-border movement of persons (e.g., visas for persons engaged in transport operations); transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection; eligibility requirements for road vehicle cross-border traffic; exchange of commercial traffic rights; and infrastructure, including road and bridge design standards, road signs, and signals (ADB 2009).

A majority of the transport-related Annexes and Protocols to the CBTA were agreed to and signed by 2004/05, while Annex 6 on Customs Arrangements was agreed to and signed in 2007. Most of the GMS countries have also ratified the annexes and protocols. (Thailand has ratified 14 out of the 20 annexes and protocols, while Myanmar has yet to ratify any of the annexes and protocols.)

Initial implementation of the CBTA has been achieved at various border-crossing points, and an additional agreement has been adopted on additional border crossings for CBTA implementation, between the People's Republic of China (PRC) and Lao People's Democratic Republic along the North–South Corridor, and between Cambodia and Viet Nam along the Southern Economic Corridor. Agreement has been reached on a harmonized customs transit system (CTS), a core component of the CBTA. Implementation of the CTS will be undertaken by a public–private partnership that will include guarantees by private sector organizations to customs offices in transit countries. A CTS pilot project was established across the East–West Corridor from Viet Nam to Thailand—through the Lao People's Democratic Republic—in mid-2009. Agreement has also been reached on a GMS road transport permit system.

Apart from the CBTA, the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI), endorsed at the second GMS Summit in Kunming in July 2005, addressed issues in customs, sanitary, and phytosanitary (SPS) regulations, and other border management concerns and logistics development.

ASEAN has embarked on its own set of initiatives to improve transport and trade facilitation in the subregion. In 1998, it established the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGT), which is similar to the CBTA in intent and content. However, very little progress had been made in implementing trade facilitation reforms up until the adoption of the ASEAN Economic Blueprint in 2007. Included in the Blueprint are several aspects of transport and trade facilitation, including the harmonization and standardization of trade and customs procedures; customs modernization; integration of national single windows into an ASEAN single window (ASW); and harmonization of standards, technical regulations, and conformity assessment procedures. Complementing these initiatives are the ASEAN Framework Agreement on the Facilitation of Inter-State Transport, the ASEAN Framework Agreement on Multimodal Transport, and the Master Plan on ASEAN Connectivity, all of which aim to reduce the cost of moving goods across ASEAN's borders.

At their 39th meeting held in August 2007, the ASEAN Economic Ministers agreed to transform AFTA's Common Effective Preferential Tariff (CEPT) into a more comprehensive instrument and integrate ASEAN's various trade-in-goods initiatives under a single umbrella. This led to the signing of the ASEAN Trade in Goods Agreement (ATIGA) in February 2009. ATIGA addresses trade facilitation reforms by including the ASEAN Framework on Trade Facilitation. Subsequently, ASEAN developed the Trade Facilitation Work Program for 2009–2015.

These recent initiatives have provided the necessary impetus for trade facilitation reforms to move forward. The implementation of the AFAFGT and an ASEAN Customs Transit System (ACTS) has become a top priority and work toward this goal has since picked up speed. The Protocol to the AFAFGT has been completed, feasibility studies have been carried out, costing has been prepared, and a management environment has been proposed to which the member states will contribute staff. Nevertheless, the real test lies with actual implementation, and ASEAN's record is generally not good in this area.

Apart from these initiatives under the GMS and ASEAN, the CLMV countries have also been pursuing a number of transport and trade facilitation reforms either as part of their accession to the WTO or as parties to FTAs signed by ASEAN. These FTAs incorporate trade facilitation provisions and principles, which go beyond customs procedures, to include areas such as the use of information and communications technology (ICT), adoption of international standards, and risk management, with some agreements containing completely separate chapters or frameworks for trade facilitation (Duval 2011). In addition, a number of bilateral road transport agreements have also been adopted by neighboring countries in the subregion (ADB 2010). The pursuit of different modalities runs the risk of duplication and inconsistencies, and puts pressure on limited human resources. There is a need to focus on completing the multilateral framework, which should hopefully encompass and supersede all of these other initiatives.

3.1.2 Growth in Trade and Trade Openness

Although trade growth contracted in 2008 and 2009 as a result of the global financial crisis, in general, unilateral policy reforms and greater economic cooperation have led to positive trade growth in the GMS. With the exception of Myanmar, trade openness has increased throughout the region, with trade as a percentage of GDP above 100% in Thailand and Viet Nam. Cambodia's trade openness fell sharply after the global financial crisis, but recent data show a marked—albeit slow—recovery (Figure 1).

The direction of trade over the past 2 decades suggests an expansion in GMS' countries trade with the world and especially with each other (Figure 2). Cambodia's direction of trade may be the only exception to this general trend. In the 1990s, Cambodia's trade with the subregion accounted for about one-third of its total trade, on account of log and timber exports. However, this share has since declined, largely as a result of a ban on log exports and the growing importance of the US and European Union (EU) as export destinations. The PRC is also fast emerging as a major source of imports. The increase in Cambodia's intra-GMS trade in the latter part of the 2000s could have been mainly the result of falling demand for Cambodian exports in the US and the EU, as a result of the global financial crisis.

The larger GMS countries, Thailand and Viet Nam, have shown modest increases in subregional trade. As might be expected, these countries trade predominantly with the rest of the world and therefore have more diversified partners. Japan continues to be Thailand's biggest trading partner, although Japan's share has been steadily declining in recent years and is likely to soon be overtaken by the PRC. The PRC is already Viet Nam's leading trading partner, accounting for roughly 18% of its trade in 2010.

The share of intra-GMS trade in total trade has traditionally been higher for the subregion's smaller countries, the Lao People's Democratic Republic and Myanmar, reflecting both transshipment arrangements and limited commercial penetration beyond the immediate neighborhood.

Changing demand has helped transform the structure of exports from the subregion. In Cambodia, Thailand, and Viet Nam, there has been a clear shift in the export base away from primary commodities into manufactured goods. In Cambodia, this has been driven by garments exports, which account for the bulk of Cambodia's exports. In Thailand and Viet Nam, production fragmentation trade has become a critical part of export dynamism, with the share of machinery and equipment rising as a proportion of total exports.

However, while the shift toward manufactured goods has also led to a movement up the value chain in Thailand and Viet Nam, this has not been the case in Cambodia, where the garments sector remains predominantly low skilled and labor-intensive. Manufactured exports from the Lao People's Democratic Republic and Myanmar likewise remain predominantly labor-intensive and resource-based (Table 3).

3.2 FDI Policy and Experience

3.2.1 FDI Policy

Prior to reforms pursued in the late 1980s, all three CLV countries shared a common distrust of FDI. This perception has changed radically and all three are now highly receptive to FDI. Today, 100% ownership is allowed in most sectors, although each country retains an exemption list that covers sensitive sectors. Procedures governing the approval of investment projects have been streamlined and all three countries provide attractive investment incentives (Menon and Melendez 2011).

3.2.2 Growth in FDI

Along with trade, FDI in the subregion has also risen over the last 2 decades. In 2010, the subregion's total FDI stock amounted to US$209 billion. Cambodia and Viet Nam have FDI stock-to-GDP ratios well above the subregional average. In contrast, Myanmar's openness to FDI has declined since 1998. Historically, Thailand has been the largest FDI recipient in the region, but Viet Nam has been catching up in the last several years (Figure 3).

The source country composition of FDI is characterized by a clear, intra-ASEAN bias for the smaller GMS countries (Figure 4). Thailand has traditionally accounted for the bulk of these inflows.

That trade and investment are growing hand-in-hand in the subregion is no coincidence. Early signs are emerging of a trade–investment nexus in which trade not only encourages investment, but investment, in turn, encourages trade. For instance, in the Lao People's Democratic Republic, FDI in agriculture and forestry, and in mining and hydropower projects has contributed significantly to export growth. This is a virtuous circle that links back to economic growth.

3.3 Labor Migration Policy and Experience

3.3.1 Labor Migration Policy

Unlike the reforms relating to trade and investment, policies relating to labor flows remain piecemeal or non-existent. Although regional labor markets are becoming increasingly integrated, policies relating to cross-border movements continue to lag behind. The gaps in policies relating to labor flows exist in both sending and receiving countries, and both need to be addressed. Therefore, the challenges for policy relate to the governance of labor migration, protection of migrant workers, and harnessing of labor migration for economic development.

Here too, ASEAN has signed several formal accords since 2000, including the January 2007 ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers. However, implementation has been lackluster to say the least (Hill and Menon 2012). Intra-ASEAN labor flows occur independently of these arrangements and are largely market-driven, dictated by large inter-country wage differentials and porous borders.

3.3.2 Labor Flows

Although subregional labor migration has been occurring in the GMS for centuries, this trend has increased markedly in recent years (Tables 4 and 5). There appears to be significant amounts of informal flows within the region, and reported flows are likely to seriously underestimate the actual numbers. As expected, Thailand accounts for the bulk of total cross-border flows within the region, spurred by the country's growing need for low-skilled workers.

Migrant workers are fast becoming an important resource in Thailand, with most studies concluding that they account for approximately 1% of GDP (International Organization for Migration, Thailand Office 2011). Again, given apparently large but uncertain numbers of unregistered flows, this contribution is also likely to be an underestimate. This trend is expected to increase over time, although is it unclear what impact the establishment of the AEC by 2015 will have on these flows as the AEC only deals with movement of skilled labor.

