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Journal of Business & Economic Analysis (JBEA)

Vol. 2, No. 1 (2019)

KEYWORDS
- ASEAN
- ASEAN Economic Community
- Absolute Poverty
- Relative Poverty

Received 19 Mar 2019
Revised 03 Jun 2019
Accepted 17 Jun 2019

ABSTRACT

In 2015 ASEAN has become a community which rests on three pillars: political-security, economic and social-cultural (Jetin and Mikic, 2016). The underlying assumption is that economic development will be fostered by a regional integration deepening, namely a "single market and single production base" which should lead to a convergence of social-cultural development thanks to a catching up process of the late-comers and poorest member states vis-à-vis the more advanced ASEAN Member States (AMS) (Jetin, B. 2016a). This implies a convergence of living standards and a strong decline of poverty. The purpose of this paper is precisely to verify the existence of such a process of convergence among AMS and the nature of this convergence. Which countries are converging? How did poverty evolve and what is the social dynamics implied? Section 1 checks if the existence of ASEAN has favoured a process of convergence of living standards or in other terms a reduction of inequality between countries. In section 2, we show that in several ASEAN countries, absolute poverty has receded but has been replaced by relative, poverty which creates its own set of expectations and potential frustrations. Finally, in section 3, we focus on the emergence of the middle classes and their potential effect on the socio-economic dynamic of ASEAN countries.

CITATION INFORMATION

Jetin, B. (2019). ASEAN Economic Community: the shift from absolute to relative poverty, and the rise of the middle class. *Journal of Business and Economic Analysis*, 2(1), 58-73.

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1. Are living standards converging in Asia and in ASEAN?

Regional integration is expected to foster economic growth insofar as it increases foreign trade and investment which have a positive effect on growth thanks to static (better allocation of resources) and dynamic effects (economies of scale and of agglomeration). More, regional integration may provide regional public goods such as better governance, sharing of information on best practices, coordination of public policies, development of regional infrastructure for improved connectivity, functional cooperation in critical areas (agriculture, food, water, pollution, health), adoption of common rules and regulation (Velde 2011). According to the neoclassical growth model (Solow 1956), countries with similar preferences and technologies will see their GDP per capita converge spontaneously.

In case of regional integration, the process of convergence is accelerated, because increased trade and higher mobility of capital and labour benefit less-developed country-members more than advanced ones (Barro & Sala-i-Martin 1991). The formers have a higher rate of return than the latter's and will attract more foreign investment which transfers new technologies and know how, while their workers will migrate to richer country-members in search of higher wages. The process of catching up is therefore the essence of convergence. This theoretical approach has received much criticism (Herr and Ruoff 2018) that we cannot discuss here. However, from the mere standpoint of empirical research, one may observe that the expected positive effects of regional integration may not be distributed equally among member countries, which may have different institutional and social capacities to seize these opportunities and benefit from them. This means that regional integration does not lead automatically to a reduction of between-countries inequality.

As a consequence, the existence of a process of convergence has to be checked empirically on a case by case basis. Most of the empirical literature has focused on β convergence, which determines whether or not poor countries are growing faster than richer countries, and δ convergence, which tests whether or not dispersion between per capita income levels decline over time. The conclusions are not consensual because the results are very sensitive to the sample of countries selected, to the covered period, and to the specificities of the econometric investigation. Regarding ASEAN, two articles stand out. Lim and McAleer (2004) study the early period of 1965-1992 and focus on the founders of ASEAN (Indonesia, Malaysia, the Philippines, Singapore and Thailand)[2]. The β convergence is not significant and the δ convergence indicates greater divergence among ASEAN5. They conclude that, "overall, this paper finds no evidence of convergence within the ASEAN-5 countries, and within ASEAN-5/USA

[2] ASEAN was founded in 1967

in a time series framework, using the unit root and co-integration techniques" (p 13). Limited convergence is found between Singapore and the USA.

Similarly, no evidence of catching up is found except between Singapore and the USA. A more recent paper by Gugler and Vanoli (2017) analyse all ASEAN member states for the period 2000-2014, which includes countries with very large income gaps and the years that followed the great recession of 2008-09. Their findings "indicate an average annual rate of σ-convergence per annum of approximately 1 per cent, a rate of 0.4-0.6 per cent for β-convergence over the period 2000-2014" (p 618). "A process of convergence is at work but is very slow compared to other regions, in particular the European Union where it is estimated at 3.5 per cent for σ-convergence and of approximately 1.3 per cent for β-convergence over the period 2000-2008" (p 618). This means that the launch of the AEC in 2015, which was announced long before with the progressive implementation of the ASEAN Free Trade Area (AFTA) signed in 1992, has had a limited effect on convergence.

Our own calculations confirm these findings. We have calculated the Theil index of real GDP[3] over the period 1970-2014 for Asia and the Pacific one hand and for ASEAN on the second hand. We have adopted this historical perspective to see if, despite historical events and economic cycles, countries tend to converge or not.

