CHAPTER III

ECONOMIC DISPARITIES AMONG ASEAN MEMBER STATES

In this chapter, the writer would like to describe the economic disparities within the ASEAN. This chapter gives an overview of economic disparities. Then, the writer also give data collection of economic background from each ASEAN Member States based on the given indicators to measure the economic disparities of a state. Finally, the chapter describes the relations between the economic disparities and problem of regional integration.

A. The Economic Disparities as an Obstacle for ASEAN Economic Integration

ASEAN considers that economic cooperation is one of important policies. One region needs to be economically stronger in economic aspects in order to take the opportunities of globalization. Thus, the notion to liberalize and integrate the economy is clearly declared by the ASEAN Member States with the ASEAN Community on its pillar of ASEAN Economic Community.

However, the issues of economic disparities become one of the concerns for ASEAN Member States. In order to create economic integration in the region, ASEAN mentioned in its charter to narrow the development gap. The ASEAN envisions the establishment of equitably shared economic benefits through its economic community. It becomes the concern of ASEAN because the condition of being unequal in doing the cooperation is also argued as the obstacle in having the deeper cooperation.

The issue of economic disparities has risen up after the global financial crisis in 2008. To describe the condition of disparities, "the rich will become richer while poor will become poorer" is a famous saying. Actually this saying explains of what happens at the aftermath of financial crisis 2008, several economic sectors were collapsed. In terms of the manufacturing sectors, there were many factories which were closed that leads to the shifting of job market for its employees. After the crisis, labor works were replaced by the machinery. Then, it leads the shifting of job market and caused the structural unemployment. Structural unemployment is defined as changing the demands of job market that usually caused by the obsolescence of technology. This situation affected on the disparities, in terms of the income inequality (Business Dictionary, 2016).

The shift of job market argued to cause the income declination for the economic condition. It is because the change of technology caused the demand for skilled labor is increasing, while the supply of labor is also increasing. Thus, the wage for the unskilled labor will fall. This illustration portrays how the massive disparities during the aftermath of 2008 financial crisis happened (Stiglitz, 2012).

Now, in order to describe the ASEAN economic disparities, this research would like to begin with the diversities within the ASEAN Member States. Since the conditions of ASEAN Member States are so diverse, in terms of resources, population, and political condition, hence the disparities among the member states are inevitable. Firstly, the difference of starting point becomes the highlight in this case. The latest member states of ASEAN, the CLMV countries, need to narrow its economic disparities among other member states.

Secondly, there are the differences of political condition within the member states. The formal institution of countries in the ASEAN have great differences, such as Brunei with its absolute monarchy political system, three countries use constitutional monarchy system (Malaysia, Thailand, and Cambodia), there are three countries with the system of representative republic (Indonesia, Philippines, Singapore), and two socialist states (Lao PDR and Myanmar). Also, Myanmar is in the transition of civil law from the regime of the military junta (World Politics Review, 2015). The different systems of formal institution influence also the system of a country.

Then, the notion to liberalize the economic sector for each member state is implemented differently in each country. However, ASEAN has the principle of "ASEAN Way", in which each member state cannot do intervention to other countries policy. This principle is also claimed as the way of interaction among member states through peaceful and harmonious way. It is also argued that this principle is a mechanism of conflict-avoidance in the inter-state relations. There are two strategic goals of this principle: to avoid the bilateral dispute and to avoid bilateral dispute become the conflict of intra-ASEAN relations (Weatherbee, 2009).

This principle is mostly noticeable in the conflicting situation. As ASEAN Member States are regional organization, the conflict happens usually between the neighboring countries. However, in the economic cases, the principle of non-interference of ASEAN Way are emphasizing on each member states' nation

building and and creating the stability of regime in maintaining the cooperation with others (Molthof, 2012).