In December 2009, there were 1.3 million registered migrants in Thailand from Cambodia, Lao People's Democratic Republic, and Myanmar, accounting for roughly 42% of the total migrant population in Thailand. The majority of these migrants were male (55%) and employed primarily in agriculture (17%), construction (17%), seafood processing (10%), and household work (10%) (Figures 5 and 6).

4. Economic Convergence and the Development Divide in the CLMV Countries

What is the experience in the CLMV countries with regard to catch-up or economic convergence and the narrowing of the development divide? Much higher rates of economic growth since the early 1990s in Cambodia, Lao People's Democratic Republic, and Viet Nam compared with the rest of ASEAN has reduced gaps in real per capita incomes in PPP terms (Table 2). Greater openness to trade and investment flows has played a huge role in this growth story.

As Figure 7 shows, the growth in per capita incomes in the CLMV countries has been among the highest in ASEAN. In 2000, the average real per capita income of the CLMV countries was about one-third of the average of the ASEAN-6, while today it is almost half. From Figure 8, using Thailand as a reference point, we can see that real per capita income growth in Cambodia, Lao People's Democratic Republic, and Viet Nam has been consistently higher than that of Thailand in the 2000s. As a share of Thailand's real GDP per capita, we can see from Figure 9 that there has been significant catch-up between 2000 and 2010. These data present clear evidence of economic convergence between the CLMV countries and the rest of ASEAN. Despite these notable achievements in narrowing per capita income differences, the gaps themselves still remain quite large. In 2010, real per capita incomes in the CLMV countries as a share of Thailand's real per capita income still ranged from only 23% to 37%.

Rapid growth has also translated into dramatic reductions in poverty. Irrespective of the measure of poverty, there have been dramatic reductions across the board (Table 6). Nevertheless, the level of poverty remains a relatively larger concern in the CLMV as it has been reduced to below 10% in the other ASEAN countries, except for the Philippines and Indonesia. In all countries except Viet Nam, most of the reductions in poverty have taken place in the urban sector. By and large, the poverty challenge is one rooted in the rural sector.

As noted earlier, the development divide is not confined to income differentials; it covers a host of human development and social indicators. Table 7 presents data on the human development index for about the last decade, while Table 8 covers a range of health and education indicators. Again, there have been improvements in all indicators over this period in the CLMV, and the changes have been more dramatic than in other ASEAN countries. As with income measures, however, and despite these dramatic improvements, differences in human development and social indicator levels between the CLMV and most other ASEAN countries remain stark. For instance, despite large improvements, maternal mortality rates in 2008 of approximately 600 and 300 per 100,000 live births in the Lao People's Democratic Republic and Cambodia, respectively, remain a serious concern. Similarly, while literacy rates are above 90% in almost all ASEAN countries, they remain below 80% in Cambodia and the Lao People's Democratic Republic. In sum, while marked improvements in living standards and human development outcomes in the CLMV have been impressive, particularly over the last decade, there is much room for improvement and challenges remain.

Various forms of inequality also characterize the CLMV, as well as the other ASEAN countries (Menon et al. 2011; ADB 2012). From Table 9, we find that income inequality as measured by the Gini coefficient rose in the 2000s in Cambodia and the Lao People's Democratic Republic, but fell slightly in Viet Nam. The Gini coefficient in Cambodia has remained above 40% throughout the 2000s, a threshold level considered to signify a highly unequal distribution. The same is true for Malaysia, the Philippines, and Thailand. Both the Lao People's Democratic Republic and Viet Nam are not far behind, with Gini coefficients above 35%. The same pattern can be observed for the income share held by the top 20% of the population, with Cambodia recording the highest share in ASEAN at almost 52% of income. The income share held by the lowest 20% fell in all three countries in the 2000s, further accentuating income polarization within these countries. The most recent data for these countries point to the bottoms 40% of the population having between only 16% and 19% of total income.

5. Remaining Policy Challenges to Narrowing the Development Divide

It is worth reiterating that the challenge of narrowing the development divide in ASEAN cannot be met by relying on programs of assistance alone, such as the IAI or other regional efforts. In this regard, the recent proposal to enlarge the ASEAN Development Fund by creating an ASEAN Convergence Fund (ADBI 2012), which would still to be financed by voluntary contributions of members but managed by professionals, may help but is unlikely to make a significant or lasting difference. One reason is that unlike in Europe, the better-off members of ASEAN from which most of the funds would presumably have to come from are either very small (Singapore and Brunei Darussalam) or relatively small (Malaysia). The richest country in ASEAN, Singapore, does not even have a formal aid program. Although the CLV have received quite substantial amounts of aid (grants and concessional lending) from both external bilateral donors and multilateral agencies, these aid flows will begin to taper-off as their development converges with the rest of ASEAN. In this sense, these countries are ultimately likely to be victims of their own success. Therefore, any discernable and sustainable narrowing of the vast gaps that continue to divide will have to come from more rapid growth in these countries themselves.

In order to grow at a rate that allows catch-up, additional policy reforms will be required. These relate to trade, investment, and labor, with each discussed in turn below. Finally, in order to retain social cohesion and ensure that future growth is sustainable, policies that promote greater inclusiveness need to be pursued.

5.1 Trade Policy

In relation to trade policy, there are two key outstanding issues that need to be addressed. The first relates to ensuring consistency in the tariff regime, while the other refers to the need to hasten trade facilitation efforts in order to reduce trade costs. Since the first challenge has been discussed in detail in Menon (2011) and Menon and Melendez (2011), we discuss it only briefly here and instead focus on the second.

The CLMV countries, unlike ASEAN's original members, have chosen to implement their AFTA tariff reduction commitments on a minimalist basis, resulting in a two-tier tariff system in each country with a different preferential and MFN rate for each tariff line. In other words, they have chosen not to multilateralize their AFTA preferences, and not to offer them to non-members on a non-discriminatory basis. This not only reduces the benefits while increasing the potential for trade diversion, it also increases the burden on weak and over-stretched trade and customs bureaucracies. As members of ASEAN, they are also party to at least six existing ASEAN+1 FTAs, with more sure to come. It is simply fantastic to expect these countries to effectively implement a system whereby seven or more tariff rates can apply to each tariff line, depending on rules of origin that can also differ by source. Therefore, the CLMV countries should follow the original ASEAN members and multilateralize their AFTA and various ASEAN+1 preferential tariffs—the sooner the better.

Next we turn to the main challenge on the trade policy front: trade facilitation. Despite the achievements on this front described in Section 3.1, a number of critical challenges continue to limit the subregion's potential for reaping further gains from trade. Data on trade costs and logistics reveal considerable variation in trade facilitation and logistical performance across the GMS countries, with Thailand and Viet Nam performing better than the CLM countries, highlighting the need for the latter to catch up with their neighbors (Tables 10 and 11).

The implementation of the CBTA and other such reforms continues to face a number of challenges, such as slow progress in the exchange of traffic rights, weak procedures for border clearance and insufficient investments in border infrastructure for goods processing, and weak institutional mechanisms for supporting transport and trade facilitation. Setbacks in implementing the CTS, in particular, have been cited as an impediment to implementation of the CBTA in every GMS country (ADB 2010).

The need to strengthen implementation of the CBTA and other trade facilitation reforms was highlighted at the 3rd GMS Summit in March 2008, where leaders called for greater focus on "softer" aspects of regional cooperation in the GMS. More concretely, in 2010, the 16th GMS Ministerial Conference endorsed a comprehensive medium-term Program of Actions for Transport and Trade Facilitation (TTF), encompassing both (i) transport facilitation, by enhancing exchange and implementation of traffic rights, improving custom transit systems, and strengthening the road transport industry; and (ii) trade facilitation, by enhancing coordinated border management, strengthening sanitary and phytosanitary standards, and developing the logistics sector.

5.2 Foreign Investment and Labor Migration Policy with Shifting Demographics

Over the long run, the benefits from trade liberalization will be considerably larger if accompanied by reforms in other sectors. For instance, if the movement of factors of production such as capital and labor is also freed up, the gains from trade liberalization will be magnified. This will occur as investors respond to the changed structure of incentives with new capital investments and entirely new industries develop in response to new opportunities (Warr et al. 2010).

The importance of factor mobility takes on an additional dimension in ASEAN when we consider differences in demographic profiles between countries. ASEAN countries comprise populations that can be described as either ageing or youthful, especially given shifts expected to occur over the next decade and beyond. With countries facing an ageing population, there will be a decrease in the labor supply in the future as a result of a "shrinking" labor force, while countries with a relatively young population will experience the opposite phenomenon of a "bulging" labor force. Specifically, the CLV countries will experience bulging labor forces, as will Brunei Darussalam and the Philippines, while the other ASEAN countries will likely experience shrinking ones. The ageing phenomenon will also characterize the labor forces of the East Asian countries of the PRC, Japan, and Republic of Korea (Menon and Melendez 2009).

Many of the countries facing the ageing phenomenon also run sizable current account surpluses, reflecting the fact that domestic savings are much higher than domestic investment. Many of the countries facing the opposite phenomenon of an impending bulge in the working age population are also countries that run sizable current account deficits, where domestic savings are insufficient to meet domestic investment requirements.

There are benefits to countries with both relatively high and low capital–labor ratios in encouraging the cross-border movement of factors that tend to equalize their relative prices. Through FDI flows, for instance, capital–labor ratios across countries with either shrinking or bulging labor forces will adjust, as factor prices tend toward being equalized and, in the process, promote growth in both investing and recipient countries. FDI can help overcome the labor shortage problem in ageing countries and at the same time help absorb the surplus labor in bulging countries. This is already happening, but the demographic changes expected over the next decade suggest that the role of FDI could, or indeed should, be significantly more important in addressing imbalances in labor markets.

