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Income Inequality in ASEAN: Perceptions on Regional Stability from Indonesia and the Philippines



**S. RAJARATNAM SCHOOL
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Abstract

Income inequality has been a growing concern since Global Financial Crisis. But how do regional institutions contribute to the debate on income equality?

ASEAN's normative framework is underpinned by the principle of non-interference while ASEAN has a mandate to establish an *equitable* economic community post 2015. This study examines if regional income inequality is considered a regional problem, and if so, is the concern significant enough to overcome the principle of non-interference allowing ASEAN to play a greater role in policy formation.

In section one, analysis on income inequality within ASEAN demonstrates that the current income gap is between the wealthiest countries and the other member states not the ASEAN-6 and the CLMV. Overall, ASEAN is characterised by increasing income inequality, convergence on human development, and increasingly poor governance and institutional quality.

Section two presents a survey of policy makers in Indonesia and the Philippines. The survey objectives are to gather quantitative and qualitative data on perceptions of income inequality and institutional effectiveness specifically to understand perceptions on ASEAN's activities under the Narrowing the Development Gap (NDG) initiative.

This study concludes that with deepened regionalism post-2015, policy makers recognise the concern over regional instability due to disparities in income inequality. Concern over instability creates institutional demand for ASEAN policies. At a normative level the realisation of the ASEAN Economic Community (AEC) seeks to support inclusivity in Indonesia and the Philippines' national economic institutions.

This paper recommends that the ASEAN Secretariat explicitly monitor income inequality so indicators under the NDG initiative are measured against trends in income inequality to facilitate discussions on how to maximize regional stability. Institutionally, ASEAN must promote the uptake of a local normative framework on how to rationalise and manage income inequality in order to sustain long-term stability and prosperity.

Biography

Matthew J. Bock is privileged to have researched, worked, lived and traveled extensively throughout the Asia Pacific.

Matthew completed his BA in International Studies at University of Northern British Columbia and his MA in Asia Pacific Policy Studies at the Institute of Asian Research in the University of British Columbia. Academically Matthew's studied human security issues and the political economy of the Asia Pacific.

In terms of research interests, Matthew focuses on the economics and institutions of the Asia Pacific with an expertise in perceptions surveys and strategic studies. He has conducted research at the Centre for Strategic and International Studies – Jakarta and has guest lectured at Yogyakarta State University. Previously, while living in Seoul, South Korea, he was a researcher examining denuclearization and North-South reunification issues at the Civil Network for a Peaceful Korea.

Matthew has published academic articles on land conflict between formal communities and informal migrant in rural Indonesia and on perceptions of Indonesia's strategic engagement at the G20. He has also published the topics of democratisation and development on respected policy forums.

Under the ASEAN-Canada Research Partnership, Matthew is investigating perceptions on inequality within ASEAN with regards to the development of the ASEAN Economic Community. He is looking at regional patterns on income inequality and policy mechanisms to foster inclusive development.

Professionally, Matthew has developed inclusive business models through renewable energy production utilising waste products from smallholder farmers in rural Indonesia. He is also a representative of the policy committee with the Indonesia-Canada Chamber of Commerce.

Matthew appreciates the beauty of the cherry blossoms in Korea and the misty mornings of the Sumatra highlands.

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'The natural distribution is neither just nor unjust; nor is it unjust that persons are born into society at some particular position. These are simply natural facts. What is just and unjust is the way that institutions deal with these facts.'

— John Rawls, *A Theory of Justice*

Introduction

The issue of economic inequality has been a growing concern since the 2008 Global Financial Crisis. Outrage over inequitable access to goods and services along with high income inequality have contributed to protests across Western countries and the upheaval during the Arab Spring. Uncertainty over China's economic slowdown is increasing as stability is inextricably intertwined with high economic growth, while social unrest in Turkey and Brazil has garnered greater attention.¹

As governments struggle to find policy solutions that balance economic growth, wealth distribution, poverty reduction, and access to services, societies are seeking the appropriate discourse to make sense of perceived injustices.² Policy narratives have become increasingly important during this period. But how do regional institutions contribute to the debate on equality? Are regional organisations relevant institutions to devise policy strategies on income equality?

In the first section, analysis on income inequality within ASEAN calls to question the validity of current models that maintain a binary division between Cambodia, Laos, Vietnam, and Cambodia (CLMV) and the ASEAN-6 (Singapore, Brunei, Malaysia, Thailand, Indonesia, the Philippines). Data shows that divide between the three 'middle' income economies (Thailand, Indonesia, the Philippines) the wealthiest countries (Singapore, Brunei, Malaysia) is significant: in 2010 the three wealthiest ASEAN members had a GDP per capita fifteen times that of CLMV while the 'middle' group was only double the CLMV average.

ASEAN is characterised by increasing income inequality, convergence on human development, and increasingly poor governance and institutional quality.³ Based on these trends, this paper is a theoretical inquiry on perceptions of the stability of the system: Will deepened ASEAN integration post-2015 exacerbate income inequality or will increases in human developed, economic opportunity and reduced absolute poverty be sufficient to maintain social and political stability?

ASEAN's normative framework is underpinned by the principle of non-interference which generally relates to political and security issues. Another regional norm is that leaders attempt to formulate common responses to regional problems.⁴ In practice, ASEAN has a mandate to establish an *equitable* economic community post 2015. Thus this study examines if regional income inequality is considered a regional problem, and if so, is the concern significant enough to overcome the principle of non-interference allowing ASEAN to play a greater role in policy formation.

¹ See Peter Drysdale, 'China Struggles with the Way Forward on Reform', East Asia Forum, accessed 25 November 2013; Girish Gupta, 'Brazil's Protests: Social Inequality and World Cup Spending Fuel Mass Unrest', *Time*, accessed 25 November 2013; IISS, 'Turkey's Civil Unrest: A Worrying New Era?', Strategic Comments, 24 June 2013.

² Aaron Taube, 'Maybe Occupy Wall Street Wasn't Such a Failure After All', *Business Insider*, 17 September 2013.

³ David Carpenter and Mark McGillivray, 'Narrowing the Development Gap: Policy Recommendations for ASEAN and Development Partners', in *Narrowing the Development Gap in ASEAN: Drivers and Policy Options* (USA: Routledge, 2013), 178–200.

⁴ Amitav Acharya, "Do Norms and Identity Matter? Community and Power in Southeast Asia's Regional Order," *The Pacific Review* 18, no. 1 (2005): 99.

Section two presents a survey of policy makers in Indonesia and the Philippines. This study focuses on policy and perceptions of inequality within ASEAN (the region) and the role of ASEAN (the institution) to maintain stability with deepened integration. The survey is based on a perception survey model devised by Franklin B. Weinstein and later revised by Daniel Novotny.⁵

The survey objective is to gather quantitative and qualitative data on perceptions of income inequality and institutional effectiveness vis-à-vis ASEAN's activities in the Narrowing the Development Gap (NDG) initiative. The study assesses how ASEAN, a regional organisation with limited authority—Cockburn concludes that ASEAN agreements 'exhibit imprecision and low delegation of authority—interacts with national political and economic institutions.⁶

The overall conclusion is that with deepened regionalism post-2015, policy makers recognise the concern over regional instability due to disparities in income inequality. In turn, concern over instability creates institutional demand for ASEAN policies, potentially surpassing the sensitivities with non-interference. At a normative level the realisation of the ASEAN Economic Community (AEC) seeks to support inclusivity in Indonesia and the Philippines' national economic institutions. In both countries there is concern over the quality and effectiveness of national political institutions, which sceptics feel remain subject to vested interests.⁷

Finally, this paper recommends that the ASEAN Secretariat explicitly monitor income inequality so indicators under the NDG initiative are measured against trends in income inequality to facilitate discussions on how to maximize regional stability. Institutionally, ASEAN must promote the uptake of a local normative framework on how to rationalise and manage income inequality in order to sustain long-term stability and prosperity.

Income Inequality and ASEAN

Regional income inequality has become a prominent issue of academic research and policy debate.⁸ Specifically for ASEAN, the focus of the 2013 Southeast Asian Economic Outlook, produced by the OECD and the ASEAN Secretariat, was on income inequality and

⁵ Franklin B. Weinstein, 'The Indonesian Elite's View of the World and the Foreign Policy Development', *Indonesia* 12 (1971); Daniel Novotny, *Torn between America and China: Elite Perceptions and Indonesian Foreign Policy* (Singapore: ISEAS Publishing, 2010).

⁶ Geoffrey B. Cockburn, 'Regional Integration in ASEAN: Institutional Design and the ASEAN Way', *East Asia* 27 (2010): 165–185.

⁷ See David Seth Jones, 'Procurement Reform in the Philippines: The Impact of Elite Capture and Informal Bureaucracy', *International Journal of Public Sector Management* 26, no. 5 (2013): 375–400; Josef T. Yap, *Towards More Meaningful Economic Integration: Narrowing the Development Gap through Development Cooperation* (Philippine Institute for Development Studies, 2013); Vedi R. Hadiz, 'A Political Sociology of Local Elites', in *Localising Power in Post-Authoritarian Indonesia* (Singapore: ISEAS Publishing, 2011), 88–118.