B. Indicator of Regional Economic Disparities

There are several indicators to measure the economic disparities in one region, they are Gini Coefficient, World Bank's categorization, and GDP. Gini coefficient is the approach to measure the disparities in economic sector is by quantitative approach. Gini Coefficient is used to measure income distribution of a country (UNDP, 2013). However, to measure the world's economic disparities, Gini Coefficient has shortcoming which is the lack of metric's accuracy. (Investopedia, 2016).

Secondly is the World Bank's categorization. The categorization is divided the region's economic into the low, middle, and high income. These categories divide the economic condition based on the Growth National Income (GNI) per capita. The World Bank determines this categorization as a grouping for states in lending system. Among ASEAN member states there are Brunei and Singapore categorized with the high income countries, Thailand and Malaysia that categorized as upper middle income states, and the other countries are categorized as the lower middle income (The World Bank, 2016). This category has lackness in measuring the regional disparities. For example, although Cambodia stated by The World Bank Report 2016 as success country to develop its position of World Bank's category, it still struggle with high number of poverty and unemployment (The World Bank, 2016). It is because this classification only shows the national production of one country. After all, the World Bank's category only be able to

portray the system for listing the countries to a group lending system of global level.

However, the international system usually uses Gross Domestic Product (GDP) as the global indicator to show one country's economic condition. The GDP is defined as "the market value of all final goods and services produced within a country in a given period time" (Mankiw, 2004). However, there are arguments contrasted with the use of GDP to portray the economics of a country. The lacks of GDP are that it measures the market prices to value good, services, and the environmental quality only. Even though GDP is not a perfect measurement of well-being there is an argument of:

> A large GDP does in fact help us to lead a good life. For instance, GDP does not measure the quality of education, but nations with larger GDP can afford better educational systems. In short, GDP does not directly measure those things that make life worthwhile, but it does measure our ability to obtain the inputs into a worthwhile life (Mankiw, 2004).

In the end, the GDP is still a valid measurement to portray one country's economic condition, since a country's GDP is closely associated with its citizens' standard of living.

C. The Overview of ASEAN Member States' Economic Condition

This part of Chapter III describes the overview of each member states of ASEAN. It is obvious to have the research on the economic disparities in the region without adhere each states development on economic condition. Selected key indicators of ASEAN that describe the overview of every countries condition is presented in Table 5.

Tabel 5. Selected ASEAN Indicators

Years/Countries	Population (in thousands)	Land Area (in km^2)	GDP (in US$ million)
Brunei	417.2	5769	12909
Cambodia	15405.2	181035	3578
Indonesia	255461.7	1913579	11108
Laos	6902.4	236800	5466
Malaysia	30485.3	330290	26515
Myanmar	52476	676577	5275
Philippines	11562.3	300000	7241
Singapore	5535	719	85021
Thailand	68979	513120	16064
Vietnam	9171	330951	6083

Source: ASEAN Statistics 2016 (ASEAN Secretariat, 2016)

1. Brunei Darussalam

Brunei is a state that shares the same land with Malaysia and Indonesia in Borneo Island. Having an area of 5.765 square kilometer and consists of 418.000 populations, Brunei is one of the exporters for crude oil in the region (The Commonwealth, 2016). Brunei Darussalam has Sultan to serves as Prime Minister, Minister of Defense, and also Minister of Finance. This country is categorized as a high income country. Then, Brunei Darussalam does not have the indicator for national poverty line, however, 46 percent of the population earns below $1000 in 2012.

2. Cambodia

In these past years, Cambodia is known with the instability of political situation. In 2013, after the national election there was the outbreak of mass protests against the result of the parliamentary elections and the demand to boycott the National Assembly. However, the government imposed band on the strikes of protester. In economic sectors, Cambodia's main commodity is the

export of garment and textile. While a country with 15 million of population's welfare level is low compared to neighboring countries, data in 2014 shown that 13 percent of population in Cambodia is living under national poverty line (Human Rights Watch, 2015).