The Theil entropy index is calculated as follows:

$$T = \sum_{i=1}^{n} y_i \ln \left(\frac{y_i}{p_i}\right) \qquad (1)$$

Where, y_i is the share of country i in the total expenditure and p_i is the share of country i in the total population of all countries in the sample[4].

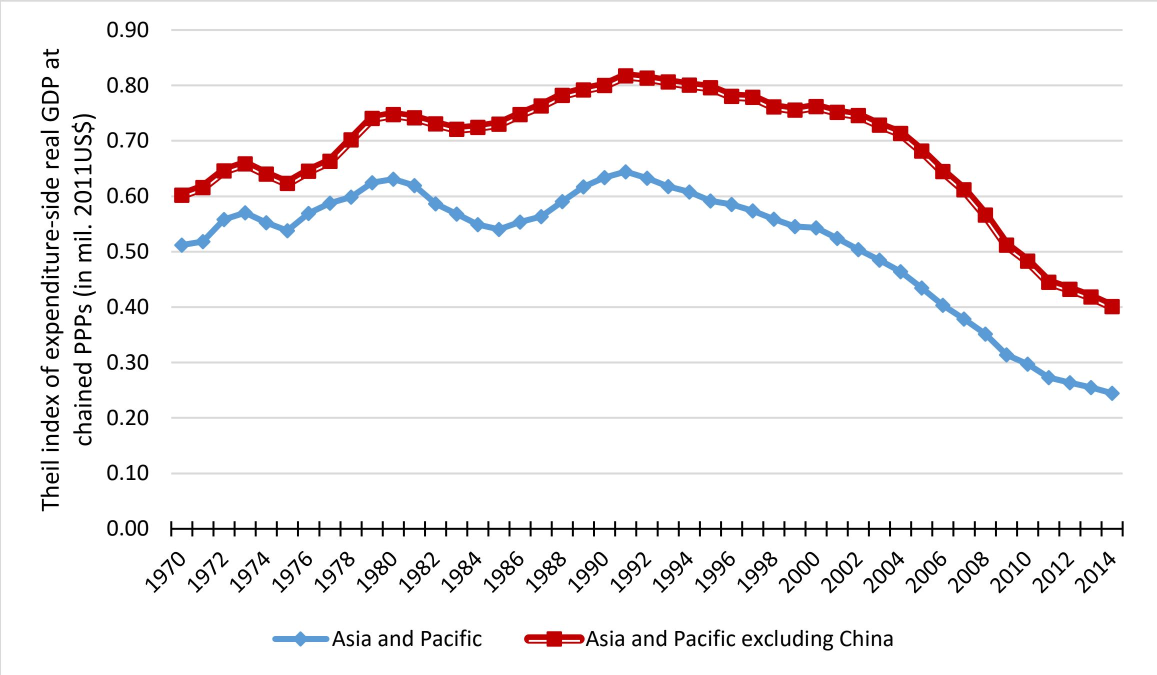
A decrease of the index reflects a reduction of inequality and vice-versa[5]. Figure 1 shows that after two decades of fluctuations, there is a clear and steady reduction of inequality between countries in the Asia and Pacific region, which is made of a wide variety of countries at different stages of development.

[3] The real GDP is calculated by the expenditure approach and is expressed in millions of USD2005 at chained PPP. Source Penn World Tables version 9.0

[4] We follow the same methodology as Park (2003) but with a larger set of countries (25 instead 19) and Penn World Tables version 9.0 instead of version 5.6

[5] There is perfect equality when each country has an expenditure share equal to its population share in which case T = 0. The Theil index assumes a maximum value of ln(n) when there is complete inequality so that all GDP accrues to only one country

Figure 1: Convergence of living standards in the Asia Pacific, 1970-2014



Theil index of Expenditure-side real GDP at chained PPPs (in mil. 2011 US$). Source: Author's calculations with data from Penn World Tables version 9.

This reflects the rise of China which is catching up with the most advanced countries of the region. If China is excluded from the sample, the decrease of inequality between countries, or in other terms, the convergence of living standards, starts later, at the beginning of the years 2000. This proves that the process of convergence is not restricted to China and involves the rest of Asia Pacific. However, when one looks at ASEAN as a sub-region, to check if the same phenomenon is occurring between country members, the picture is quite different. Figure 2 displays the long-term evolution of between-country inequality among ASEAN founders (Indonesia, Malaysia, the Philippines, Thailand and Singapore) and ASEAN as it is today[6].

We have grouped newcomers with the founder members since 1970 to see if inequality between these countries, which would later form ASEAN, behaved differently than the sole ASEAN founders. We indicate on Figure 2 at which date the newcomers have joined ASEAN, but they are included fictively in ASEAN since 1970[7]. The objective is to observe the existence of convergence or divergence among member states and if the creation of ASEAN had any clear impact on the trend.