⁸ See Andrew G. Berg and Jonathan D. Ostry, *Inequality and Unsustainable Growth: Two Sides of the Same Coin?*, Staff Discussion Note (Washington D.C., USA: IMF, April 8, 2011); UNDP, *Sustainability and Equity: A Better Future for All*, Human Development Report 2011 (New York, USA, 2011); Asian Development Bank, *Outlook 2012: Confronting Rising Inequality in Asia* (Philippines: Asian Development Bank, 2012); The Economist, *For Richer, For Poorer*, Special Report (London, England, 13 October 2012); Joseph E. Stiglitz, *The Price of Inequality* (New York, USA: W.W Norton & Company, 2012); Ravi Balakrishnan, Chad Steinberg, and Murtaza Syed, *The Elusive Quest for Inclusive Growth: Growth, Poverty, and Inequality*, IMF Working Paper (Washington D.C., USA: IMF, 2013).

narrowing development gaps.⁹ The Economic Research Institute for ASEAN and the Asia Pacific (ERIA) also commissioned a study on ASEAN regional income inequality in 2013.¹⁰ Inequality is not synonymous with inequity. Inequality refers to the 'condition of being unequal, usually related to things that can be expressed in numbers' while inequity means 'injustice or unfairness, usually related to more qualitative matters'.¹¹ Cause for concern arises when society is in a state of inequity due to high and persistent inequality. In terms of perceptions on inequality, poverty reduction is also important. Yap states, 'income cannot be expected to be equal among members of society because of varying abilities and circumstances [but] rising inequality automatically becomes a concern if it is accompanied by an increase in poverty incidences'.¹²

Simply evaluating GDP per capita restricts insight on the distribution of income or expenditure: observers remain uncertain if the average citizen is becoming wealthier or if increased wealth for a select few is increasing the mean national income. As a global norm, a degree of income inequality is considered acceptable as hard work, talent, risk-taking, innovation and opportunity are rewarded through economic returns.¹³ A high degree of income inequality may limit the degree to which a society can improve the overall quality of the lives of citizens.¹⁴ The degree of income inequality that is productive, not detrimental, remains a point of debate.

Kuznets' theory on economic development and income inequality seeks to model the productive trajectory of income inequality as a society moves towards an advanced economy.¹⁵ The Kuznets curve is an inverted U-shaped curve that plots GDP per capita and the Gini coefficient. The theory states that wealth is distributed equally in an agrarian society that has limited resources but through industrialisation, which occurs in a fragmented and segmented manner, income inequality rises as GDP per capita rises. According to the theory, there is a tipping-point in which trickle down effects and public investments elevate the minimum standard of society allowing most people to increase their wealth; consequently, income inequality declines as services play a greater role in the economy. Kuznets' model does not account for externalities and injustices incurred as the economy develops.

Stiglitz summarises the negative outcomes associated with excessive income inequality: growth becomes stagnant, society is divided, wealth captures politics, and society is characterised by a lack of opportunity and mobility.¹⁶ Also, GDP growth paired with rising income inequality may result in shorter growth spells and limited poverty reduction.¹⁷ Although imperfect, assessing inter-generational income distribution is an indication of social mobility. In a society with absolute equal opportunity, a person born into the richest 10% of society would have the same probability (10%) of remaining as part of the wealthiest 10% as a person born into family in the 50th percentile.¹⁸ If the majority of citizens do not feel they

⁹ OECD Development Centre and ASEAN Secretariat, *Southeast Asian Economic Outlook 2013: Narrowing Development Gaps* (OECD, 2013).

¹⁰ Yap, *Addressing Inequality in East Asia through Regional Economic Integration*.

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¹³ Stiglitz, *The Price of Inequality*, 6.

¹⁴ Berg and Ostry, *Inequality and Unsustainable Growth: Two Sides of the Same Coin?*, 5.

¹⁵ Simon Kuznets, 'Economic Growth and Income Inequality', *American Economic Review* 45 (1955): 1–28.

¹⁶ Stiglitz, *The Price of Inequality*, 18.

¹⁷ Balakrishnan, Steinberg, and Syed, *The Elusive Quest for Inclusive Growth: Growth, Poverty, and Inequality*, 8.

¹⁸ Stiglitz, *The Price of Inequality*, 19.

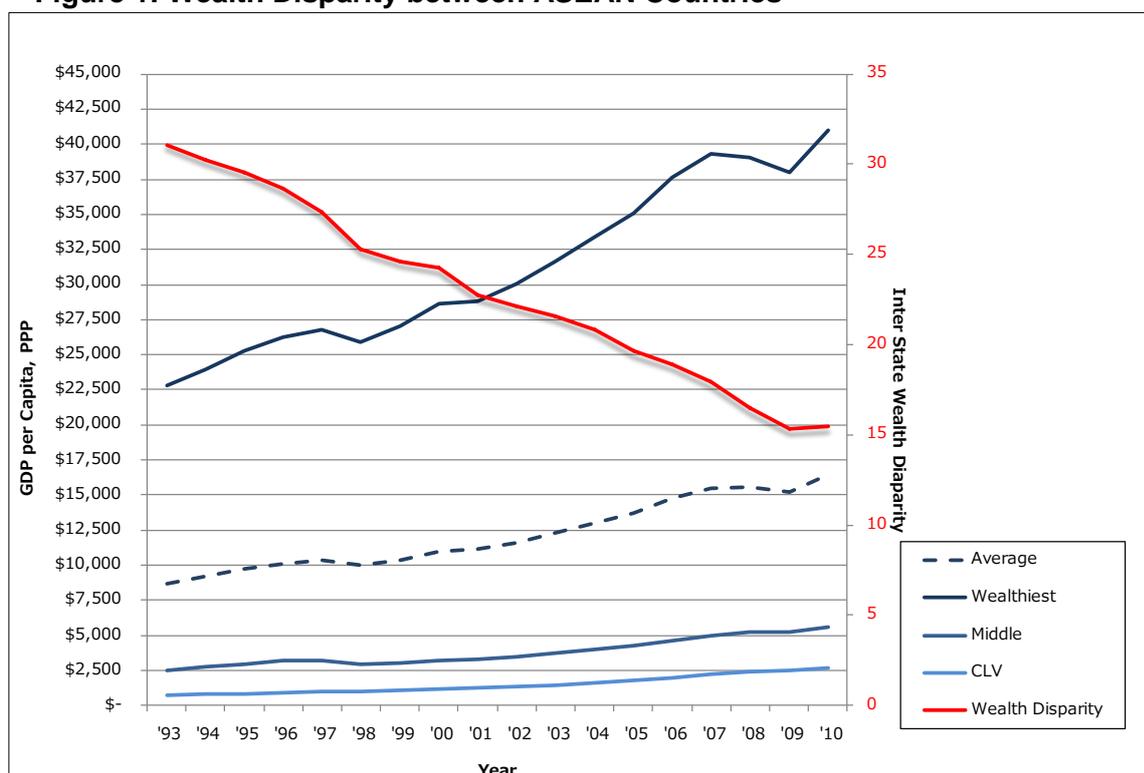
live in state of general well-being, and that their children do not have a reasonable chance at a higher standard of living than themselves, then social instability may increase.¹⁹

Inequality is intertwined with perceptions; income inequality is driven by both markets and policy.²⁰ In general, income inequality tends to remain socially acceptable if differences in wealth are based on increases in productivity while the playing field remains fair.²¹ When risk/labour/skills and rewards become disconnected, citizens may feel society is unjustifiably unequal, which in turn, may increase expectations of government intervention. If interventions fail, discontent or instability may result. Is ASEAN a region marked by income inequality?

Income Inequality within ASEAN

A model to compare ASEAN's wealthiest, middle, and least wealthy countries has been devised. The nine ASEAN states (no data is available for Myanmar) are divided into three groups – wealthiest (Singapore, Brunei, Malaysia), middle (Thailand, Indonesia, the Philippines), and CLV. Figure 1 highlights the gross income gap between the 'CLV' and the 'wealthiest'. In terms of wealth disparity, i.e., the ratio of the 'wealthiest' to 'CLV', the gap is declining: in the early 1990s the 'wealthy' group was 30 times that of CLV. The ratio was halved to 15 by 2010. In part this trend is simply a mathematical phenomenon: doubling GDP is easier at lower numbers. Overall the ratio shows CLV's recent high growth relative to the regional average – the CLMV is catching up.

Figure 1: Wealth Disparity between ASEAN Countries



Source: World Bank Data

¹⁹ OECD, *Divided We Stand: Why Inequality Keeps Rising* (Paris, France: OECD Publishing, 2011), 40; Berg and Ostry, *Inequality and Unsustainable Growth: Two Sides of the Same Coin?*, 9.