3. Indonesia

As the biggest populated countries in the Southeast Asia, where more than 29 millions of people are living, it has more than 28 million of citizens still live below the poverty line (The World Bank, 2016). Another economic problems is that the employment growth in this country is slower than the growth of population. As a large country by its area, Indonesia also focuses on the main commodity of forest product, palm oil, natural gases to be exported (Kemendag, 2016). Indonesia is democratic country that has general election to vote for the president and legislative. However, corruption still noted as endemic problem within the country.

4. Laos

In the area about 238 square kilometers lives 6 millions of people. Laos is a country with authoritarian government. However, in terms of economy, Laos declares a system of free-market economy. Although it remains one of the poorest countries among its neighbor with 23% of population are still living under the poverty line, Laos develops its economic growth (Hutt, 2016).

5. Malaysia

Malaysia is a Southeast Asia country having 330.803 square kilometer of area. The population of 29.72 million is focusing on the commodity such as oil, medical and electronically equipment. Furthermore, sixty percent of Malaysians is still struggling over buying basic necessities, like food (Scawen, 2014). It is stated that sixty percent of Malaysians get to live on less than $1,600 income each month. Regarding the political system, the current Malaysia Prime Minister is the predecessor of previous political regime. Even though the oppositions alleged that the election was doing fraudulently, Najib Razak was sworn as the Prime Minister in his second term after winning the 2013 elections (BBC News, 2016).

6. Myanmar

Myanmar's poverty level is estimated in the 26 percent from the total population of 53 million. The poverty is worsen by the rural and remote areas that are mainly populated by Myanmar's minority ethnic groups living under poverty line. The numbers of poverty in the rural area reach twice percentage since there are also several conflicting areas. Myanmar was the military-ruled countries. However, it states its transition into the civilian rule under the new constitution and also put the focus on economic reformation under its new constitution (UNDP, 2014).

7. Philippines

The Philippines is one of the Republican states in the Southeast Asia. The total area of this archipelagic country is 300.000 square kilometers with overly

100 millions of people living there. The main commodity to be exported by Philippines is the technical and mechanical equipment. According to the International Monetary Fund the Philippines' unemployment rate is 5,8 percent per 2015 (Perez, 2016). Dealing with the poverty rate, this country shows the decrease of number in every year. Last report by the government stated that the poverty rate is at 21.6 percent.

8. Singapore

As the country with the highest Growth Domestic Product among ASEAN Member States and categorized as an expensive city in the world, the income of individual also measure high (Workman, 2016). However, referring to the issue of poverty, many families cannot afford the basic needs. It is because the influx of foreign workers creates the stagnancy to the blue-collar labors. Thus, the inability to live in a prosperous country also becomes the main issues that the government of Singapore tries to assist with the subsidies. In this 5 millions of population, the growth of people also becomes the main problem. It is because the percentage of elder in Singapore is much higher than the growth of population in the country (Leyl, 2014).

9. Thailand

Thailand has around more than 60 million of population. (Focus Economics, 2017) Looking at the economic condition of Thailand, this country depends on the exports and imports of goods. The exports of Thailand are such as processed food and manufactured goods. According to Asian Development Bank,

10 percent of its population is living under poverty line (ADB, 2016). As Thailand becomes one of the emerging economics in Southeast Asia, Thailand has the problem of instability in political condition. It is noted that from 1932, Thailand has 19 military coups ousted its prime minister and the governance (Heritage Foundation , 2017).

10. Vietnam

Vietnam is the communist country in the Southeast Asia. However, in the few years, Vietnam economic is growing rapidly. The country with 89 million of population created economic policies to increase the growth by focusing to attract the foreign investors, increasing the number of educated citizens, and diversification on agriculture (World Bank, 2013). This economic growth changes the number of percentage of poverty. The percentage of poverty reached 60 percent in the 1990s. However, it decreased to the number of 20 percent in the 2010 (Uyen, 2016).

To conclude, the brief informations of countries' profile among the member states of ASEAN describes several diversities. There are several differences highlighted in the previous description, the geography, the number of population, and the political condition. The area size among ASEAN Member States is varied. This condition also determines the resources of nature. The geography also determines the closest countries to perform a bilateral cooperation, especially in economic issue. Then, economically, the number of population is determining the labor forces.