As described in Section 3.2, the CLV countries have been receiving substantial amounts of FDI as their investment climates improve and their reform programs mature. There is a considerable amount of capital mobility in ASEAN already, mostly in the form of inflows from outside the region, but both intraregional flows and outflows have also been growing, albeit from a small base. The AEC also aims to further liberalize these flows in its pursuit of a single production base. Further increases in FDI flows will probably require significant improvements in the investment climate of the CLMV countries. Such improvements will involve addressing structural and institutional issues, including strengthened legal and regulatory frameworks, improvements in governance and the protection of property rights, the deepening of financial markets, and political and macroeconomic stability. These are long-term challenges and although the pay-off is likely to be high, these efforts will take time.

In the interim, it would be equally beneficial if labor could move more freely to equalize the differences between countries with shrinking and bulging labor forces. Greater labor mobility, if properly regulated, can benefit both sending and receiving countries. Arguably the biggest disappointment of the AEC Blueprint is its failure to deal adequately with labor mobility. National governments also lack adequate legal and policy frameworks when it comes to governing labor flows. As a World Bank (2006) study notes, the CLMV countries lack the capacity to effectively manage the mass export of labor and to protect the rights of their migrant nationals abroad. Similarly, receiving countries in other parts of ASEAN, Malaysia and Thailand in particular, have fairly weak migration policy frameworks, which often have been implemented hastily as an ad hoc response to the arrival of large numbers of migrants. ASEAN governments in both sending and receiving countries face an urgent need to adopt policies that can help manage the increased flows in an efficient but equitable way. Therefore, improving policy frameworks relating to labor movement, whether transitory or migratory, is in the interest of labor exporting and importing countries, and can raise the benefits to both while protecting the rights of foreign workers and reducing the security risks associated with unrecorded inflows of labor.

As noted above, one focus of the AEC is on liberalizing flows of skilled labor, and even here there are difficulties in interpreting what this is likely to amount to in practice. Most of the labor within ASEAN countries is low- or semi-skilled, and this population has been ignored in the reform agenda. In fact, the overwhelming share of both recorded and unrecorded labor flows within ASEAN comprise low-skilled labor. This extends from domestic helpers in Malaysia and Singapore (from the Philippines and Indonesia), to agricultural labor in Malaysia (from Indonesia) and Thailand (from CLM), and to various service sectors such as construction in Malaysia and Singapore, and food processing in Thailand.

Further liberalization of official flows, combined with efforts to control informal flows and bring them into the formal arena, can yield substantial mutual benefits. Not only can increased labor mobility substantially increase the benefits that can be expected to accrue from trade liberalization, it can also reduce adjustment costs in sectors that are negatively affected by such reforms. Restrictions on labor mobility during periods of structural adjustment or reform tend to make individual regions and countries income per capita more divergent. As the World Bank (2011, p.48) puts it, “(i)mpediments to migration, whether ethnic, social, economic, regulatory, or geographic, will only accentuate inequality”.

There is another aspect to the facilitating role that labor mobility can play in the adjustment process in the CLMV. The CLMV countries face nominal rigidities to varying degrees when it comes to having an exchange rate that can operate as an adjustment mechanism. This is a result of dollarization and the multiple currency systems that prevail, to varying degrees, in these countries (Menon 2010). While Cambodia is almost completely dollarized, the Lao People’s Democratic Republic economy is probably only 50% dollarized, but both Thai baht and US dollars are used in addition to the locally issued kip. Viet Nam has the lowest degree of dollarization, but exchange rate uncertainty resulting from macroeconomic instability has resulted in a switch to gold as a store of wealth. In Myanmar, the government is trying to unify a multiple rate system and the first steps toward a managed float have been implemented.

In this context, the nominal exchange rate of these countries may not adjust fully, or quickly, to economic disturbances or shocks. The real exchange rate movements required to move the economy back toward equilibrium following an economic shock will have to be induced by price changes rather than nominal exchange rate changes. This will have to involve changes in the rewards paid to factors of production, and it is most likely that wages will have to bear the brunt of this adjustment (Menon 2008).

But nominal wages may be sticky in a downward direction. If nominal wages are initially close to subsistence levels, then any downward adjustment in response to an external shock would be difficult. Thus, the adjustment mechanism that requires changes in wages instead of changes in nominal exchange rates is a relatively inefficient instrument. It could result in social costs involving the increased unemployment of resources such as labor and capital.

Given this situation, it is even more important that there is sufficient labor mobility in order to reduce the adjustment pressures and minimize economic and social costs. This is not to deny that labor migration does not involve social costs or disruption to the sending countries. The dislocation and related costs associated with out-migration, while not insignificant, are likely to be a lot lower than that of rising unemployment at home.

5.3 Is Convergence with Cohesion Possible?

While the benefits from facilitating labor mobility can be substantial, it is not a panacea and needs to be considered as part of a broader development program. Increasing labor mobility alone is also unlikely to significantly reduce disparities within or between countries, and needs to be accompanied by other policy interventions. In this regard, we turn finally to examining how future growth in the CLMV can be made more inclusive. As noted in the Introduction and described in Section 4, while rapid growth in the CLMV has reduced gaps in per capita income in ASEAN, the distribution of these gains have been uneven and many forms of intra-country inequality have remained stubbornly high or even worsened. What is more disturbing is the increasing polarization in these countries, both economic and social. High and\or rising inequality and polarization poses risks to social stability. Such factors can also threaten growth itself as well as the poverty elasticity of growth. Therefore, how can the negative consequences of rapid growth be avoided, or at least minimized?

A good starting point in trying to answer this question would be to identify the factors driving inequality in these countries. Many of the factors driving rapid growth in the CLMV can also be linked to those driving inequality. The literature on growth and inequality identifies three key elements that tie growth and inequality together: the processes of (i) technological change, (ii) globalization, and (iii) market-oriented reforms. The link between inequality and growth is derived from the fact that all three are also considered to be primary drivers of growth. ADB (2012) examines inequality in Asia in detail and identifies these three processes as the key drivers for rising inequality in developing Asia. They note that these forces have tended to favor owners of capital over labor, high skilled over low-skilled workers, and urban and coastal areas over rural and inland regions. All three factors are present in the CLMV, although globalization and market-oriented reforms are the dominant ones.

Reducing growth in order to reduce inequality is not a sensible policy option. Similarly, reversing the trend toward greater openness and market orientation is not the way to go in order to redress inequality, if these factors are the main ones driving it. If convergence at the expense of internal cohesion is seen as a hollow victory, then so too must the preservation of internal cohesion at the expense of convergence be viewed. How can we strike a balance between the two, where convergence can continue without further threatening internal cohesion? In order to answer this question it is useful to examine the experience of some of the newly industrialized economies (NIEs)—the Republic of Korea and Taipei,China, in particular—beginning in the 1960s when they first underwent a dramatic transition. The switch from highly interventionist import-substitution programs to more market-friendly, export-oriented reforms is a conversion that bears a lot of resemblance to that being undertaken by the CLV countries in their transition toward market economies. Their experience highlights what can work rather than what cannot since a distinguishing characteristic of the economic performance of the NIEs is the relatively equitable distribution of gains from rapid economic growth. The rapid and sustained growth in these economies since the late 1960s has been accompanied not only by sharp reductions in poverty, but also by across-the-board improvements in living standards that significantly raised the welfare of the majority. Income distribution has remained more equal than in other countries at a comparable stage of development. It is widely recognized that income inequalities remain low in the NIEs (Balassa and Williamson 1987; Fei et al. 1979; Wood 1999).

What are the factors that have produced these outcomes in the NIEs, and what lessons do they hold for the CLMV countries? A number of key features and policies stand out. The first distinguishing feature of the NIEs is the initial conditions relating to a host of social indicators, particularly education, but also health. The initial endowment of human capital is a critical factor in determining the ability of the workforce to fully participate in the economy, and thereby share in the benefits of growth. Although initial educational and skill levels in the NIEs were not exceedingly high, near universal access to quality primary and secondary education, combined with effective vocational and on-the-job training facilities, resulted in a productive workforce. They were able to avoid the skills shortage or mismatch that currently exists in the CLMV and other countries trapped in middle-income status. Therefore, an important barrier to overcome in the CLMV is the quality of primary and secondary education, and vocational training. Increased access to health care services must also complement improvements to education systems.

This feature of the labor force, when combined with a conducive investment climate and sound macroeconomic fundamentals, accounts for the next determining factor. In this environment, these countries could exploit their comparative advantage and benefit from opportunities arising from labor-intensive light manufacturing activities. Given the fact that labor is the most widely distributed factor of production in a developing economy, employment expansion and the subsequent increase in real wages contributed to reductions in both poverty and income inequality as the NIEs developed (Balassa and Williamson 1987; Fei et al. 1979; Athukorala and Menon 1999). As noted earlier in discussing FDI flows, however, the longer-term institutional and structural constraints need to be addressed in order to improve the investment climate, and thereby allow the forces of comparative advantage to absorb the burgeoning pool of low-skilled labor.