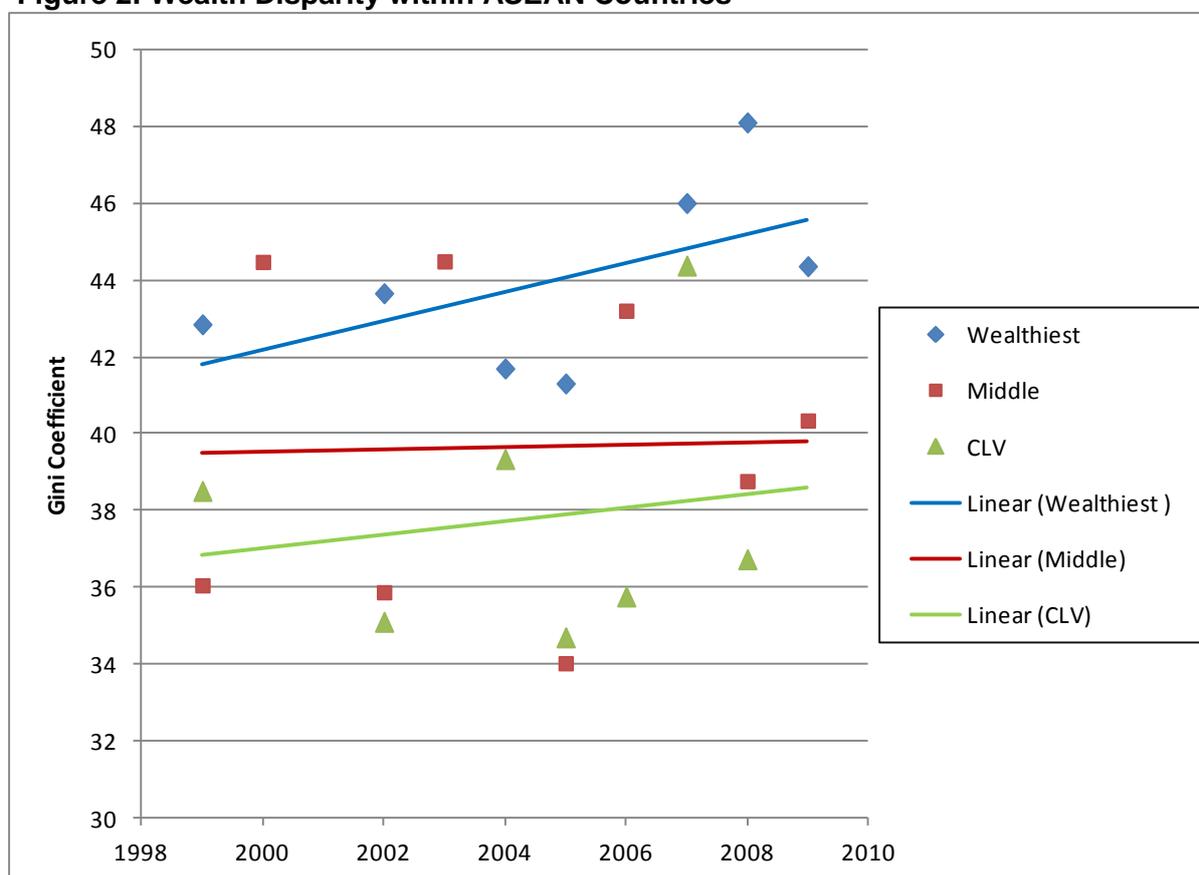
²⁰ Stiglitz, *The Price of Inequality*, 23.

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In terms of inequality *within* individual ASEAN countries, indicated by Gini coefficients, there is variation among the wealthiest, middle, and CLV groups (no available data on Myanmar). Figure 2 shows that the wealthiest countries tend to have the highest Gini coefficients and are becoming more unequal. Inequality in Brunei has been stable but in Singapore and Malaysia income inequality is increasing (approaching 0.45). For the middle countries, the trends differ: historically Thailand and the Philippines had high inequality (near 0.45) but both countries have reduced the Gini coefficients in recent years; Indonesia started with low income inequality but its Gini has been rising. A closer look at Indonesia and the Philippines is presented in the next section.

Cambodia, Laos, and Vietnam started with low Gini coefficients (below 0.40), although Vietnam had the highest. Vietnam has been able to lower domestic inequality while Cambodia and Laos both had rising Gini coefficients until 2007. Cambodia's Gini dropped over six points between 2007 and 2008. This drop may be related to the Global Financial Crisis, not changes in domestic policies, as the crisis reduced wealth at the top through decreased investment and earnings.²²

Figure 2: Wealth Disparity within ASEAN Countries



Source: World Bank, UNESCAP, ADB, ASEAN

²² According to World Bank Data, Cambodia's Gini had a net rise while the OECD-ASEAN reported a net drop: The OECD did not provide further comment.

Regarding human development, CLMV have been closing the gap.²³ To delve deeper into the aspects affecting the regional development gap, a specific set of indicators to monitor NDG trends has been developed: infrastructure, human capital, information and communications technology, trade and investment, tourism, and poverty.²⁴ The widest gaps are found in poverty and human resource development but these are narrowing.²⁵ Conversely, the gaps in infrastructure development, and trade and investment did not improve.

Trends on inequality within ASEAN are characterised by increasing income inequality, convergence on human development, and increasingly poor governance and institutional quality.²⁶ Based on these trends, the theoretical inquiry for this study is on perceptions of the stability of the system: Will deepened ASEAN integration post-2015 exacerbate income inequality or will increases in human developed, economic opportunity and reduced absolute poverty be sufficient to maintain social and political stability?

The OECD and ASEAN conclude that attention is required from national policy makers to facilitate social and economic integration. Yap summarises the need for active government intervention to manage income inequality: 'lower taxes and the ideological bias of the wealthy towards a smaller role for government [leads] to lower public investment... lower public investment ha[s] had an adverse impact on the poor and middle class'.²⁷ Policy support is required. To look deeper at the drivers of inequality, analysis on Indonesia and the Philippines is presented.

Income Inequality in Indonesia and the Philippines

Indonesia's Gini coefficient rose from 0.29 in 1999 to 0.38 in 2009; in the Philippines the trend is the opposite as the Gini fell from 0.46 in 2000 to 0.43 in 2009.²⁸ Both countries are reaching a point of convergence around 0.40, which has been considered a transition point between 'equal' and 'unequal' societies, albeit loosely defined.²⁹

Through the 1980—90s, Indonesia was heralded as an Asian Economic Miracle and lauded for its 'growth with equity' model: Indonesia's economy grew at 7% without a drastic rise in its Gini. The number of poor fell from 54.2 million in 1976, 40.1% of the population, to 22.5 million people in 1996, 11.3% of the population, with a stable Gini around 0.30.³⁰ After political reform in the wake of the Asian Financial Crisis, income inequality rose sharply.

In terms of geographical distribution within Indonesia, wealth is concentrated on the island of Java. Heterogeneity across regions has resulted in unbalanced development as eastern Indonesia has the lowest levels of development. Also, wealth and income inequality tends to

²³ UNDP, 'Human Development Reports', 2013, <http://hdr.undp.org/en/statistics/hdi/>.

²⁴ OECD Development Centre and ASEAN Secretariat, *Southeast Asian Economic Outlook 2013: Narrowing Development Gaps*, 17.

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²⁶ David Carpenter and Mark McGillivray, 'Narrowing the Development Gap: Policy Recommendations for ASEAN and Development Partners', in *Narrowing the Development Gap in ASEAN: Drivers and Policy Options* (USA: Routledge, 2013), 178–200.

²⁷ Yap, *Addressing Inequality in East Asia through Regional Economic Integration*, 9.

²⁸ World Bank Data, <http://data.worldbank.org/>

²⁹ Stiglitz, *The Price of Inequality*, 23.

³⁰ Arief Anshory Yusuf and Irlan Adiyatama Rum, *Evolution of Inequality in Indonesia, 1990-2012*, SEADI Discussion Paper (Jakarta, Indonesia: Center for Economics and Development Studies, Universitas Padjadjaran, 2013), 1.

be concentrated in urban areas: in urban settlements on Java, the Gini coefficient has reached 0.44 in 2011.³¹

Chongvilaivan recently quantified the drivers of inequality in Indonesia: urban-rural differences, provincial disparity, gender, and levels of the highest educational attainment.³² The study concludes that 'education levels contribute the most significantly to income inequality in Indonesia... income inequality will be tapered by about 13% should everyone in the society have equitable access to education.'³³ Furthermore, geographical distribution (urban-rural and across provinces) each account for roughly 6—6.5% of total income inequality.³⁴ Lastly, gender constitutes less than 2% of overall income inequality.³⁵ Chongvilaivan's findings are relevant to this study as the perceptions of policy makers on the drivers of inequality are the survey focus.

For the Philippines, economic growth was 6.8% in 2012 as the country garnered greater attention from the international investment community.³⁶ The Gini coefficient has declined marginally in the past ten years. An area of concern is poverty: from 2003 to 2009, the poverty rate increased from 24.9% to 26.5%.³⁷ Overall, high growth has not had a distinct positive effect on poverty reduction even within a climate of decreasing income inequality.

In terms of income distribution, Hal Hill highlights the magnitude of regional income variation in the Philippines as Manila dominates the economy.³⁸ Greater Manila generates over one-third of national GDP—if the two adjacent regions are included, 55% of the economy stems the central region.³⁹ Manila has a per capita income 2.75 times the national average and 12 times that of the poorest region.⁴⁰

The drivers behind the Philippines' income inequality vary. One driver is export production, mainly electronics, and the associated infrastructure and incentives that accompany export processing: the share of export processing around Manila rose from 4% to 51% between 1993—2003.⁴¹ Another factor is conflict: although Mindanao (in the far south) has extensive natural resources, prolonged conflict has inhibited growth enhancing and poverty reduction efforts. Thirdly is the concentration of wealth among a small group of families.⁴² In 2011, the increased wealth of the richest 40 individuals in the Philippines accounts for 76.5% of national wealth gains.⁴³

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³² Aekapol Chongvilaivan, *Individual Income Inequality and Its Drivers in Indonesia: A Theil Decomposition Reassessment*, ISEAS Working Paper (Singapore: Institute of Southeast Asian Studies, 2013).

³³ Chongvilaivan, *Individual Income Inequality and Its Drivers in Indonesia: A Theil Decomposition Reassessment*, 30.

³⁴ 3

³⁵ Ibid

³⁶ World Bank Data, <http://data.worldbank.org/>

³⁷ Celia M. Reyes and Aubrey D. Tabuga, *A Note on Economic Growth, Inequality, and Poverty in the Philippines*, Discussion Paper (Manila, Philippines: Philippine Institute for Development Studies, 2011), 1.

³⁸ Hal Hill, 'Globalization, Inequality, and Local-Level Dynamics: Indonesia and the Philippines', *Asian Economic Policy Review* 3, no. 1 (2008): 42–61.

³⁹ 55.

⁴⁰ 55.

⁴¹ Hill, "Globalization, Inequality, and Local-Level Dynamics."

⁴² Yap, *Addressing Inequality in East Asia through Regional Economic Integration*, 15.

⁴³ Habito Cielito, 'Economic Growth for All', *Philippine Daily Inquirer*, 25 June, 2012, <http://opinion.inquirer.net/31439/economic-growth-for-all>.