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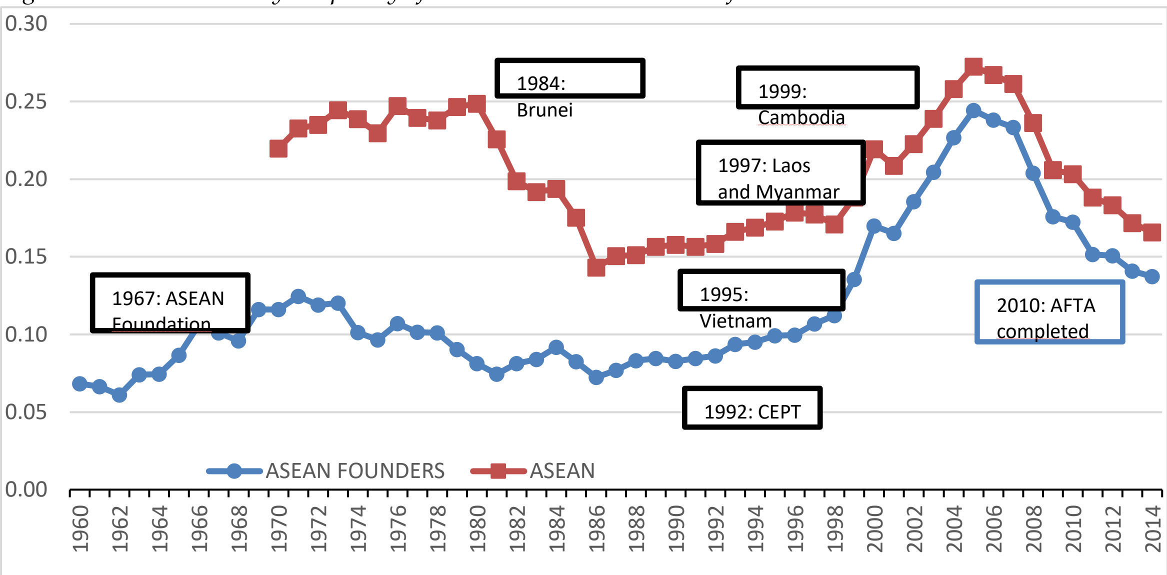
[6] Brunei joined ASEAN in 1984, Vietnam in 1995, Laos and Myanmar in 1999 and Cambodia in 1999. Myanmar is excluded of the sample for lack of data

[7] This means that the accession of Brunei in 1984 does not explain the decline of the Theil index in the following years because Brunei has in fact be included fictively since 1970, like Cambodia, Vietnam, and Laos

Figure 2: between-country inequality of total ASEAN and ASEAN founder countries



Theil index of Expenditure-side real GDP at chained PPPs (in mil. 2011 US$). Source: Author's calculations with data from Penn World Tables version 9

The first observation is that for both ASEAN founders and the whole ASEAN, there has not been a clear trend towards convergence of living standards over the whole period. This contrasts with what has been observed in the European Union case where the Theil index has declined steadily during the first decades of the European integration (1960-2000) (Park 2002). After 2000, the divergence rose slightly in the euro and in the EU15 areas, in particular after the great recession of 2008-09. For the EU as a whole (27 members), there is a decline of inequality between countries over the period 2007-2014, or in other terms, a process of convergence (Filauro 2018; Fulterer and Lungu 2018).

In the ASEAN case, the Theil index of the ASEAN founders in 2014 (0.14) was higher than its value in 1960 (0.06) or in 1967 (0.10) when ASEAN was launched. In between, it has risen over the period 1986-1996, when most ASEAN founders took off and experienced an economic boom (with the exception of the Philippines). The Asian crisis (1997-98) provoked a steep rise of divergence because Malaysia, Singapore and Thailand bounced back swiftly while it took several years for Indonesia to recover. After 2005, the sharp decline of the Theil index, precisely testifies that Indonesia, the largest Southeast Asian economy is finally back on a steady growth path of around 6%, whereas the other founders also enjoy a growth of the same pattern. For the total ASEAN, the Theil index is higher than for the founders which reflects the larger heterogeneity of the countries. In 2014, it was much below (0.17) its average of the seventies (0.23) but it has experienced the same wide fluctuations. These are better explained by the pace of world growth and the capacity of ASEAN members to benefit from it rather than by the regional integration propelled by ASEAN.

Figure 2 shows that the Common Effective Preferential Tariff scheme (CEPT), which started the process of reduction of tariffs to create an ASEAN Free Trade Area

(AFTA)[8], was launched in 1992 at the eve of the major surge of divergence among ASEAN members. The convergence then starts in 2005, long before the AFTA was completed in 2010 and before the launch of the ASEAN EC in 2015. Over this period, intra-ASEAN trade has stayed at a rather low level of around 25% of total ASEAN trade. The integration to the rest of Asia and the Pacific, and beyond to global markets, has been far more decisive. China's growth and its strong demand of Southeast Asian imports played a major role. This had a positive impact which explains the convergence of the whole ASEAN and the catch-up process by the poorest members, (the so-called CLMV countries). One may observe that the great recession of 2008-09 has not led to a new episode of divergence because the Chinese economy recovered quickly and drove ASEAN out of the crisis.