The third factor relates to distribution of land ownership and asset inequality. Deininger and Squire (1998) show that asset inequality, more than income inequality, can undermine not only growth but the effectiveness of pro-poor policies. Prior to launching their liberalization programs, Japan; the Republic of Korea; and Taipei,China instituted significant land reforms that resulted in a fairer distribution of this critical asset, especially for low-income agricultural households. Indeed, this was a crucial factor that facilitated the transfer of labor from agriculture to manufacturing during the ensuing structural transformations. This has not been the case in the CLMV countries, however, and land reform remains an unfinished item on the policy agenda of these countries. Cambodia presents a useful example that illustrates this general problem. The lack of land titling has resulted in widespread deforestation as well as land grabbing. In an ironic twist, rather than enjoying the benefits from the land price boom, it has often made some of the most vulnerable worse off. Without clear or proper titles to prove ownership, many of the poor have been evicted or forced off their land.

The experience of the NIEs, especially the Republic of Korea and Taipei,China, suggests that all of these conditions and related policies need to be in place before convergence with cohesion is possible. It would appear that a sub-set of the above, rather than a full complement, is unlikely to work to produce the desired outcome. Therefore, it is important that the CLMV countries pursue all of these policies in a comprehensive and simultaneous manner if they are to achieve growth with equity. Furthermore, these are only some of the conditions necessary for inclusive growth and other elements (Menon et al. 2011) also need to be incorporated in the reform program to ensure the desired outcome.

In summary, the experiences of the NIEs suggest that the rapid growth required for catch-up by the CLMV countries can only occur absent further polarization within individual countries and if a number of necessary conditions are simultaneously met. The first of these conditions relates to the need to invest in social infrastructure, especially education and health, in order to produce a workforce more able to participate in the growth process. Second is the need to improve the investment climate, including increasing capital inflows and labor absorption, along comparative advantage lines. Third is the need for land reform to directly redress asset inequality and enhance incentives for productivity in agriculture, and facilitate factor transfer following structural adjustment. These necessary conditions need to be complemented with the other elements of an inclusive growth strategy in order to ensure convergence with cohesion.

6. Conclusion

ASEAN is divided. The most striking divide is the development gap that separates the newer members (CLMV countries) from the original ones (ASEAN-6). Although the development divide is multi-faceted, its most conspicuous manifestation lies in differences in per capita incomes. More rapid rates of economic growth in the CLV since the 1990s—driven by trade, investment, and other market reforms—have reduced these income differences, while also dramatically reducing poverty. Yet, while the development divide has narrowed, huge gaps remain.

The further narrowing of these gaps will require an increase in the speed and breadth of policy reforms. With trade, the focus needs to shift to behind-the-border measures that reduce trade costs through transport and trade facilitation. A gaping hole in the policy landscape in ASEAN is the failure to address labor migration adequately. Furthermore, on-going demographic transitions will require greater capital inflows or labor outflows if massive unemployment is to be avoided. Capital inflows will only increase if there are substantial improvements in the investment climate. These changes will take time to effect and since absorptive capacity is currently nearing its limit, it is an issue for the long-run. Greater labor mobility will occur in the interim, but will require effective policy frameworks to be developed in both sending and receiving countries if it is to be effectively regulated. It would also help if a regional agreement that deals with low-skilled labor could be struck. The current policy void with respect to labor migration not only limits the benefits from trade and investment liberalization, but increases the cost of structural adjustment. For the CLMV, the absence of a functioning exchange rate mechanism due to varying degrees of dollarization increases the importance of labor mobility in adjusting to economic disturbances or other shocks.

The process of addressing labor mobility needs to be accompanied by other reforms. Although rapid growth has resulted in convergence, it has also increased polarization within countries. This can threaten social cohesion, as well as the sustainability of future growth. If convergence at the expense of internal cohesion is seen as a hollow victory, then so too must the preservation of internal cohesion at the expense of convergence be viewed. How can we strike a balance between the two, where convergence can continue without further threatening internal cohesion? In other words, how do we make growth more inclusive? In order to do this, a country must invest heavily in social infrastructure, especially education and health. Apart from directly reducing social inequities in these areas, such investment will produce a workforce more able to actively participate in the growth process. Even more than income inequality, asset inequality creates wide and versatile divisions within these countries. Land reform is a critical step in addressing these divisions, with the objective of increasing agricultural productivity and enhancing labor market flexibility during periods of structural transition.

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Table 1: GDP Per Capita, Current Prices, 2000-2011 ($)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Estimates Start After
Brunei Darussalam	18,477	16,828	16,977	18,757	21,885	25,754	29,949	31,404	36,223	26,423	29,852	36,584	2010
Cambodia	288	309	327	349	393	455	514	603	711	703	753	852	2008
Indonesia	800	767	922	1,091	1,177	1,291	1,622	1,898	2,212	2,299	2,981	3,509	2011
Lao People's Democratic Republic	303	304	314	356	411	464	596	694	856	886	1,004	1,204	2009
Malaysia	4,030	3,864	4,078	4,352	4,816	5,211	5,839	6,873	8,091	6,917	8,418	9,700	2010
Myanmar	178	129	130	197	195	216	257	350	533	587	742	832	2006
Philippines	1,055	970	1,015	1,025	1,093	1,209	1,405	1,684	1,918	1,827	2,123	2,223	2010
Singapore	22,791	21,001	22,028	23,029	26,419	28,498	31,763	36,695	38,087	36,567	43,865	49,271	2010
Thailand	1,983	1,854	2,020	2,261	2,603	2,825	3,296	3,918	4,300	4,151	4,992	5,394	2011
Viet Nam	402	413	440	489	554	637	724	835	1,048	1,068	1,174	1,374	2007
ASEAN	**1,173**	**1,109**	**1,213**	**1,346**	**1,488**	**1,633**	**1,929**	**2,277**	**2,608**	**2,543**	**3,117**	**3,538**	
CLMV	**311**	**303**	**318**	**370**	**409**	**467**	**537**	**638**	**829**	**858**	**976**	**1,127**	

ASEAN = Association of Southeast Asian Nations; CLMV = Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam; GDP = Gross Domestic Product.
Source: World Economic Outlook Database (International Monetary Fund 2012).

Table 2: GDP Per Capita, PPP, 2000-2010 (constant 2005 international $)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brunei Darussalam	48,478	48,719	49,533	49,922	49,162	48,377	49,523	48,654	46,820	45,156	…
Cambodia	1,035	1,100	1,157	1,238	1,348	1,508	1,651	1,799	1,898	1,879	1,968
Indonesia	2,623	2,683	2,768	2,863	2,970	3,102	3,236	3,403	3,570	3,694	3,880
Lao People's Democratic Republic	1,346	1,399	1,458	1,524	1,597	1,685	1,801	1,906	2,021	2,141	2,288
Malaysia	10,209	10,026	10,329	10,690	11,178	11,544	11,996	12,554	12,942	12,526	13,214
Myanmar	598	660	735	832	941	1,062	1,194	1,328	1,454	1,596	1,749
Philippines	2,697	2,717	2,758	2,837	2,968	3,051	3,153	3,303	3,382	3,364	3,560
Singapore	38,037	36,573	37,776	40,101	43,260	45,374	47,804	49,877	47,995	46,211	51,966
Thailand	5,497	5,551	5,778	6,122	6,443	6,675	6,954	7,249	7,378	7,160	7,673
Viet Nam	1,597	1,686	1,784	1,893	2,016	2,161	2,313	2,482	2,611	2,721	2,875
ASEAN	**3,246**	**3,288**	**3,406**	**3,556**	**3,738**	**3,908**	**4,098**	**4,320**	**4,466**	**4,489**	**4,748**
CLMV	**1,218**	**1,295**	**1,382**	**1,484**	**1,601**	**1,739**	**1,884**	**2,038**	**2,164**	**2,273**	**2,421**

ASEAN = Association of Southeast Asian Nations; CLMV = Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam; GDP = Gross Domestic Product; PPP = Purchasing Power Parity.
Note: … = no available data.
Source: World Development Indicators (World Bank 2012).

Table 3: Manufactures by Degree of Factor Intensity
1995, 2000, 2005, and 2010 (%)

Country	Degree of Manufacturing	1995	2000	2005	2010
Cambodia	Labor-intensive and resource-based manufactures	93	97	91	82
	Manufactures with low skill and technology intensity	1	0	0	3
	Manufactures with medium skill and technology intensity	2	1	0	2
	Manufactures with high skill and technology intensity	3	0	0	0
	Unclassified	1	2	8	13
Lao People's Democratic Republic	Labor-intensive and resource-based manufactures	94	67	92	75
	Manufactures with low skill and technology intensity	0	31	1	1
	Manufactures with medium skill and technology intensity	1	0	3	13
	Manufactures with high skill and technology intensity	4	1	2	8
	Unclassified	0	0	2	2
Myanmar	Labor-intensive and resource-based manufactures	80	95	91	90
	Manufactures with low skill and technology intensity	1	0	3	4
	Manufactures with medium skill and technology intensity	6	2	3	2
	Manufactures with high skill and technology intensity	11	2	2	2
	Unclassified	1	1	1	1
Thailand	Labor-intensive and resource-based manufactures	32	21	16	12
	Manufactures with low skill and technology intensity	5	5	6	6
	Manufactures with medium skill and technology intensity	20	24	31	36
	Manufactures with high skill and technology intensity	39%	47	43	42
	Unclassified	4	3	3	5
Viet Nam	Labor-intensive and resource-based manufactures	75	71	68	59
	Manufactures with low skill and technology intensity	2	3	6	8
	Manufactures with medium skill and technology intensity	13	10	12	13
	Manufactures with high skill and technology intensity	7	14	12	14
	Unclassified	3	2	2	5

Source: UNCTADStat Database.