The aforementioned drivers do not constitute an exhaustive list but provide a starting point for survey discussions. Identifying and understanding the drivers of inequality in the Philippines and the Indonesia shapes which policy interventions are considered politically viable and effective. As this study is focused on the interaction of regional and national institutions, the attributes of ASEAN regionalism and its associated normative framework are next presented.

Theorizing ASEAN Integration and Regional Inequality

ASEAN has deepened over the last fifteen years to become a rule-based regional institution.⁴⁴ With increased formalisation ASEAN has acquired increased authority and legitimacy to exert influence on the economic policies of member states. Jones states, ‘the [ASEAN] Charter, then, not only enhances institutional capacity; it also seeks to modify the norms that inform the association’s diplomatic practices and facilitate the eventual transformation of Southeast Asia’s sovereign and heterogeneous states into a community governed by common rules’.⁴⁵ But how is integration linked with ASEAN’s normative framework?

ASEAN’s normative framework is underpinned by the principle of non-interference generally related to political and security issues. Another regional norm is that leaders attempt to formulate common responses to regional problems.⁴⁶ Thus this study examines if regional income inequality is considered a regional problem by policy makers, and if so, is the concern significant enough to overcome the principle of non-interference allowing ASEAN to take a greater role in policy formation to address income inequality.

Overview of ASEAN Integration

Stability and community are ASEAN values. As per the ASEAN Vision 2020, ‘ASEAN [is] a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies’.⁴⁷ In 2001, members established the Narrowing the Development Gap (NDG) initiative and agreed to devote special efforts and resources to promoting the development of the ASEAN members: Cambodia, Laos, Myanmar, and Vietnam.⁴⁸ To realise the NDG objective, the Initiative on ASEAN Integration (IAI) was devised.⁴⁹

ASEAN is a region undergoing structural change. The Bali Concord II outlined the three pillars of ASEAN cooperation: political and security, economic, and socio-cultural. These pillars are ‘closely intertwined and mutually reinforcing for the purpose of ensuring durable

⁴⁴ For summary of ASEAN integration, see Laurence Henry, ‘The ASEAN Way and Community Integration: Two Different Models of Regionalism’, *European Law Journal* 13, no. 6 (2007): 857–879.

⁴⁵ David Martin Jones, ‘Security and Democracy: The ASEAN Charter and the Dilemmas of Regionalism in South-East Asia’, *International Affairs* 84, no. 4 (2008): 737.

⁴⁶ Amitav Acharya, ‘Do Norms and Identity Matter? Community and Power in Southeast Asia’s Regional Order,’ *The Pacific Review* 18, no. 1 (2005): 99.

⁴⁷ ASEAN, *Roapmap for an ASEAN Community: 2009-2015* (Jakarta, Indonesia: ASEAN Secretariat, 2009).

⁴⁸ Hanoi Declaration, (2001), <http://www.asean.org/communities/asean-economic-community/item/ha-noi-declaration-on-narrowing-the-development-gap-2001>

⁴⁹ ASEAN, *Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan 2 (2009-2015)* (Jakarta, Indonesia: ASEAN Secretariat).

peace, stability and shared prosperity in the region'.⁵⁰ The resultant ASEAN Security Community (ASC), ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community (ASCC) constitute ASEAN's basic institutional framework.⁵¹

Institutionally, ASEAN has deepened its engagement. In 2008, ASEAN enacted the ASEAN Charter to 'serve as a firm foundation in achieving the ASEAN Community by providing legal status and institutional framework for ASEAN'.⁵² The Charter codifies the norms, rules, and procedures of ASEAN constituting a legally binding agreement registered with the United Nations (UN). Regarding institutional authority, ASEAN members are incentivised to participate as 'state preferences have encouraged cooperation in the region to promote economic development, while protecting state sovereignty'.⁵³ ASEAN lacks coercive powers, including an effective dispute settlement mechanism, or a regional hegemon.⁵⁴ In aggregate, ASEAN's multiplicity of agreements, procedures, Charter, and Blueprints constitute a rule-based framework.⁵⁵

This study focuses on the AEC as outlined in the AEC Blueprint. The AEC envisages the following key characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of *equitable economic development*, and (d) a region fully integrated into the global economy. Specifically, the goal is to transform ASEAN into a region with the free movement of goods, services, investment, skilled labour, and freer flow of capital 'consistent with multilateral rules as well as adherence to rule-based systems for effective compliance and implementation of economic commitments'.⁵⁶ Further analysis on ASEAN regionalism is next presented.

ASEAN: Both Community and Region

As a region, ASEAN has defined geographical limits; as an abstraction, a 'region' is subject to multiple interpretations.⁵⁷ A region may be bound by shared values, cultural similarities, or simply by geographical convenience. Benedict Anderson argues 'communities are to be distinguished not by their falseness/genuineness, but by the style in which they are imagined'.⁵⁸ This paper aligns with Anderson's interpretation of a nation to define a region as a community that maintains the 'emotional legitimacy' of its constituents.⁵⁹

⁵⁰ Bali Concord II, (2003) <http://www.asean.org/news/item/declaration-of-asean-concord-ii-bali-concord-ii>

⁵¹ For Summary of ASEAN's structures and agreements, see Geoffrey B. Cockburn, 'Regional Integration in ASEAN: Institutional Design and the ASEAN Way', *East Asia* 27 (2010): 165–185.

⁵² ASEAN Charter, (2008), <http://www.asean.org/asean/asean-charter/asean-charter>

⁵³ Cockburn, 'Regional Integration in ASEAN: Institutional Design and the ASEAN Way', 1984.

⁵⁴ Jones, 'Security and Democracy: The ASEAN Charter and the Dilemmas of Regionalism in South-East Asia', 737.

⁵⁵ For analysis on the objectives of integration, see See Rodolfo C. Severino, 'Regional Integration in Europe and in Asia: The Future of ASEAN Economic Integration', *Asia Europe Journal* 1, no. 4 (2003): 475–479; Min-hyung Kim, 'Theorizing ASEAN Integration', *Asian Perspective* 35 (2011): 407–435; and Keng Youg Ong, *A Borderless Asia: Vision for Regional Integration* (ASEAN Secretariat, 2011).

⁵⁶ ASEAN Economic Blueprint, (2007), <http://www.asean.org/archive/5187-18.pdf>

⁵⁷ Nicholas Tarling, *Regionalism In Southeast Asia: To Foster the Political Will* (UK: Routledge, 2006), 11.

⁵⁸ Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London, England: Verso, 1983), 49.

⁵⁹ *Ibid.*

If a region is a community, then 'regionalism' is akin to nationalism. Paul Evans defines regionalism as 'the expression of a common sense of identity and destiny combined with the creation of institutions which express that identity and shape collective action'.⁶⁰ Collective action may be required to strengthen political security, intensify economic interactions, or solve transnational problems. But to facilitate collective action, a degree of institutionalisation is required.

Differing from regionalism is 'regionalisation', which refers to process, not structure. Evans defines regionalisation as 'the expression of increased commercial and human interactions within a defined geographical space'.⁶¹ Yap echoes this sentiment: regionalisation includes 'formal economic cooperation and arrangements' intimating that the process is driven by market integration.⁶² Based on the definitions of Evans and Yap, regionalisation is a subset of globalisation, which is the intensification of the movement of people, goods, capital, ideas, and problems. For this study the focus is on regionalism, not regionalisation, to highlight the role that institutional norms and policies have in managing inequality, as opposed to the exogenous, market-driven process of regionalisation.

ASEAN Institutionalism and Norm Diffusion

ASEAN is a regional association, a component of the international system of organisations. In his seminal work, *After Hegemony*, Robert O. Keohane argues that international organisations are formally structured and deliberately designed by states but classifies them as a subset of international institutions.⁶³

Oran R. Young characterises the nature of institutions: 'institutions [govern] the actions of those interested in specific activities... they are recognised *patterns of practice* [emphasis added] around which expectations converge'.⁶⁴ Young's definition implies that institutions are *rule-based interactions*: 'international institutions are explicit arrangements, negotiated among international actors that prescribe, proscribe, and/or authorise behaviour', state Koremenos et al.⁶⁵ For this study on ASEAN, an 'institution' is the rule-based interactions as enacted by ASEAN's agreements and actualized within its established normative framework. Constructivism examines norm creation within institutions and norm diffusion across institutions. A norm is a 'standard of appropriate behavior for actors with a given identity'.⁶⁶ According to constructivist theory, institutions enable norm uptake but also contribute to identity formation which, in turn, influences what is acceptable behaviour within international

⁶⁰ Paul Evans, 'Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity', in *Remapping East Asia: The Construction of a Region* (USA: Cornell University Press, 2005), 196.

⁶¹ Evans, 'Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity', 196.

⁶² Josef T. Yap, *Towards More Meaningful Economic Integration: Narrowing the Development Gap through Development Cooperation* (Manila, Philippines: Philippine Institute for Development Studies, 2011), 2.

⁶³ David C. Ellis, 'The Organizational Turn in International Organization Theory', *Journal of International Organizations Studies* 1, no. 1 (2010): 16.

⁶⁴ Oran R. Young, 'International Regimes: Problems of Concept Formation', *World Politics* 32, no. 3 (1980): 332.

⁶⁵ Barbara Koremenos, Charles Lipson, and Duncan Snidal, 'The Rational Design of International Institutions', *International Organization* 55, no. 4 (2001): 762.

⁶⁶ Martha Finnemore and Kathryn Sikkink, 'International Norm Dynamics and Political Change', *International Organization* 52, no. 4 (1988), 891.

or regional politics.⁶⁷ As individuals interact regularly in organisations, procedures are established and expected behaviours are instilled. Consequently, regional organisations develop an institutional culture while appropriating a degree of sovereignty that may or may not be codified.