Secondly, the political condition becomes one of the aspects to be analyzes from the description. ASEAN Member States have different political condition and system. It is affecting on the process of economic integration in the ASEAN, especially in the term of liberalization of its market. Then, the ten member states of ASEAN have different starting point of free-market policies in their home countries is one of the obstacles to integrate its economy. In the end, generally speaking, all countries have the problem on the poverty or on the improvement of society's welfare. Even though, the number of poverty level in all countries is varied but there should be an economic interest in order to pursuit the social welfare for each country.

D. Problem of Economic Disparities within the ASEAN Member States

Assessing from the description in the preceding sub-chapter, the problems of each country mostly are in the socio-political diversity and economic condition. These conditions could become a challenge for the integration of ASEAN. Where one of the problems is the problems of ASEAN Member States towards the socio-political diversity. This situation can lead to the mechanism of driving the regional policies. Among member states, there are different market and financial sector regulation for the integration.

Table 6. ASEAN GDP Comparison
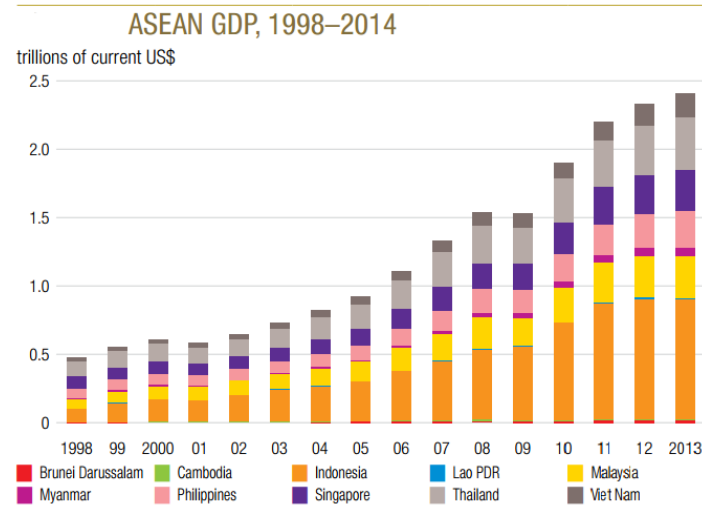
Source: ASEAN GDP (ASEAN Secretariat, 2016)

Then, the picture of ASEAN Member States economic condition portray that the member states have disparate level of economic condition. It will lead to the different implementation on the integration framework (Ramirez, 2016). Economic disparities could lead to several problems, such as the stagnancy of growth. This problem happens within the ASEAN, it was when all member states agreed on the agreement of Common Effective Preferential Tariff (CEPT) scheme.

According to the CEPT Scheme, the member states of ASEAN should reduce their tariff. However, the implementation of each member states will be different. It is because the gap of liberal values in each countries' economic policy. This was also happened because of the CLMV was late to participate in global trade. Thus, the member states have different starting point to begin the deepening economic integration.

While in implementing the scheme, the CLMV countries got loss. To liberalize the economic by reducing their tariff towards the import among AFTA members, these latest member states of ASEAN had revenue losses. The revenue is an economic term which is defined as the income of sales, goods, and services, associated with the main operations of organizations (Business Dictionary). In this case, referring to the report of AFTA, the CLMV Countries lost its taxes revenue from the import mechanism. According to the report of CEPT Scheme in April 2005, the biggest lost was on Laos. Laos lost up to US$ 41 million and it is equivalent to nearly 18 percent of the total government revenue (Jose L.Tongzon, 2005).

Hence, the disparities of economic policies among member states make the benefit of the economic integration is not shared evenly. However, the ASEAN Member States then agree to extend the deadline for the CLMV Countries to reduce its tariff. It was agreed on the AEC Blueprint that the CLMV will be given deadline until 2018 to implement the Protocol to Amend the CEPT Agreement for the Elimination of Tariff and Import Duties.