Table 4: Intra-GMS Labor Flows, 2000 and 2010

a) 2000

To (across) - From (down)	Cambodia	Lao People's Democratic Republic	Myanmar	Thailand	Viet Nam	Total GMS	World
Cambodia	...	1,352	282	29,620	350	31,604	282,252
Lao People's Democratic Republic	868	...	427	46,108	509	47,912	335,709
Myanmar	173	391	...	171,759	1,925	174,248	326,397
Thailand	100,363	2,203	312	...	1,635	104,513	691,258
Viet Nam	122,104	13,401	1,987	13,191	...	150,683	1,748,828
Total GMS	**223,508**	**17,347**	**3,008**	**260,678**	**4,419**		
World	**236,597**	**21,718**	**98,007**	**688,997**	**40,599**		

b) 2010

To (across) - From (down)	Cambodia	Lao People's Democratic Republic	Myanmar	Thailand	Viet Nam	Total GMS	World
Cambodia	0	909	…	49,750	…	50,659	350,485
Lao People's Democratic Republic	1,235	0	…	77,443	…	78,678	366,663
Myanmar	247	143	…	288,487	…	288,877	514,667
Thailand	142,767	916	…	0	…	143,682	811,123
Viet Nam	173,694	8,167	…	22,156	…	204,017	2,226,401
Total GMS	**317,943**	**10,134**	…	**437,837**	…		
World	**335,829**	**18,916**	**88,695**	**1,157,263**	**69,307**		

GMS = Greater Mekong Subregion.
Note: … = no available data. Disaggregated data for Myanmar and Viet Nam inward migration are unavailable.
Source: Bilateral Migration and Remittances (World Bank 2010).

Table 5: Intra-GMS Labor Flows as a Share of Total Migration, 2010

Country	Intra-GMS			Total Migration			Share of Intra-GMS to Total Migration (%)	
	Outward	Inward	Ratio of Outbound/ Inbound	Outward	Inward	Ratio of Outbound/ Inbound	Outward	Inward
Cambodia	50,659	317,944	0.16	350,485	335,829	1.04	14.5	94.7
Lao People's Democratic Republic	78,678	10,134	7.76	366,663	18,916	19.38	21.5	53.6
Myanmar	288,877	...	...	514,667	88,695	5.80	56.1	...
Thailand	143,682	437,839	0.33	811,123	1,157,263	0.70	17.7	37.8
Viet Nam	204,017	...	…	2,226,401	69,307	32.12	9.2	...

GMS = Greater Mekong Subregion.
Note: … = no available data. Disaggregated data for Myanmar and Viet Nam inward migration are unavailable.
Source: Bilateral Migration and Remittances (World Bank 2010).

Table 6: Poverty in ASEAN, Various Years

Country	Poverty Headcount Ratio at $1.25 a day (PPP) (% of population)		Poverty Gap at $1.25 a day (PPP) (%)		Poverty Headcount Ratio at National Poverty Line (% of population)		Poverty Headcount Ratio at Rural Poverty Line (% of rural population)		Poverty Headcount Ratio at Urban Poverty Line (% of urban population)		Average Annual Rate of Total Poverty Reduction	
	Initial	Final	Initial	Final	Initial	Final	Initial	Final	Initial	Final	%	Period
Cambodia	37.69 (2004)	22.75 (2008)	10.20 (2004)	4.87 (2008)	34.7 (2004)	30.1 (2007)	37.8 (2004)	34.5 (2007)	17.6 (2004)	11.8 (2007)	1.55	2004-10
Indonesia	29.31 (2002)	18.06 (2010)	6.03 (2002)	3.31 (2010)	18.2 (2002)	13.3 (2010)	21.1 (2002)	16.6 (2010)	14.5 (2002)	9.9 (2010)	0.61	2002–10
Lao People's Democratic Republic	43.96 (2002)	33.88 (2008)	12.11 (2002)	8.95 (2008)	33.5 (2002)	27.6 (2008)	...	31.7 (2008)	...	17.4 (2008)	1.18	2003–08
Myanmar	…	...	...	...	...	25.6 (2010)	...	29.2 (2010)	...	15.7 (2010)	1.30	2005–10
Malaysia	0.54 (2004)	...	0.06 (2004)	...	5.7 (2004)	3.8 (2009)	11.9 (2004)	8.2 (2009)	2.5 (2004)	1.7 (2009)	0.38	2004–09
Philippines	22.45 (2000)	18.42 (2009)	5.48 (2000)	3.72 (2009)	33.0 (2000)	26.5 (2009)	...	...	...	...	0.72	2000–09
Thailand	3.04 (2000)	0.37 (2009)	0.50 (2000)	0.05 (2009)	21.0 (2000)	8.1 (2009)	26.5 (2000)	10.4 (2009)	8.6 (2000)	3.0 (2009)	1.43	2000–09
Viet Nam	40.05 (2002)	16.85 (2008)	11.20 (2002)	3.75 (2008)	28.9 (2002)	14.2 (2010)	35.6 (2002)	17.4 (2010)	6.7 (2002)	6.9 (2010)	0.70	2002–06

ASEAN = Association of Southeast Asian Nations; PPP = Purchasing Power Parity.
Note: … = no available data. Data unavailable for Brunei Darussalam and Singapore.
Sources: World Development Indicators (World Bank 2012); Average annual rate of total poverty reduction and 2010 poverty data for Myanmar and Viet Nam from P. Warr (2012).

Table 7: Human Development Index (HDI) Rank and Value

HDI Rank	Country	2000	2005	2006	2007	2008	2009	2010	2011
26	Singapore	0.801	0.835	0.843	0.850	0.855	0.856	0.864	0.866
33	Brunei Darussalam	0.818	0.830	0.834	0.835	0.834	0.835	0.837	0.838
61	Malaysia	0.705	0.738	0.742	0.746	0.750	0.752	0.758	0.761
103	Thailand	0.626	0.656	0.661	0.670	0.672	0.673	0.680	0.682
112	Philippines	0.602	0.622	0.624	0.630	0.635	0.636	0.641	0.644
124	Indonesia	0.543	0.572	0.579	0.591	0.598	0.607	0.613	0.617
128	Viet Nam	0.528	0.561	0.568	0.575	0.580	0.584	0.590	0.593
138	Lao People's Democratic Republic	0.448	0.484	0.491	0.500	0.507	0.514	0.520	0.524
139	Cambodia	0.438	0.491	0.501	0.508	0.513	0.513	0.518	0.523
149	Myanmar	0.380	0.436	0.448	0.459	0.468	0.474	0.479	0.483

HDI = Human Development Index.
Source: United Nations Development Programme, http://hdr.undp.org

Table 8: Non-Income Poverty in ASEAN, Various Years

Country	Life Expectancy at Birth (total)		Infant Mortality Rate (per 1,000 live births)		Maternal Mortality Ratio (modeled estimate, per 100,000 live births)		Literacy Rate, Adult Total (% of people ages 15 and above)	
	2000	2009	2000	2010	2000	2008	2000	2009
Brunei Darussalam	76.2	77.8	7.2	5.8	24	21	92.7 (2001)	95.3
Cambodia	57.5	62.1	77.3	42.9	470	290	73.61 (2004)	77.6 (2008)
Indonesia	65.6	68.5	38.4	27.2	350	240	90.4 (2004)	92.2 (2008)
Lao People's Democratic Republic	61.4	66.7	64.4	42.1	790	580	69.6	72.7 (2005)
Malaysia	72.1	73.8	9.1	5.4	39	31	88.7	92.5
Myanmar	61.9	64.2	63.5	50.4	290	240	89.9	92.0
Philippines	66.8	68.2	30.4	23.2	120	94	92.6	95.4 (2008)
Singapore	78.1	81.3	2.9	2.1	15	9	92.5	94.7
Thailand	72.5	73.8	15.2	11.2	63	48	92.6	93.5 (2005)
Viet Nam	71.9	74.6	27.0	18.6	91	56	90.2	92.8

ASEAN = Association of Southeast Asian Nations.
Source: World Development Indicators (World Bank 2012).

Table 9: Inequality in ASEAN, Various Years

Country	Years Reported		Gini		Income Share Held by Highest 20%		Income Share Held by Lowest 20%		Income Share Held by Second 20%	
	Initial Year	Final Year	Initial Year	Final Year	Initial Year	Final Year	Initial Year	Final Year	Initial Year	Final Year
Cambodia	2004	2007	41.85	44.37	49.37	51.68	6.89	6.57	10.02	9.40
Indonesia	2002	2005	29.74	34.01	39.62	42.76	9.53	8.34	13.02	12.03
Lao People's Democratic Republic	2002	2008	32.63	36.74	41.59	44.84	8.57	7.64	12.31	11.33
Malaysia	2004	2007	37.91	46.00	44.78	51.40	6.46	4.69	10.81	8.72
Philippines	2000	2009	46.09	42.98	52.30	49.69	5.37	5.98	8.75	9.42
Thailand	2000	2008	42.84	40.51	49.84	47.69	6.20	6.60	9.61	10.12
Viet Nam	2002	2008	37.55	35.57	45.57	43.41	7.46	7.42	10.86	11.52

ASEAN = Association of Southeast Asian Nations.
Note: Data unavailable for Brunei Darussalam, Myanmar, and Singapore.
Source: World Development Indicators (World Bank 2012).