Authority on income inequality is difficult to delegate and no single institution in ASEAN is mandated to manage income inequality. Consequently, agency important: 'Institutions often emerge as basic causal forces in their own right...' states Young.⁶⁸ Institutions act as 'intervening variables' in the diffusion and uptake of norms across international-regional-national boundaries.⁶⁹

Amitav Acharya describes localisation as the uptake of ideas considered 'external' to a region but often deemed 'universal' norms: '[localisation] start[s] with a reinterpretation and re-representation of the outside norm, but may extend into the more complex processes of reconstitution to make a norm congruent with a pre-existing normative order.'⁷⁰ This definition contains two important aspects: a) norm uptake requires an engaged partner acting within a *legitimate* pre-existing normative framework, and b) reconstituting a foreign norm into a narrative that is locally palatable is an *active* process requiring autonomy. Based on these assumptions, norm localisation is 'likely if the norm-takers come to believe that new outside norms could be used to enhance the legitimacy and authority of their existing institutions and practices, but without fundamentally altering social identity'.⁷¹

⁶⁷ See Amitav Acharya, 'How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism', *International Organization* 58, no. 2 (2004): 239–275; Amitav Acharya, 'Do Norms and Identity Matter? Community and Power in Southeast Asia's Regional Order', *The Pacific Review* 18, no. 1 (2005): 95–118; Amitav Acharya, 'Can Asia Lead? Power Ambitions and Global Governance in the Twenty-first Century', *International Affairs* 87, no. 4 (July 1, 2011): 851–869; Paul Evans, 'Between Regionalism and Regionalization: Policy Networks and the Nascent East Asian Institutional Identity', in *Remapping East Asia: The Construction of a Region* (USA: Cornell University Press, 2005), 195–215; and Jon Pevehouse and Bruce Russett, 'Democratic International Governmental Organizations Promote Peace', *International Organization* 60, no. 4 (2006): 969–100.

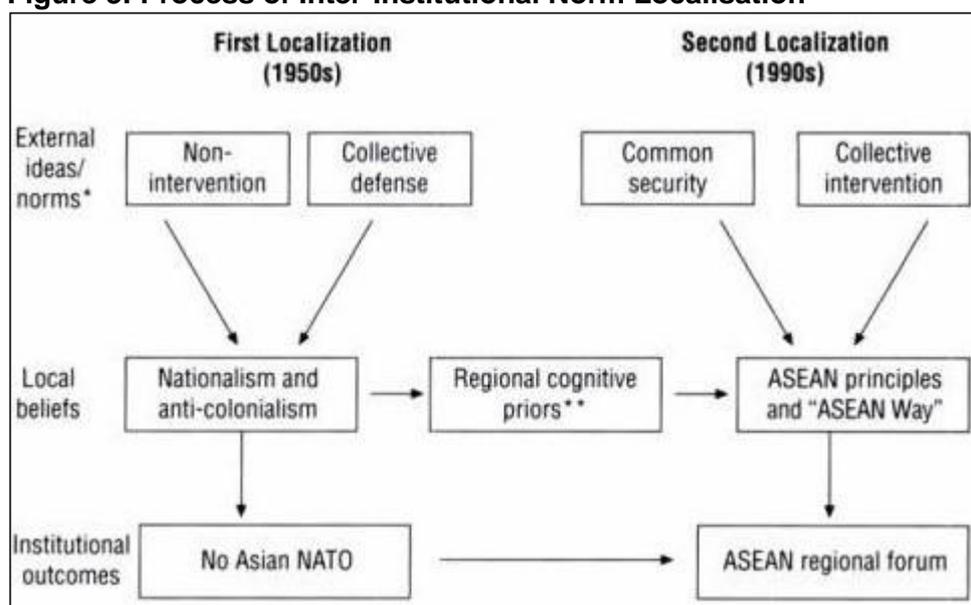
⁶⁸ Oran R. Young, 'Are Institutions Intervening Variables or Basic Causal Forces? Causal Clusters versus Causal Chains in International Society', in *Millennial Reflections on International Studies* (USA: University of Michigan, 2002), 180.

⁶⁹ *Ibid*, 182.

⁷⁰ Acharya, 'How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism', 244.

⁷¹ *Ibid*, 248.

Figure 3: Process of Inter-Institutional Norm Localisation



Source: Acharya 2009, 6

According to Acharya's model (Figure 3), the process of norm localisation commences with external ideas entering into national and regional discourse—in the model the 'institutional outcome' reflects localisation. But this study calls to question the assumption regarding 'local beliefs' in Acharya's model: national and regional levels are presented as a single entity but, in practice, should be considered separately as regional institutions are active agents in reconstituting an 'external norm' into national discourse. Rulan supports disaggregating national and regional institutions in regards to norm diffusion: he examines the role of norms within Indonesia's parliament and argues that there is oversimplification of national level norms in regards to how they affect regional integration.⁷² In policy debates, specific issues in foreign policy may catalyze nationalistic policies to inhibiting deepened regionalism.

By surveying perceptions of elites at the national and regional level, this study examines how ASEAN acts a regional institution serves to reconstitute ideas on income inequality, now at the forefront of global discourse, into national policy mechanisms to manage regional income inequality. In practice, limited tools are available to directly affect income inequality thus the goal is promote inclusivity to ensure the greater distribution of benefits from economic development.

Inclusive Institutions

To manage income inequality at the regional level, national institutions must be inclusive and pro-poor.⁷³ Daron Acemoglu and James Robinson argue that nations that have undergone significant development have done so because of they been successful in establishing *inclusive* political and economic institutions.⁷⁴

⁷² Jurgen Ruland, 'Deepening ASEAN Cooperation through Democratization? The Indonesian Legislature and Foreign Policymaking', *International Relations of the Asia-Pacific* 9 (2009): 375.

⁷³ Balakrishnan, Steinberg, and Syed, *The Elusive Quest for Inclusive Growth: Growth, Poverty, and Inequality*, 9.

⁷⁴ Daron Acemoglu and James A. Robinson, *Why Nations Fail* (New York, USA: Random House, 2012).

The first premise of Acemoglu and Robinson is that politics is directly linked to institutional development: 'Politics surrounds institutions for the simple reason that while inclusive institutions may be good for the economic prosperity of a nation, some people or groups will be better off setting up [extractive] institutions'.⁷⁵ In a situation where politics is winner-take-all, the group that wins 'depends on the distribution of political power in society'.⁷⁶ Consequently, political institutions are the key variable for inclusivity: they are the rules that govern the *incentives* of politics by determining how a government is chosen and which part of the government has the right to do what.⁷⁷

Inclusive economic institutions rarely stem from extractive political institutions: inclusive economic institutions rely on the delivery of public goods and services vis-à-vis the state. The economic historian Robert C. Allen examines longitudinal trends since the rise of the West by tracing several key indicators. Based on his analysis, he narrows the necessary preconditions for development to four public services: tariffs to support fledgling industries; public infrastructure (transportation); a rule-based banking system for savings and investment; and mass education.⁷⁸

Consequently, to enhance regional inclusivity and reduce income inequality, ASEAN must support the establishment of *inclusive* national economic institutions in order to construct a peaceful, stable, and prosperous region.

Survey Methodology

This study focuses on policy and perceptions of inequality within ASEAN (the region) and the role of ASEAN (the institution). The survey is based on a perception survey model devised by Franklin B. Weinstein in and later revised by Daniel Novotny in 2010.⁷⁹ In order to collect data on the perceptions of policy makers, in-depth interviews were conducted in Jakarta, Indonesia and Manila, the Philippines. The interviews were conducted from March to May, 2013. Indonesia is the home to the ASEAN Secretariat and the Permanent Missions to ASEAN so 21 of the 27 total interviews were held here.

The group of respondents constitutes a sample of policy elites consisting of government officials, legislators, ASEAN officials, special advisors, academics, researchers, and media. For this study, 'elites' influence policy through professional mechanisms but do not have significant individual decision-making authority, i.e., respondents were technocrats or legislators. The respondents in this study were not 'elite' in the sense that they control large conglomerates, head government organisations, or lead political parties. For example, legislators that were interviewed all had completed at least a university degree, some at foreign schools, but none of them were the top influential party or legislative officials. Respondents' background varied among politics, economics, public administration, public policy, and business management, thus the research goal was to ascertain a cross-section of policy makers (see Table 1). Respondents were not categorised based on discipline or training.

⁷⁵ Ibid, 79.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Robert C. Allen, *Global Economic History: A Very Short Introduction* (Oxford, United Kingdom: Oxford University Press, 2011).

⁷⁹ Franklin B. Weinstein, 'The Indonesian Elite's View of the World and the Foreign Policy Development', *Indonesia* 12 (1971); Daniel Novotny, *Torn Between America and China: Elite Perceptions and Indonesian Foreign Policy* (Singapore: ISEAS Publishing, 2010).

Interviewee selection was not randomised based on a cross-sectional analysis of the general population of policy makers. The *snowballing method* was employed: the researcher ‘did not have precise or detailed knowledge about who were influential members...so [the researcher] established initial contact with a relatively small group of experts...’.⁸⁰ As research progressed, new contacts were made and the circle of respondents was expanded. Consequently, the data generated from the sample is a non-probabilistic sample; extrapolating correlative statistical inferences for the general population of elites becomes specious. Consequently the data is analyzed for commonalities and differences among respondents and to examine the diversity of narratives on specific issues, not for wider inferences.