To have a better understanding of the nature of the convergence, we now compare all the AMS with Thailand. Thailand is taken as a benchmark due to its intermediate position in terms of size of the population and of GDP as well as level of economic development. Table 1 presents the average rate of growth of all AMS and of China and India during the boom period (1991-96) of ASEAN founders, and during the growth periods between the Asian crisis (1997-98) and the Great Recession (2009-2010). As is well known, China has enjoyed very high growth until the Great Recession but has now entered a phase of slowdown while India's growth is accelerating but will probably not reach the extraordinary rate of development of China and will not fully offset China's deceleration.

Table 1: A middle income trap?

	Average Rate of Growth of GDP per capita, PPP 2011 $		
	1991-1996	**1999-2008**	**2010-2016**
Brunei Darussalam	0,3	0,1	-1,4
Cambodia		7,5	5,3
Indonesia	5,5	3,3	4,2
Lao PDR	3,6	5,1	6,4
Malaysia	6,8	3,6	3,6
Myanmar	4,6	11,4	6,6
Philippines	0,4	2,6	4,6
Singapore	5,1	3,7	3,6
Thailand	6,7	4,0	3,2
Vietnam	6,6	5,3	4,9
China	10,6	9,5	7,6
India	3,4	5,2	6,0

Source: Author's calculations with data from World Development Indicators 2018, World Bank.

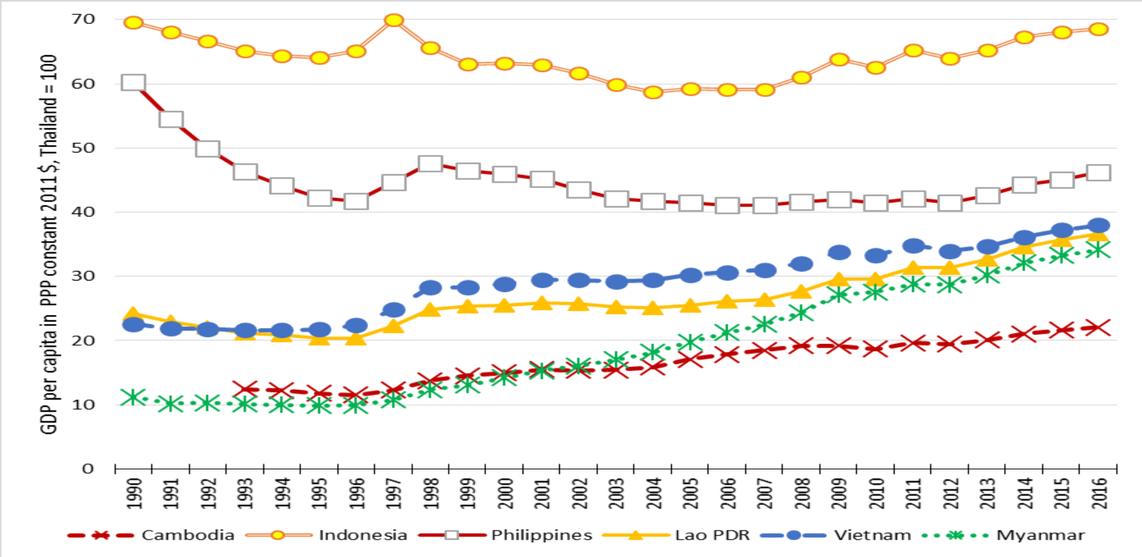
It can be seen that growth is clearly slowing down in Thailand and to a lesser extent in Malaysia and Singapore and this has raised the question of the middle-income trap[9].

[8] The AFTA was completed among ASEAN founders in 2010 and among all ASEAN countries in 2015 with the launch of the ASEAN Economic Community (ASEAN EC). In fact, all tariffs have been reduced to zero but many non-tariffs barriers remain

[9] Brunei's GDP per capita has stagnated at a high level since the nineties and has even regressed over the 2010-2016 period in part due to the level of oil prices