Table 10: Cost of Exporting and Importing, 2005-2011

Country	Indicator	2005	2006	2007	2008	2009	2010	2011
Cambodia	Cost to Export ($ per container)	736	722	722	732	732	732	732
Lao People's Democratic Republic		1,420	1,420	1,750	1,860	1,860	1,860	1,880
Thailand		848	848	615	625	625	625	625
Viet Nam		468	468	468	533	555	555	580
Cambodia	Cost to Import ($ per container)	816	852	852	872	872	872	872
Lao People's Democratic Republic		1,690	1,690	1,930	2,040	2,040	2,040	2,035
Thailand		1,042	1,042	786	795	795	795	750
Viet Nam		586	586	586	606	645	645	670
Cambodia	Documents to Export (number)	7	10	10	10	10	9	9
Lao People's Democratic Republic		11	11	9	9	9	9	9
Thailand		9	9	7	5	5	5	5
Viet Nam		6	6	6	6	6	6	6
Cambodia	Documents to Import (number)	12	11	11	11	11	10	10
Lao People's Democratic Republic		15	15	10	10	10	10	10
Thailand		12	12	9	5	5	5	5
Viet Nam		8	8	8	8	8	8	8
Cambodia	Time to Export (days)	43	37	37	22	22	22	22
Lao People's Democratic Republic		66	66	50	50	50	48	44
Thailand		24	24	17	14	14	14	14
Viet Nam		24	24	24	24	22	22	22
Cambodia	Time to Import (days)	54	45	45	29	29	26	26
Lao People's Democratic Republic		78	78	50	50	50	50	46
Thailand		22	22	14	13	13	13	13
Viet Nam		23	23	23	23	21	21	21

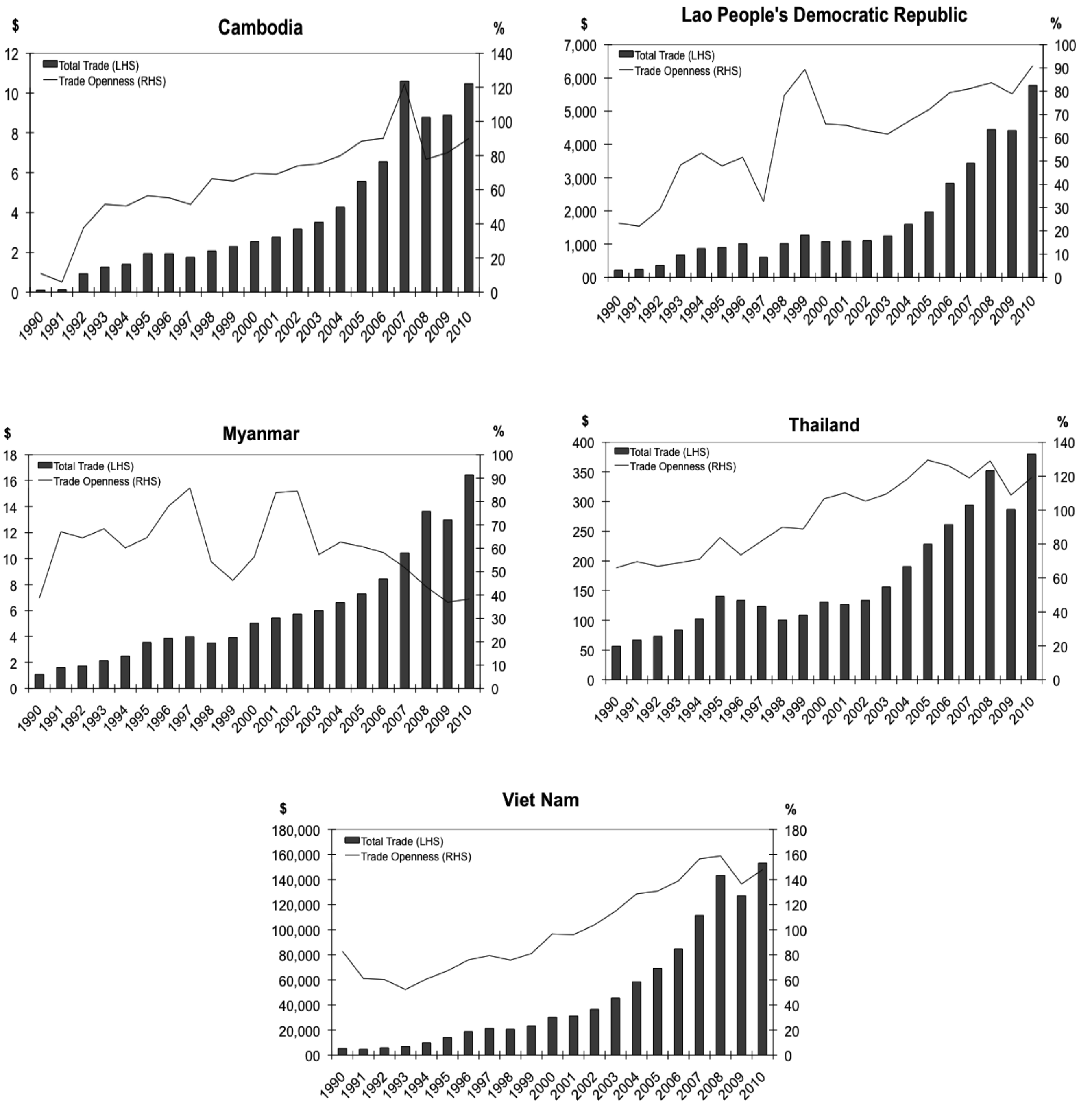
Note: Data unavailable for Myanmar.
Source: World Development Indicators (World Bank 2012).

Table 11: Logistics Performance Index, 2009

Country	Indicator	2009
Cambodia	Logistics Performance Index: Ability to track and trace consignments (1=low to 5=high)	2.50
Lao People's Democratic Republic		2.45
Myanmar		2.36
Thailand		3.41
Viet Nam		3.10
Cambodia	Logistics Performance Index: Competence and quality of logistics services (1=low to 5=high)	2.29
Lao People's Democratic Republic		2.14
Myanmar		2.01
Thailand		3.16
Viet Nam		2.89
Cambodia	Logistics Performance Index: Ease of arranging competitively priced shipments (1=low to 5=high)	2.19
Lao People's Democratic Republic		2.70
Myanmar		2.37
Thailand		3.27
Viet Nam		3.04
Cambodia	Logistics Performance Index: Efficiency of customs clearance process (1=low to 5=high)	2.28
Lao People's Democratic Republic		2.17
Myanmar		1.94
Thailand		3.02
Viet Nam		2.68
Cambodia	Logistics Performance Index: Frequency with which shipments reach consignee within scheduled or expected time (1=low to 5=high)	2.84
Lao People's Democratic Republic		3.23
Myanmar		3.29
Thailand		3.73
Viet Nam		3.44
Cambodia	Logistics Performance Index: Quality of trade and transport-related infrastructure (1=low to 5=high)	2.12
Lao People's Democratic Republic		1.95
Myanmar		1.92
Thailand		3.16
Viet Nam		2.56
Cambodia	Logistics Performance Index: Overall (1=low to 5=high)	2.37
Lao People's Democratic Republic		2.46
Myanmar		2.33
Thailand		3.29
Viet Nam		2.96

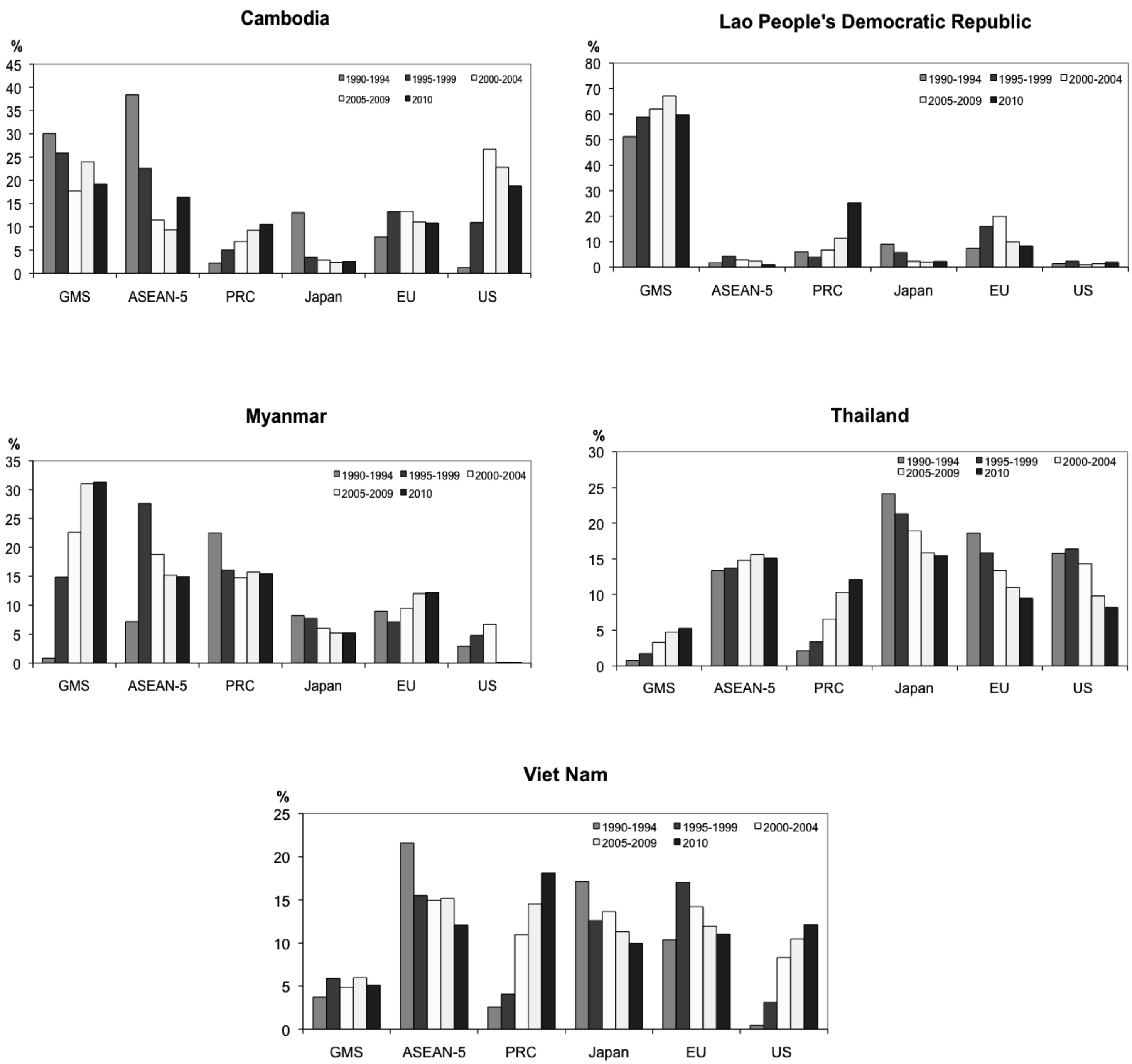
Source: World Development Indicators (World Bank 2012).