Table 1: Composition of Respondents

	Composition		
Nationality	Indonesian, 14	Filipino, 6	International, 7
Professional Focus	Indonesia, 16	Philippines, 6	ASEAN, 5
Field of Employment	Government, 10	Legislators, 4	ASEAN/Third Party, 13
Gender	Female, 8		Male, 19

The survey consisted of a two-part questionnaire containing closed- and open-ended questions. There were 45 questions in part one. The first nineteen were statements to which respondents had the binary option to ‘agree’ or ‘disagree’. This section was divided into three sub-sections: Perceptions on ASEAN, Perceptions on Inequality, and Inequality and the AEC. The next section contains fourteen statements to be rated ‘fully agree’, ‘partially agree’, ‘partially disagree’ or ‘fully disagree’—a four-point scale was utilised to avoid ‘neutral’ responses in small sample size. Respondents were required to make value judgements to extract their normative stance. The final section contains twelve specific policy prescriptions stemming from different economic theories on how to manage income inequality. These prescriptions were rated on a ten-point scale from ‘most effective’ to ‘least effective’.

Part two of the survey consists of four open-ended questions. The topics were as follows: 1) ASEAN integration and institution effectiveness; 2) domestic income inequality, elites, and effectiveness; 3) ASEAN’s future role in managing income inequality; and 4) other comments. During semi-structured discussions, respondents were encouraged to speak openly about any of the topics referred to in the survey. Overall, the interview lasted about 60—90 minutes. The goal of the discussions was not to ascertain the official positions of the organization for which the respondent worked, but to delve into personal inclinations and perceptions. Overall, interviewees spoke frankly about each topic regardless if it contravened official positions. In some cases, respondents were glad to have the opportunity to articulate the nuances of their perceptions or to voice outstanding grievances.

Most interviews were conducted in person—several were conducted over Skype—and whenever possible, the survey was not sent in advance so answers were spontaneous. Structuring interviews in such a manner has both benefits and disadvantages. As the survey topic was somewhat specialised, the closed-ended questions led respondents quickly into complex issues.

⁸⁰ Novotny, *Torn Between America and China: Elite Perceptions and Indonesian Foreign Policy*, 85.

The questions precipitated wide-ranging discussions but there is a concern that the survey structure simultaneously narrowed the conversational range—the issues raised in the questionnaire may have acted as a cognitive barrier. One example is gender: There were no questions on gender inequality within the survey while the issue of gender was rarely raised during the ensuing discussions. It is inconclusive if this phenomenon is a product of the research design or that gender inequality is not at the forefront of policy debates according to the respondents.

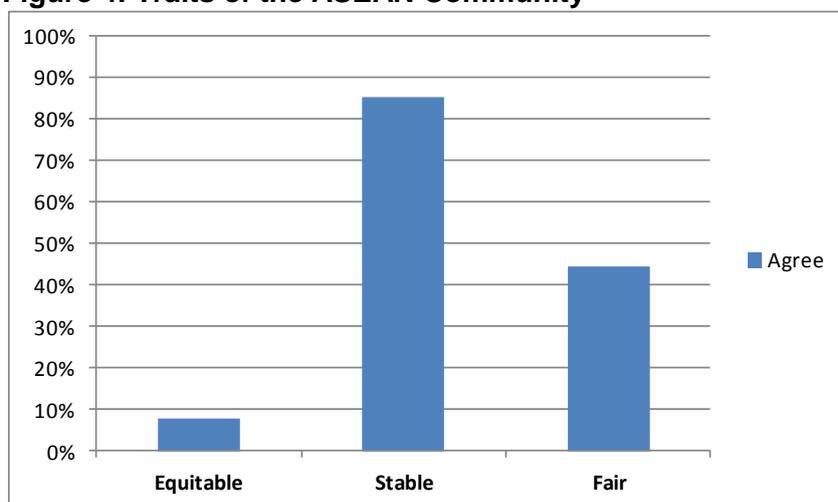
Results: Closed-Ended Questions

The most respondents considered themselves knowledgeable and familiar with the ‘Roadmap’ and ‘Vision’ of the AEC, 93% and 96% respectively. As the AEC contains an array of initiatives and programming, not every respondent was intimately familiar with all aspects; eleven respondents worked directly with the implementation of the Roadmap.

ASEAN and Inequality

The closed-ended questions revealed general perceptions on ASEAN and inequality, although answers were based respondents’ own definitions of each term. The overwhelming majority, 92%, of respondents considered ASEAN to be *inequitable* but 85% felt the region was stable. Most respondents considered income inequality as a potential source of instability and a threat to regional development. In terms of fairness, the results were mixed as just under half of respondents considered ASEAN to be a ‘fair community’. This ambiguity may be related to the ambiguity of the term ‘fairness’, a subjective concept difficult to quantify.

Figure 4: Traits of the ASEAN Community



Regarding income inequality, most respondents did not feel current levels of inequality *between* ASEAN member states or *within* individual countries were acceptable, 76% and 88% respectively. Furthermore, less than 20% of respondents felt current levels of inequality within the region or within individual countries were necessary to maintain strong regional GDP growth. Perceptions on the relationship between human development and income inequality were mixed. Specifically, 83% of respondents believed that human development was more important than GDP growth and 76% agreed that high income inequality inhibits national GDP growth. Respondents were split on how they perceived the long-term impact of GDP growth: 50% stated human development will improve with current levels GDP.

Table 2: Impact of ASEAN Integration

Statement on ASEAN integration and the AEC	Agree
Will reduce income inequality between ASEAN members.	73%
Will reduce income inequality within ASEAN members.	56%
Will increase national GDP.	80%
Will increase human development.	84%

Respondents were generally optimistic about the AEC. ASEAN has limited authority to enforce policy mechanism yet 56% of respondents felt that building the AEC would reduce domestic national income inequality. Furthermore 96% of respondents valued ASEAN's efforts to narrow the development gap because they felt that an equitable ASEAN community was 'important' for achieving *national* interests. Explicitly reducing income inequality is not a stated goal of NDG yet half of the respondents felt that current programming will tackle the drivers of income inequality.

In terms of political economy, respondents generally felt that building the AEC is not primarily for political reasons. Regarding security, respondents had a slightly different view. More than half of the respondents fully or partially agreed that the purpose of developing the AEC is to balance China's influence in the region. The response turned to partial disagreement when asked the same question about balancing Western influence. These findings align with Novotny's results found previously: based on thorough perception surveying on foreign policy of Indonesian elites, Novotny concludes that 'Anti-American sentiments in Indonesia tends to be superficial and issue-based' while China is considered an 'ambiguous threat' as its rising regional status offers both opportunities and challenges.⁸¹

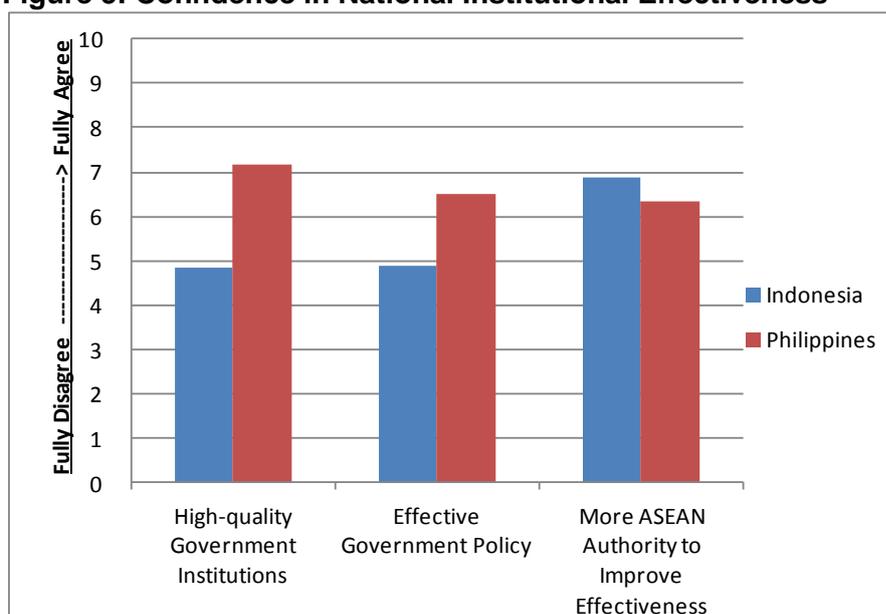
Institutional Authority

More nuanced questions on ASEAN and national policies reveal the tensions between regional-national authority and institutional effectiveness. When asked if income inequality is a national issue, not regional, the median score was 5 (mean 5.3), indicating that people were uncertain or ambiguous (note: a score of ten is 'fully agree' while one is 'fully disagree'). Next, with the exception of a few sceptics, the majority (median 9; mean 8.2) felt that an explicit goal of the AEC should be to reduce inequality between members. Consequently, perceptions on national-regional boundaries of authority are mixed as respondents believe that ASEAN mechanisms can and will reduce inequality, but are uncertain if and how ASEAN should attempt to do so.

As ASEAN members maintain a culture of non-interference on internal domestic affairs, including economic policy, uncertainty on ASEAN authority is not surprising. In ASEAN, direct government-to-government engagement is valued, including for economic affairs, with the ASEAN Secretariat acting as facilitator. When asked if the ASEAN-6 should provide more resources for the development of CMLV, the majority strongly agreed (median 8; mean 7.6). Conversely, respondents retracted somewhat when asked if Indonesia/the Philippines had a responsibility to assist CLMV countries; domestic development is still prioritised in Indonesia and the Philippines.

⁸¹ Novotny, *Torn Between America and China: Elite Perceptions and Indonesian Foreign Policy*, 228.

Figure 5: Confidence in National Institutional Effectiveness



In terms of institutional effectiveness, there was a notable difference for Indonesia and the Philippines, as shown in Figure 5. When asked about the nature of 'high quality' government institutions capable of reducing income inequality, responses were generally more sceptical for Indonesia (median 5; mean 4.9) than the Philippines (median 7.5; mean 7.2). This finding also reflects current trends—income inequality is rising in Indonesia and falling in the Philippines—but no causal relationship can be deduced from the data.