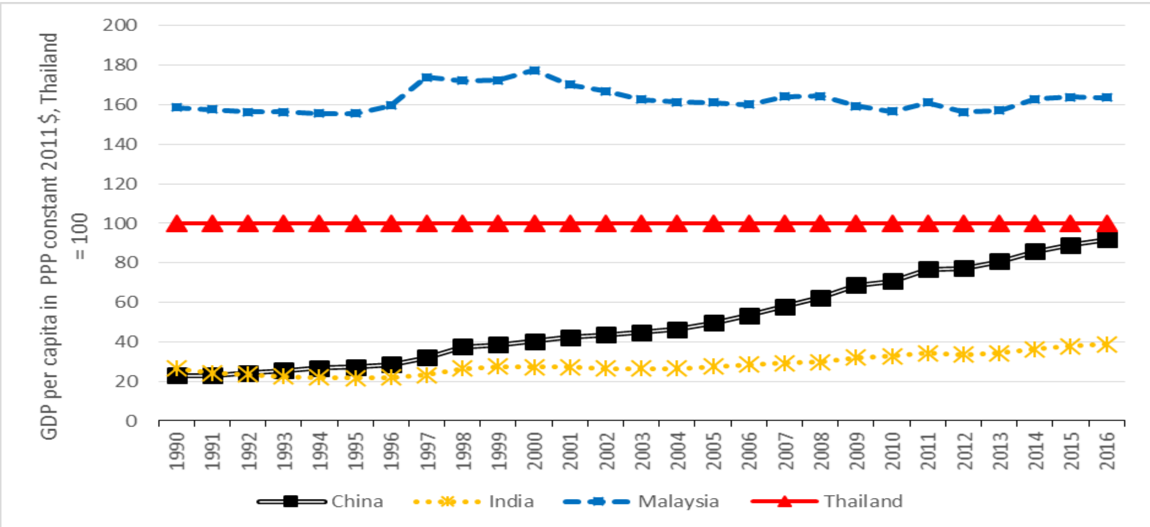
At the opposite, growth has accelerated in Indonesia and the Philippines, which have lower GDP per capita, and in the CLMV countries which are even poorer. This highlights the process of convergence with a new light (see Figure 3).

Figure 3: A convergence of low (Cambodia, Lao PDR, Myanmar, and Vietnam) and middle low (Indonesia, Philippines) income countries towards Thailand



Source: Author's calculations with data from World Development Indicators 2018, World Bank

Figure 4: Thailand is not catching up with Malaysia, but China is catching up with Thailand



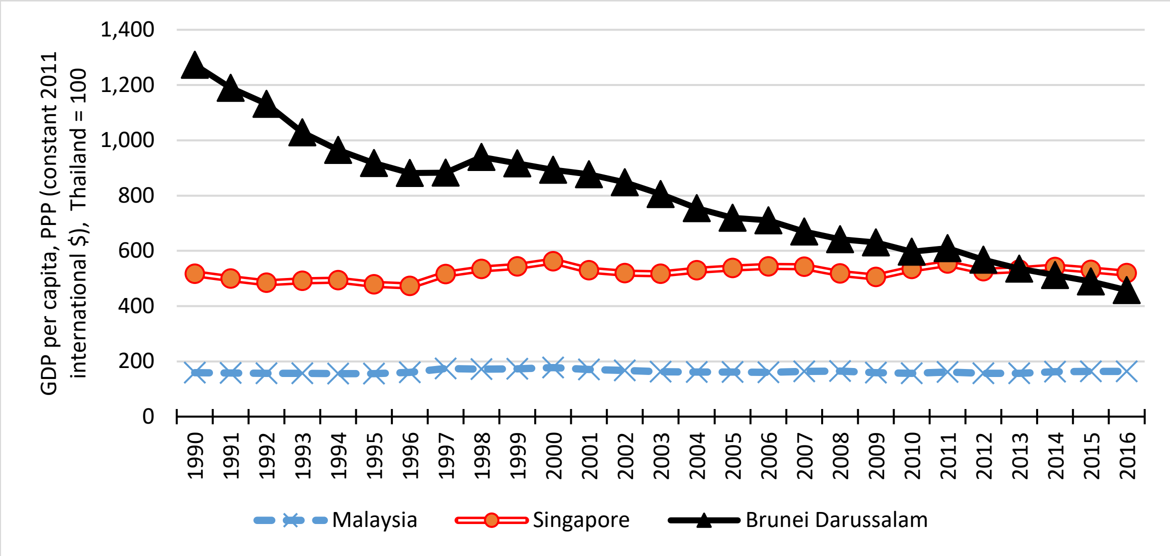
Source: Author's calculations with data from World Development Indicators 2018, World Bank

Indonesia, the Philippines and the CLMV are narrowing the gap with a decelerating Thailand, but the gap between Thailand and the richest ASEAN countries - Malaysia, Singapore and Brunei – is not closing[10] (see Figure 4).

[10] In 2016, the GDP per capita in $PPP2011 in Singapore, Brunei and Malaysia was respectively 5.2, 4.6 and 1.6 higher than the one from Thailand

Malaysia itself has maintained the same distance with Singapore. The only change among the top three AMS is the continuous decline of Brunei's GDP per capita from a very high level down to below Singapore's (see Figure 5).