Figure 1: Total Trade and Trade Openness of the Greater Mekong Subregion, 1990–2010
(billion $, % of total GDP)



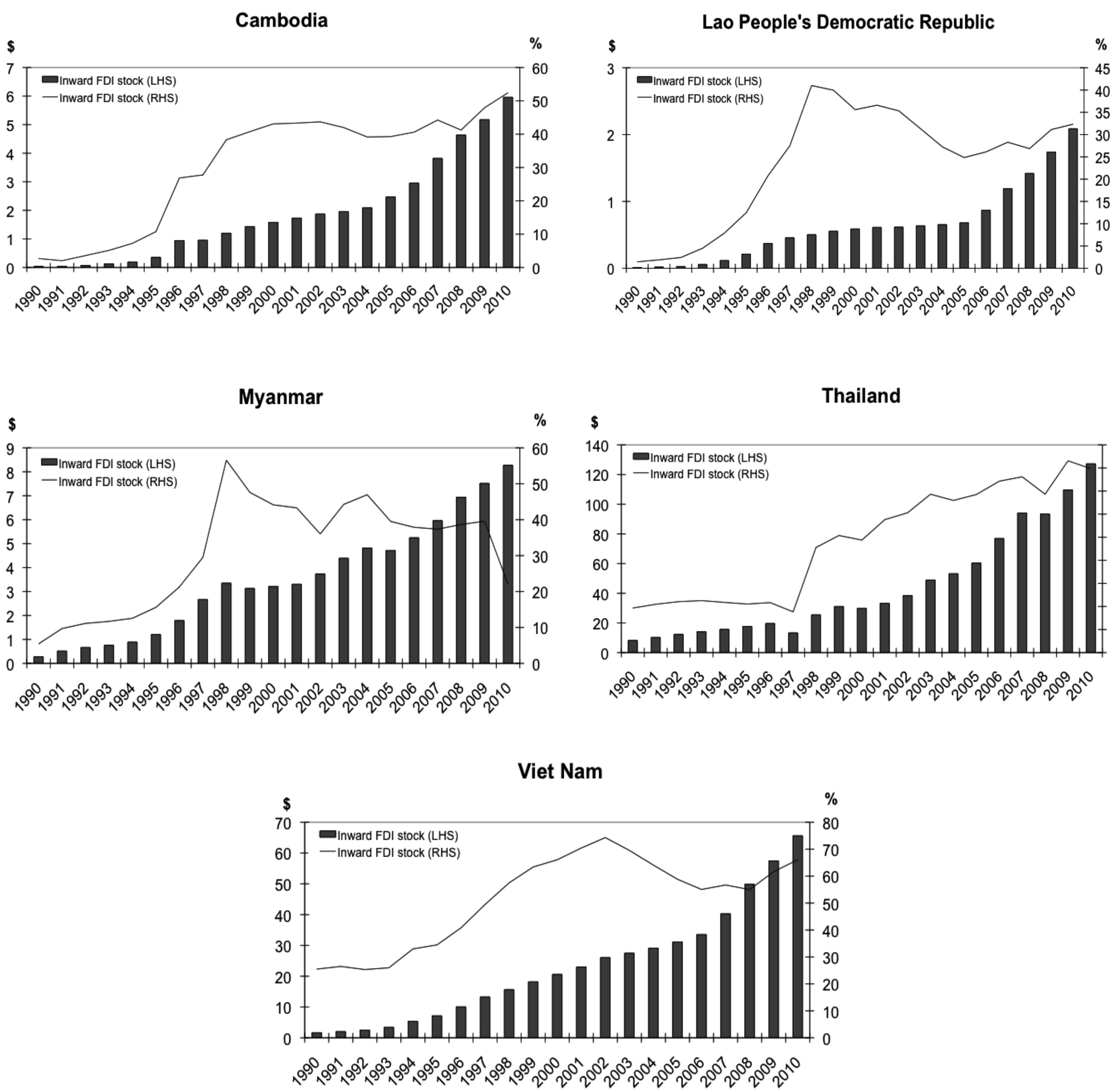
GDP = Gross Domestic Product.
Source: ARIC Integration Indicators Database (ADB).

Figure 2: Direction of Trade, 1990–2010



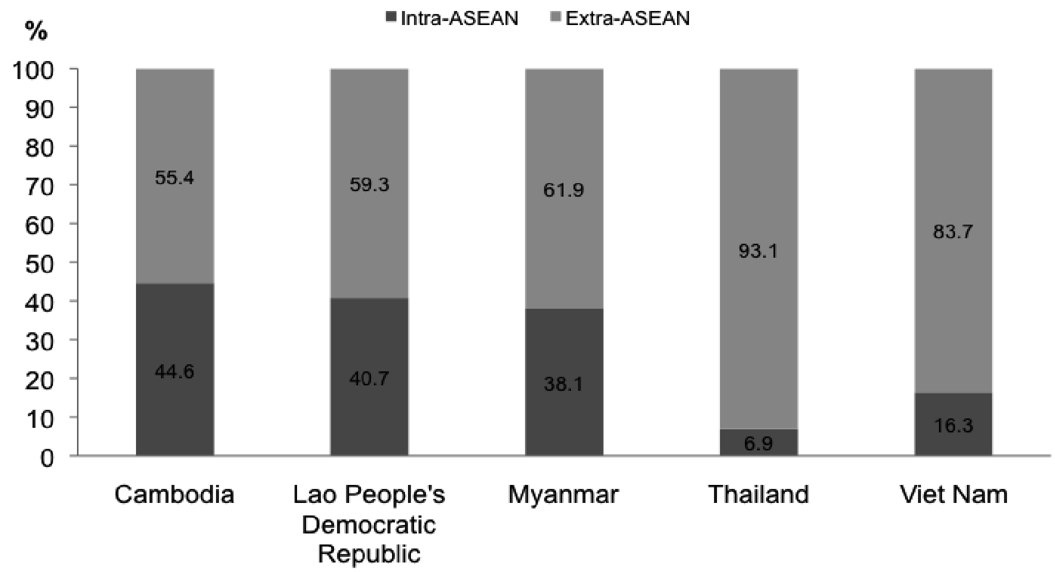
ASEAN-5 = Brunei Darussalam, Indonesia, Malaysia, Philippines, and Singapore; EU = European Union; GMS = Greater Mekong Subregion; US = United States.
Sources: IMF Direction of Trade Statistics, 2010 (data for 1990-1994); UNCTADStat Database (data for 1995-2010).

Figure 3: Foreign Direct Investment and FDI Openness in the Greater Mekong Subregion, 1990–2010 (billion $, % of total GDP)



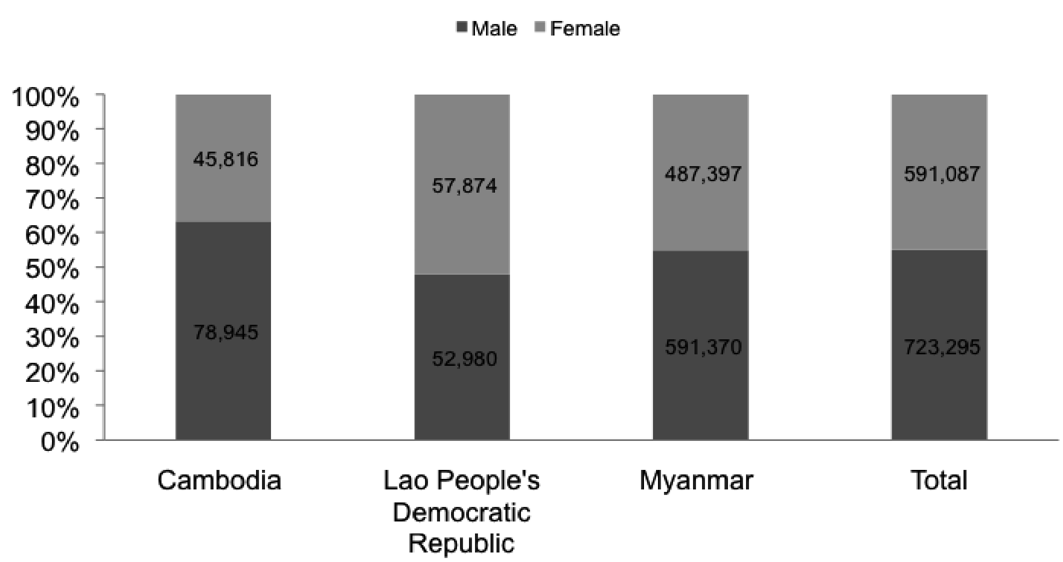
FDI = Foreign Direct Investment; GDP = Gross Domestic Product.
Source: UNCTADStat Database.