Secondly, the lack of opportunity also becomes challenges for ASEAN while it deepens its economic cooperation with the wide disparities among its member states. Small and Medium Enterprises (SMEs) in the region are still developing in several countries (Vutha, 2014). The establishment of AEC will lead to the open market. Thus, the member states should ensure their local products will be able to compete in price and quality to prevent the lack of opportunity to compete with products from foreign countries.

Finally, the economic disparities will affect on the labor movement. As it is agreed by the Member States, in the ASEAN Economic Community on its first pillar of Single Market and Production Base stated there on the fifth point of the Blueprint that the members agree to establish the free flow of skilled labor. The ASEAN supports to ease the mobility of skilled labor and professionals among the region (ASEAN Secretariat, 2014). It is supported by the facilitation of visa issuance and employment. The enhancement of professional workers mobility was arranged under Mutual Recognition Arrangements (MRA) in 2005 where it is stated that eight qualifications of professional services are engineer, nurse, architect, geospatial surveyors, medical and dental practitioners, accountants, and tourism professionals

In the other hand, this notion triggered the anxiety for most people of ASEAN. Many people from the member states expressed their unpreparedness towards the free flow of labor in the region. Even only the eight professions based on MRA that will become first priority to mobilize the intra-border recruitment, instead the skilled labor ASEAN is congested with low and unskilled labor. Taking into example, Indonesia, less than five percent of total workforce in Indonesia is having professional certification. Even, to the most populous countries in the region of Southeast Asia many arguments and news covered said that it will be a burden to get an influx of foreign workers while in Indonesia it is reported statistically that there are excessive amount of workforce and there are hundreds of unemployment in the countries (Faisal, 2016).

Then, the problematic perspective from the agenda of AEC is also expressed by the CLMV countries. Comparing to the ASEAN 6, CLMV are also the latest member of regional and global cooperation. According to statistical data from The Organization for Economic Co-Operation and Development around 5-10 percent of the labor forces in the CLMV countries could come from ASEAN-6 countries and pressure the labor forces in these countries in the post-ASEAN Economic Community 2015.

It also becomes a concern for the CLMV countries by the free movement of skilled labor will cause the brain drain in these countries. As the estimation from Asian Development Bank that 15-20 percent of skilled labor will move to the ASEAN-6 in order to have high salaries, better living standard, and also better working environment in the foreign countries. The brain drain causes the lack of professional workers in the domestic to create development in the CLMV countries (Hoang, 2013).

Besides the big unemployment numbers in certain countries, there is the large number of illegal migrant workers that caused by the lack of implementation for migrant workers policies. Especially in the CLMV countries, they have the high number of illegal migrant workers. For instance, most migrant workers in the agricultural and industrial sectors in Thailand are coming from Myanmar illegally. According to data in the earliest of 2016, Thailand authorities arrested more than 10.000 illegal migrant workers with Myanmar nationalities. The officers can have around 1000 migrant workers where they are illegally enter Thailand and the illegal workers will be deported back to the home country (Gerin, 2016).

By giving the description of two points of agreement in ASEAN Economic Community Blueprint, it clearly portrays that the problem is complex. Several agendas cannot be implemented maximally because of development differences and economic disparities. It is described by the preparation of each countries and the need of ASEAN to adjust the provision of its framework in order for all member states share the benefit equitably as it is expressed in the ASEAN Charter.

The stagnancy of growth, lack of opportunities on competition in the region and the lack of labor movement becomes inevitable since the widening gap of economic level among the ASEAN countries. The economic disparities will cause the benefit of integration cannot distributed equitably (Sovachana, 2008). Therefore, this condition should be prevented before the economic integration is failing the notion of ASEAN, especially the ASEAN Economic Community. In the end, these are the problems that one of the causes is the economic disparities in the region. Therefore, stopping the widening of economic disparities is a way to eliminate these problems.