Figure 5: And Malaysia is not catching up with Singapore



Source: Author's calculations with data from World Development Indicators 2018, World Bank

On the whole, this can be called a convergence toward ASEAN's middle and not towards its top end. If this half-baked convergence persists in the long-run, a two-tier ASEAN will emerge and stabilise. Three high-income countries (Brunei, Malaysia, and Singapore) on one side and seven lower-middle and upper-middle countries on the other side. This is an important achievement in itself due to the fact that in the latter group, many countries were low-income countries not so long ago. As we shall see in section 2, this convergence leads to a change into the poverty issue. Absolute poverty is becoming less of a problem, while relative poverty, or in other terms inequality, is turning into the key social issue.

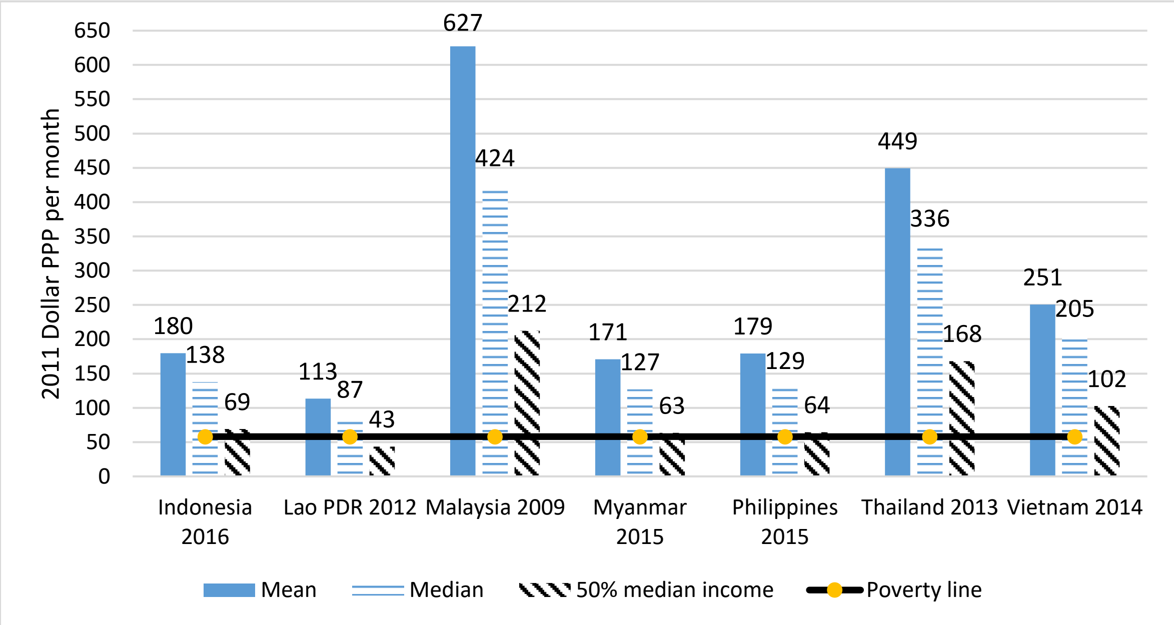
2. A shift from absolute to relative poverty

In ASEAN countries, many publications have highlighted that absolute poverty headcount has been decreasing dramatically during the last two decades (ADB 2014b). But this important achievement has overshadowed the rise of relative poverty. Absolute poverty is defined in regard of the cost of basic needs deemed necessary for survival and is, for this reason, the concept used in poor and less developed countries. Relative poverty lines are defined in relation to the overall distribution of income for instance 50% to 70% of the median national income (OECD 2009). They measure the distance from customary living standard in developed countries and thus include distributional concerns in the definition of poverty (Garroway and Laiglesia 2012: 29-30; Birdsall and Meyer 2014).

The interest of the concept of relative poverty is thus to show when a country starts to be more concerned with inequality than absolute poverty and to evaluate the share of the population which can satisfy basic necessities but is still struggling to make ends meet and is excluded from certain aspects of social life.

Following Jetin (2016b), we use Povcalnet to calculate the share of relative poverty in the countries where at least half the median income level is above the international absolute poverty line defined by the World Bank, i.e. 2011 $PPP 1.9 per day or $57.8 per month. Figure 6 shows that five countries[11], Indonesia, Malaysia, Myanmar, the Philippines, Thailand, and Vietnam fill this criterion but not Laos where half of the median income level is still below the absolute poverty line.

Figure 6: Absolute and relative poverty in Southeast Asia around 2009-2016 here



Source: Author's calculations with data from Povcalnet, World Bank, accessed on 20 January 2018

In Malaysia and Thailand, absolute poverty, according to the World Bank definition, has been below 2% since respectively 1989 and 1998. In the latter countries, the decline of absolute poverty below the 10% level dates back to 2010 or to more recent years.