Figure 4: FDI Net Inflow, Intra- and Extra-ASEAN, 2010



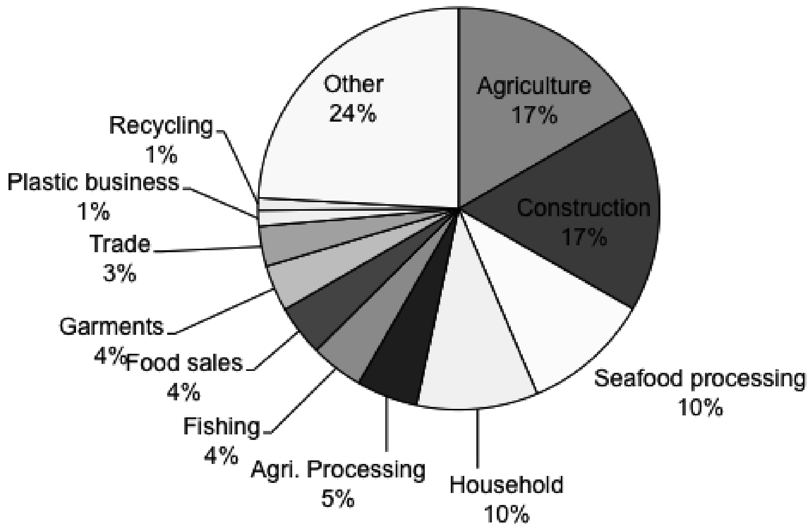
ASEAN = Association of Southeast Asian Nations; FDI = Foreign Direct Investment.
Source: ASEAN Secretariat 2012.

Figure 5: Registered Migrant Workers in Thailand from Cambodia, Lao People's Democratic Republic and Myanmar, by Nationality and Sex, December 2009



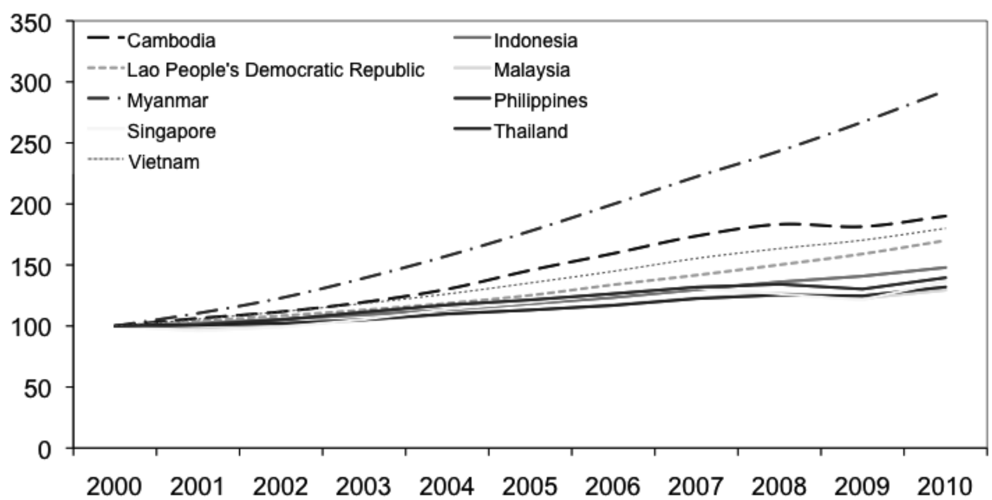
Source: Thailand Migration Report (IMO 2011).

Figure 6: Registered Migrant Workers in Thailand from Cambodia, Lao People's Democratic Republic and Myanmar, by Type of Work, December 2009



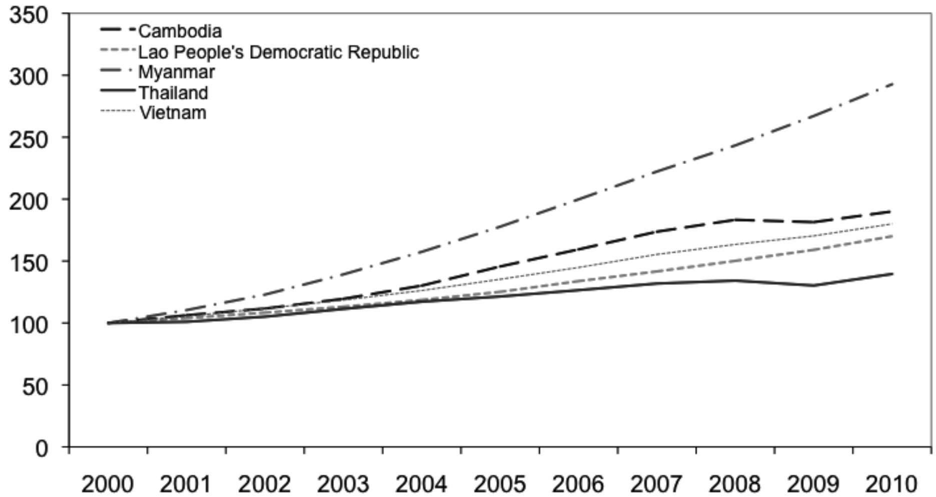
Source: Thailand Migration Report (IMO 2011).

Figure 7: GDP Per Capita, PPP, ASEAN Countries Excluding Brunei Darussalam, 2000-2010 (constant 2005 international $)



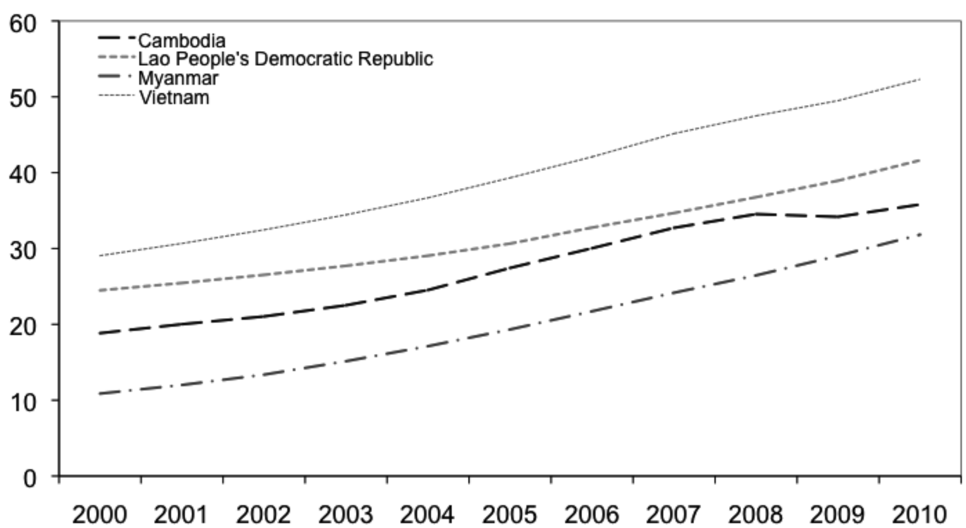
ASEAN = Association of Southeast Asian Nations; GDP = Gross Domestic Product; PPP = Purchasing Power Parity.
Note: Excludes Brunei Darussalam due to lack of 2010 data. Indexed to 2000 values.
Source: Author's calculations based on data from the World Development Indicators (World Bank 2012).

Figure 8: GDP Per Capita, PPP, CLMV versus Thailand 2000-2010 (constant 2005 international $)



CLMV = Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam; GDP = Gross Domestic Product; PPP = Purchasing Power Parity.
Note: Indexed to 2000 values.
Source: Author's calculations based on data from the World Development Indicators (World Bank 2012).

Figure 9: GDP Per Capita, PPP as a Share of Thailand's GDP Per Capita, 2000-2010



GDP = Gross Domestic Product; PPP = Purchasing Power Parity.
Note: Constant 2005 international $.
Source: Author's calculations based on data from the World Development Indicators (World Bank 2012).

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Narrowing the Development Divide in ASEAN
The Role of Policy

The rapid growth in Cambodia, Lao People's Democratic Republic, and Viet Nam since the 1990s has narrowed the development divide between this group of countries and the ASEAN-6. Huge gaps, however, remain. The increased polarization within countries could threaten social cohesion and sustainability of future growth. Hence, there is a pressing need to increase the pace and breadth of policy reforms, to start addressing labor mobility, to invest more in education and health, and to institute land reforms.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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