In attempt to ascertain how respondents perceived government institutions, the following statement was rated: 'Government policy will be effective in reducing income inequality'. For Indonesian government policy, respondents partially disagreed, while they partially agreed for the Philippines. In a final attempt to assess the general level of confidence in government institutions, the statement 'more authority given to ASEAN will serve to improve the quality of [national] government institutions' was presented. The outcome reaffirms the previous finding: there is a lower level of confidence in Indonesia's government institutions to manage income inequality than in the Philippines. Two-thirds of respondents believed that having the Indonesian government divest a portion of its authority to ASEAN would result in more effective policy for reducing inequality.

Policy Effectiveness for Reducing Income Inequality

Greater investment into infrastructure is the policy option perceived to be the most effective in reducing income inequality by respondents. Infrastructure referred to hard infrastructure such as roads, railways, ports, bridges, and telecommunications, which are generally nationally managed; a degree of soft infrastructure investment is required to ensure there are sufficient human resources and cross-country compatibility. When disaggregated between Indonesia and the Philippines, infrastructure investment, still ranks as the most preferred option in both countries.

Providing free primary education, higher education and training, and maternal and childhood health were considered 'highly effective' by respondents. These three policy areas all require social investments usually delivered by public institutions indicating the strong demand for

inclusive policies. As Yap outlined, social investments into public health and childhood education require a tax base, appropriate fiscal policy, and effective public institutions.⁸² For higher education and vocational training, the state also plays an important role but the private sector may offer supplemental services.

Of the top five policies ranked ‘highly effective’, three are actual targets of the IAI-WP2: infrastructure investment (AEC); support for small/medium enterprises (AEC); and higher education/vocational training (ASCC). Primary education and maternal/childhood health are considered by many development economists a cost effective way to improve livelihoods and reducing poverty.⁸³ Respondents were in agreement.

Table 3: Perceptions on Policy Prescriptions to Reduce Income Inequality

Rank	Policy	Median	Mean
1	Support greater investment into infrastructure connecting ASEAN members.	2	2.1
2	Provide free primary education, including supplies and fees, for ASEAN members.	2	2.3
3	Provide greater investment in higher education and vocational training.	2	2.3
4	Provide affordable maternal and childhood healthcare for ASEAN members.	2	2.5
5	Provide more support for small and medium enterprises.	2	2.9
6	Allow free trade on agricultural goods within ASEAN.	4	4.7
7	Enforce trade disputes with an ASEAN court.	4	4.7
8	Provide more education on civics and morality.	4	4.7
9	Allow free trade on garments in ASEAN.	4	4.9
10	Enforce environmental law at ASEAN.	4	4.9
11	Subsidise rice for the poorest ASEAN members.	7	7.0
12	Subsidise petro and energy within ASEAN.	9	8.1

Note: A score of 1 is most effective, while 10 is least effective.

Overall, respondents did not have a positive perception of subsidies; whether food or fuel, subsidies are perceived as highly ineffective. The questionnaire statement referred to general subsidies not targeted cash transfers. Although an expenditure subsidy such as food vouchers may be considered a targeted cash transfer, the policy was still considered a misallocation of resources. Most respondents viewed energy subsidies as regressive in terms of helping the poor. Even the Indonesian legislators, from several different political parties across the political spectrum, rated fuel subsidies as ‘highly ineffective’. In terms of rice subsidies there was greater variance, but none considered rice subsidies to be a ‘highly effective’ policy.

⁸² Yap, *Addressing Inequality in East Asia through Regional Economic Integration*, 13.

⁸³ Abhijit Banerjee and Esther Duflo, *Poor Economics* (USA: Public Affairs, 2011).

Results: Open-ended Questions

The semi-structured interviews provided an opportunity for respondents to offer further explanation on the above points.

Perceptions on Inequality

The current debate on income inequality is rich, lively, and varied. Analysis indicates that a pragmatic view of inequality is dominant: income inequality must be addressed in order to avoid the least desirable outcome, namely, *instability*. 'Political stability comes from economic stability', stated one Indonesian government official. The general opinion was that *high* degrees of income inequality lead to instability but inequality is a condition necessary for economic growth; moderate growth is necessary for stability. Respondents attempted to distinguish between vicious versus virtuous development cycles. The concern for both regional and national stability was more prevalent in Indonesia. Considering the trauma of the 1997 Asian Financial Crisis that led to social upheaval and political crisis, this finding is not surprising.

In attempt to delve deeper into respondents' perceptions on income inequality, Kuznets theory was presented. Responses to the model varied widely: one advisor who had a background in Environmental Science rejected the model stating that this was the old way of doing business and that new models of inclusive development are key to sustainable growth and stability. Others who rejected the model argued the model represents income distribution, not access to opportunity, a better indicator of stability. In particular, one respondent commented that the model reflected income inequality as opposed to 'inequity', which includes assets and property.

One respondent commented that relative poverty is an important indicator of stability because if a society continues to become more unequal, relative poverty rises regardless of how fast citizens are raised out of absolute poverty.⁸⁴ If a country adheres to a pattern of growth and development suggested by Kuznets' theory, the ongoing process of creative destruction may be politically unpalatable.⁸⁵ Those with access to human, natural, or financial resources and political power simply may block the path to development for other members of society.

At the regional level, respondents commented that the trajectory predicted by Kuznets was less applicable. For ASEAN member states to be 'equal', respondents stated that 'policy coordination' and 'reciprocity' were key determinants in assessing inequality; income inequality was less relevant. These issues relate to capacity and access, not the distribution of income or assets. One respondent articulated that as a region 'ASEAN cannot exist in the long run if it has trailing brothers'. ASEAN member states have invested into the governments of less developed members in order to have them engage on an equal level. These efforts were viewed favourably by respondents. Even though CLMV countries are showing high growth, almost all respondents intimated this growth has been not been caused directly by the efforts of ASEAN, although regional confidence supports national growth.

Generally absent from conversations was expressions of a moral imperative to address inequality. The distinct lack of a Rawlsian argument is striking: the need to address

⁸⁴ James E. Foster, 'Absolute Versus Relative Poverty', *The American Economic Review* 88, no. 2 (1998): 336.

⁸⁵ Acemoglu and Robinson, *Why Nations Fail*, 86.

inequality based on principles of fairness in order to build a society in which differences in outcome are justifiable.⁸⁶ One government official from the social welfare department of the Philippines conveyed that income inequality was unjust. A government advisor in Indonesia commented that 'current levels on income inequality are morally unacceptable' as national citizenship entitles citizens the right to a fair chance for advancing one's economic position. These two respondents were the exception, not the rule.

Salient among respondents was discourse on equality of opportunity. Rawls argues that social and economic inequalities are to be arranged so that 'offices and positions must be open to everyone under conditions of fair equality of opportunity'.⁸⁷ He continues to outline conditions under which inequality is just: 'the second [principle] holds that social and economic inequalities, for example inequalities of wealth and authority, are just only if they result in compensating benefits for everyone, and in particular for the least advantaged members of society'.⁸⁸ But during survey discussions instead of utilising rhetoric on equality of opportunity to advocate for greater social justice, respondents tended to view the principles of equality of opportunity as a justification for income inequality.

The general perception was that those in society holding a disproportionate amount of wealth were *not* considered responsible for the betterment of the least advantaged; this responsibility was born by the government which tended to be viewed as separate from society. Regardless if the respondents had a background in economics or not, the topic of taxation was not mentioned explicitly in discussions on effective policy mechanisms to reduce inequality.

Conversely, almost ubiquitous in discussions was rhetoric on utilising government spending to introduce a comprehensive social safety net for the poor, such as health and employment insurance and retirement savings plans, but mention of taxation targeted at the new rich or the rising middle class was absent. If taxation was discussed, it fell under the guise of economic nationalism in relation to taxation of foreign companies. Overall, there was a noticeable disconnect between the demand for public services, i.e., infrastructure and social services, and the willingness to supply national governments with the resources necessary. This disconnect may be related to the low level of trust in public institutions and concomitant apathy of the new middle class.⁸⁹

In the Philippines, political institutions are generally considered to be captured by wealthy business elites, mostly landed families, who have close connections to those in the top echelons of government.⁹⁰ Yet survey respondents did not indicate that the wealthy are obliged to support poor or middle income groups. Similarly, in Indonesia, apathy rises with wealth as the middle class, who historically have tended to be the drivers of social change, use their wealth to 'opt out' from the pitfalls of life rather than fight for social change.⁹¹

Broad and effective taxation was the first recommendation to manage inequality put forth by *The Economist* in the 2012 Special Report on the World Economy. The wealthy contribute the most to the tax base but their preferences on the distribution of public resources may not

⁸⁶ John Rawls, *A Theory of Justice* (USA: Harvard University Press, 1971).

⁸⁷ 302.

⁸⁸ Rawls, *A Theory of Justice*, 7.

⁸⁹ Meidyatama Suryodiningrat, 'When the Middle Class Opts Out, the Poor Get Shut Out', *Jakarta Post*, April 28, 2013.

⁹⁰ For a discussion on the elite capture in the Philippines, see Jones, 'Procurement Reform in the Philippines: The Impact of Elite Capture and Informal Bureaucracy'.

⁹¹ Suryodiningrat, 'When the Middle Class Opts Out, the Poor Get Shut Out.'

align with the needs of the poor or middle class. Thus inclusive policies preferred by the poor, for example childhood education and maternal health, may be neglected at the expense of subsidised energy or infrastructure, which are considered regressive.⁹²

ASEAN Integration and Institutional Effectiveness

One foreign advisor to ASEAN described the Indonesian national policy process as 'policy-making on the run and reactive in nature'. Conversely, perceptions on ASEAN's regional development progress tended to be positive, except by Indonesian legislators. One diplomat was unequivocal in extolling the value and the role of ASEAN in creating an 'effective policy environment and generating awareness' on issues and opportunities. Another member of the media reiterated this same sentiment by stating that ASEAN gives 'immediacy' to policy issues. Overall, when asked what the region would be like without ASEAN, almost all respondents felt the region was better with the institution.