Table 2 presents an estimation of the magnitude of absolute and relative poverty in the countries for which data is available. To be considered relatively poor, an individual must earn between 50% to 70% of the median income[12]. In the four countries (Indonesia, Myanmar, the Philippines and Vietnam), relative poverty

[11] On top of Singapore and Brunei for which data is not provided in Povcalnet. No data for Cambodia was provided in $ 2011 PPP at the time Povcalnet was accessed in January 2018

[12] Unfortunately, data are not available for Singapore and Brunei. However, using a similar methodology but different data, Donaldson et al. estimate relative poverty for Singapore at 21%

headcount represents between 18 to 25 % of the population (see Table 2), and constitutes the bulk of poverty.

Table 2: The respective magnitude of absolute and relative poverty

Countries	Absolute	Between absolute	Between 50%	Total	Total
Indonesia 2016	6,8	6,6	17,6	24,1	31,0
Lao PDR 2012	22,7		2,9	2,9	25,6
Malaysia 2009	0,3	20,6	13,3	33,8	34,1
Myanmar 2015	6,5	2,7	15,2	17,9	24,4
Philippines 2015	8,3	3,8	17,0	20,8	29,1
Thailand 2013	0,0	14,8	13,6	28,4	28,4
Vietnam 2014	2,8	10,3	14,2	24,5	27,3

Source: Author's calculations with data from Povcalnet, World Bank, accessed on 20 January 2018.

Three other countries are in an intermediate situation: Indonesia, the Philippines and Myanmar have a half median income slightly above \$58, the monthly absolute poverty line (see figure 6), which means that in these countries absolute poverty is still a significant social issue even if the absolute poverty headcount is now below 10%. But if GDP per capita growth continues on the same trend, we may expect a further decline of absolute poverty and a rise of relative poverty in the near future. The same process will take much longer for Lao PDR where the half-median income (\$43) is still far from the absolute poverty level.

This broad picture of the changing nature of poverty in ASEAN confirms that the next economic and social issue will be the rise of inequality and the way it is perceived. To get a closer look to this evolution, we now turn to a more disaggregated level of analysis that tries to capture the rise of the middle class in ASEAN.

3. The rise of the middle class in ASEAN

To do so, we define an economic stratification which breaks down relative poverty in two categories, moderate poverty and near poverty, and the middle class into a lower and an upper tier middle class[13]. The rise of the middle class in Southeast Asia stems from the high rate of economic growth that the region has enjoyed and the changing nature of poverty that followed (Jetin 2018). Basically, as absolute poverty receded, new fractions of the population moved to higher living standards, new necessities and new expectations. All countries of the region are affected although at different times and with a different magnitude. At one extreme, Singapore, with its high level of per capita income, is the first country where the middle class has become pervasive since the 1980s at least (Rodan 1992).

[13] All dollar values for section 3 are reported in 2005 Purchasing Power Parity Terms (PPP) terms and are taken from Povcalnet, World Bank, accessed in 20 January 2018. It was not possible to update the income thresholds as the 2005 PPP values cannot be converted into 2011 PPP values. This implies that unfortunately data from table 3 cannot be readily compared with previous tables and figures

At the other extreme, in less developed countries like Cambodia and Lao PDR, absolute poverty is still a key issue and the middle class is only starting to emerge. To embrace this diversity and see how it has evolved, one needs to define more precisely the middle class in economic terms. Like in other social sciences, there is no consensus in economics around a definition and an associated metrics of the middle class. At first sight, analysing the middle class involves the comparison of a group of people occupying a median position in a country to other groups which are poorer or richer. This leads to defining economic classes in relative terms and this is a usual approach in rich countries where the vast majority of the population lives above the subsistence level. However, this approach is less relevant in developing countries where precisely a significant, if not the majority, of the population is living below or slightly above the subsistence level. More, as relative measures may be specific to one country, regional comparisons are turned more difficult. As a consequence, an absolute measure of economic classes is often privileged when analysing the middle class in developing countries.

Usually, authors distinguish between a "secure" and an "insecure" middle class to emphasize that part of the middle class is made of households who are just getting out of poverty although the criteria adopted may be different (Birdsall 2015; Wietzke and Sumner 2014; Kapsos and Bourmpoula 2013; Banerjee and Duflo 2008). Birdsall, for instance, uses the absolute criterion of a daily income of US$10 a day[14] as a crude cut-off to differentiate between these two segments also called "affluent" and "struggling" middle class. The former is far above the poverty threshold and has a lower probability to fall back into poverty. It includes people earning between $10 and $50 a day, an income which placed them at the level of the middle class in advanced countries. The latter, also called "lower income", "vulnerable" or "fragile" middle class, earns an income between $4 and $10. This is above the poverty threshold of $2 a day[15], but close enough which means that this insecure middle class has a higher probability to fall back into poverty in case of economic shock. For the same reason, the near poor earning between $2 and $4 a day, are usually not considered part of the middle class because their living standards and level of insecurity are very similar to those living in moderate poverty. What justifies more specifically that the "strugglers", people earning between $4 and $10 a day, are part of the middle class? Firstly, unlike the poor they are able to save a share of their income and make plan for

[14] Formally, these values for Southeast Asian countries except Malaysia refer to daily consumption and not income contrary to the practice in advanced and Latin American countries. This tends to underestimate the importance of the middle class in Asia, precisely because middle class households save part of their income and do not spend it all in consumption like the poor

[15] Based on the 2005 International Comparison Program (ICP) of the World Bank, a $2 a day level can be considered "moderate" poverty unlike the $1.25 a day level which corresponds to absolute poverty when people cannot satisfy basic needs like food and shelter. The 2011 ICP has put the absolute poverty level at $1.9 a day but the updated data was not available for Cambodia and Lao PDR in June 2016. We decided to use 2005 values instead

the future. And secondly they tend to resemble the "affluent" middle class in terms of consumption and health (Wietzke and Sumner 2014: 13). They spend significantly less on food and basic necessities than the poor and near poor (Banerjee and Duflo 2008: 7).

The strugglers also have a better and larger home with access to electricity and better sanitation. They spend more on health and have a better life expectancy than the poor. They invest more on their children' education than the near-poor and the poor. For instance, one-fifth of the middle class in Vietnam and one quarter in Indonesia held a tertiary degree against less than one-tenth for the near-poor (Huynh and Kapsos 2013). Access to tertiary education in Asia is even more widespread in the affluent middle class. In summary, although there is no clear-cut differences in all aspects, shifting from the near-poor to the strugglers categories marks the passage from "barely enough" to "slightly more than enough" and the start of a change of lifestyle[16]. The emergence of the middle class in Southeast Asia can be observed in Table 3.

Table 3: The rise of the middle class

	Absolute	Moderate	Near	Struggling	Affluent	Middle	Daily income of the	
$PPP 2005 per	Up to $1,25	Up to $ 2	$2-$4	$4-$10	$10-$50	$4-$50	Mean per	Median
Lao PDR (2012)	30,3	62,0	29,4	7,6	1,0	8,6	2,2	1,7
Cambodia	10,1	41,2	44,5	12,9	1,5	14,3	2,8	2,2
Indonesia	15,0	44,8	39,2	14,8	1,3	16,0	2,8	2,2
Indonesia	17,4	41,8	35,1	19,1	3,9	23,1	3,4	2,3
Philippines	19,0	41,7	33,4	20,4	4,5	24,9	3,4	2,3
Vietnam (2012)	2,4	12,4	36,1	43,5	8,0	51,5	5,2	4,1
Thailand	0,0	3,5	27,4	49,0	19,8	68,7	7,6	5,5
Malaysia	0,0	2,3	15,6	37,2	42,1	79,3	13,3	9,0

Source: Author's calculations with data from World Development Indicators 2018

Not surprisingly, the relative importance of the middle class and of the poor depends on the level of economic development. In only three countries, Malaysia, Thailand and Vietnam, the two segments of the middle class, the strugglers ($4 to $10) and the affluent ($10 to $50) combined, form a majority with respectively 79%, 69% and 51.5% of the population. Malaysia is the only country of the sample where the affluent middle class is the largest segment (42%).

In Thailand, the affluent middle class is significant but much smaller (20%) and the struggling middle class is far larger (49%). In Vietnam, the affluent middle class is even smaller (8%) while the struggling middle class (43.5%) is comparable to that of Thailand. In urban Indonesia and the Philippines, the middle class is between one fifth and one quarter, and in rural Indonesia, Cambodia and Lao PDR, it is still below one fifth. In all cases, the struggling dominates a very small affluent middle class and poverty (up to $2) is the primary issue, ranging from 40% to 60% of the population.

[16] This economic class stratification fits broadly with sociological class stratification. For instance, in the Indonesian case, Gerke (2002), observe the existence of a "folk model" which differentiates between those who can "barely make it", those who have enough (cukupan) and those who are "rich people" (orang kaya)

Absolute poverty is still high, especially in Lao PDR (30%). To complete the description, Myanmar, for which no data is available, belongs without doubt to the bottom category. At the other extreme, Singapore and Brunei Darussalam are countries where the middle class forms the majority of the population like in Malaysia.

4. Conclusion

ASEAN has enjoyed a long period of economic growth that is due primarily to its integration into the global economy more than to a self-centred process of development like in the EU. The launch of the ASEAN Economic Community will reinforce this integration thanks to the deepening of the global value chains in the region. This high growth and the enlargement of ASEAN to the poorest countries of Southeast Asia, the so-called CLMV, has prompted a convergence of living standards between AMS. The income gap between the poorest countries (CLMV, Indonesia and the Philippines) and Thailand is closing but the gap between Thailand and the richest AMS remains mostly the same. This "convergence to the middle" is accompanied by a reduction of absolute poverty and to a rise of relative poverty. One salient feature of this process is the rise of the middle class which became the largest segment of the population in five of the ten AMS. This change in the distribution of income will shift the social demand away from coping with basic necessities towards more qualitative demands such as better education systems, improved health system, better connectivity which are perceived as necessary for equality of opportunities.

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