Among Indonesian legislators—no lawmakers were surveyed from the Philippines—knowledge, interest, or interaction with ASEAN was limited. When asked 'if and how does the subject of ASEAN integration affect policy at the national level?' the general perception was that it was negligible. Because most legislation originates from the government, legislators (Member of Parliament, MP) are tasked with reading, revising and/or rejecting legislation, while they rarely draft laws. This situation may ingrain a political culture of 'dual legitimacy' in which parliament feels subordinate to the government headed by a directly-elected President.⁹³ Within Indonesia's presidential system of government, legislators in the Indonesian House of Representatives, the *Dewan Perwakilan Rakyat (DPR)*, tend to act oppositional, if not adversarial, towards the government at times even if from the same political party.⁹⁴ The disconnect between ASEAN's decision-making procedures and the Indonesia legislature in the realm of economic policy is documented by Ruland, 'a legislature acting as an advocate of national self-interest [is] able to derail an international treaty'.⁹⁵

One legislator viewed ASEAN as an instrument of the executive branch of government. Most economic agreements and frameworks originate from the central government (Ministry of Foreign Affairs and/or Trade) but, according to this MP, the government does not seek to serve the needs of local people but to service the elite segments of society through these agreements. 'To create the ASEAN Economic Community is only a promotion of higher levels of government; it is not for the people', stated the legislator. The legislator commented specifically on how ASEAN simply consisted of seminars put on by the Ministry of Foreign Affairs, but had neither impact nor benefit for the people. Whether or not this is true is subject to a level of interpretation beyond the scope of this study, but the perception was real and not considered a radical position among national legislators.⁹⁶ Based on the perceptions of legislators, the norms and values stemming from ASEAN are neither universal nor based on shared values of an ASEAN community; these norms may be considered external, elitist, and a threat to local livelihoods.

⁹² Oriana Bandiera and Gilat Levy, 'Diversity and the Power of the Elites in Democratic Societies: Evidence from Indonesia', *Journal of Public Economics* 95 (2011): 1323.

⁹³ Juan J. Linz, 'The Perils of Presidentialism', *Journal of Democracy* 1, no. 1 (1990): 63..

⁹⁴ Stephen Sherlock, 'The Parliament in Indonesia's Decade of Democracy: People's Forum or Chamber of Cronies?', in *The Problems of Democratization in Indonesia* (Singapore: ISEAS Publishing, 2010), 174..

⁹⁵ Ruland, 'Deepening ASEAN Cooperation through Democratization? The Indonesian Legislature and Foreign Policymaking', 395.

⁹⁶ For further discussion see Ruland, 'Deepening ASEAN Cooperation through Democratization? The Indonesian Legislature and Foreign Policymaking'.

In practice, there is an institutional connection between ASEAN and the Indonesian parliament. One legislator explained that to establish an international agreement the government is first tasked with negotiating internationally (or regionally). The government then brings this agreement to the DPR for enactment. The DPR will direct the proposed legislation to the appropriate Commission where MPs review the contents. As elected officials, legislators are accountable to their constituents so they will often host a stakeholder's meeting.

Analysis: Localisation and Policy Laundering

In the current milieu of rapid regional economic integration and rising social expectations, ASEAN has to produce what is perceived as effective policy. And this policy must have a positive, tangible impact. So how does ASEAN propagate and facilitate the uptake of norms within Acharya's framework of localisation? As stated by Acharya, norm localisation requires not only *congruence* with local normative frameworks, but also alignment with local *incentives*.⁹⁷

First let us look at incentives. Regarding income inequality and ASEAN, one respondent commented that unless ASEAN is perceived to be improving the lives of people and enabling national governments to maintain stability and reduce poverty, institutional demand will decline. Conversely, ASEAN's *efforts* contain value regardless of the actual impact. The respondent described how national governments and legislators can demonstrate 'initiative' to their voting constituents by citing ASEAN programs to manage inequality. Or if public sentiment turns negative, government officials may insulate themselves from criticism by blaming ASEAN's weak institutional performance to manage income inequality.

Consequently, in either situation there is incentive to adopt ASEAN's normative framework and policy initiatives. As instability related to inequality is based on perceptions of government action, or lack thereof, having a strong regional institutional structure with corresponding policy initiatives may decrease the probability of instability.

Regarding congruence, the issue is more complicated. There was intimation from respondents, albeit nuanced, of concern over ASEAN's ideological legitimacy on the issue of income inequality. Discussing income inequality is a sensitive issue.

When compared to the market-driven economic growth of China under a single-party system of state-led socialism, liberal free-market institutions are not the unanimous preference among ASEAN member states or sub-national groups/political parties. Since the 2008 Global Financial and ensuing European crises, the legitimacy of free-market institutions to solve complex problems and sustain long-term growth has faced increased scrutiny.⁹⁸ The inclusive and non-confrontational culture of the ASEAN Way prohibits member states from adopting hard stances towards on each other's political or economic ideological preferences. Consequently, in sensitive situations ASEAN or individual member states may not be able to advocate for a specific policy agenda as it may defy the principle of non-interference. An ASEAN expert and former employee described a process called 'policy laundering' used by ASEAN to overcome this barrier of non-interference. In academic literature, policy laundering

⁹⁷ Acharya, 'How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism', 244.

⁹⁸ See UNDP, *Sustainability and Equity: A Better Future for All*, Human Development Report (UNDP, 2011), <http://hdrstats.undp.org/images/explanations/IDN.pdf>; Andrew G. Berg and Jonathan D. Ostry, *Inequality and Unsustainable Growth: Two Sides of the Same Coin?*, Staff Discussion Note (Washington D.C., USA: IMF, April 8, 2011), 9.

is ‘the act of obtaining an international agreement in order to gain legitimacy and obtain support for something *similar* (emphasis added) that one wants to do at the domestic level’.⁹⁹ Policy laundering is an active process of decision-making by policy makers to use international forums to enact unpopular domestic policy.¹⁰⁰ When policy is laundered, the domestic manifestation of the policy will not be the same as the intended international design, whether for the better or worse. In practice, third-party experts may be called upon to conduct research on a sensitive matter of interest. The research may consist simply of collating different narratives around a specific policy to ensure that the appropriate rhetoric is used when navigating sensitive issues. Once the policy narrative becomes locally palatable, a coalition of member states coalesces around the initiative to propagate it in the domestic sphere.

Policy laundering relates to policy narratives, not policy mechanisms. Through the strategic use of third parties to pursue policies prioritised by ASEAN, a policy agenda on income inequality may be neutralised of ulterior motives and sterilised of rhetoric offensive in domestic political arenas such as national legislatures. Specific policy mechanisms devised under ASEAN’s institutional framework may be localised, in other words, made congruent with the national normative framework and dominant narrative.

Respondents were concerned that income inequality is generally rising within ASEAN. Unlike fairness or equality, which are terms open to myriad interpretations and may contain historical sensitivities—considering the violence associated with communist movements Southeast Asia, equality is a politically sensitive term—stability is a message that aligns with the international narratives produced by institutions such as *The Economist* and the Asian Development Bank. Within the legislature, stability is also valued highly making ‘pro-stability’ policies more acceptable locally.

In part through policy laundering, ASEAN has started to build a normative framework on regional income inequality. As a non-vested party, ASEAN may shape discussions on what are the obligations of the wealthy in ASEAN. The legitimacy for ASEAN to facilitate and shape this conversations stems from a concern over instability. Overall, the goal is to produce a narrative on regional development that seeks to maximize stability, not growth. The survey results indicate that ASEAN as perceived as an institution with independent agency. In cases where national institutions are subject to elite capture, ASEAN may act as a counter-veiling mechanism to extractive tendencies. Most respondents viewed ASEAN favourably thus were generally confident in the efforts behind the IAI and the development of the AEC and more favourably when compared to perceptions on national political institutions.

Finally, the degree of confidence in national political institutions was low, more so in Indonesia. Low confidence may erode the efficacy and, if persistent, the legitimacy of an institution.¹⁰¹ Respondents appreciated ASEAN’s efforts to enhance the inclusive nature of national economic institutions by introducing policy based on a negotiated and prescribed plan, such as the *AEC Blueprint*. The goal is to avoid reactive ‘on the run’ policy from running the economy off a cliff.

⁹⁹ M.C. Abad Jr., *The Philippines in ASEAN: Reflections from the Listening Room* (The Philippines: Anvil Publishing, 2011), 28.

¹⁰⁰ Barry Steinhardt, *Problem of Policy Laundering* (American Civil Liberties Union, 2004).

¹⁰¹ Meiehenrich, *International Organizations: Study Guide in Economics, Management, Finance and the Social Sciences*, 15.

Conclusion

Trends within the ASEAN region can be characterised by increasing income inequality, convergence on human development, and increasingly poor governance and institutional quality.¹⁰² As per the survey findings, professional elites working on ASEAN integration generally agree with the preceding statements.

As a regional organisation, ASEAN must seek to shape the norms around regional income inequality to prioritise and mobilise an inclusive policy agenda. ASEAN plays a valuable role in facilitating the update of norms at the national level. Institutionally, ASEAN is not simply a reflection of the localised norms, but an active agent localising norms at the national level. ASEAN's institutionalism is at times viewed by national legislatures as an entity driven by the interests of the executive branches of governments so bottlenecks during the legislative enactment of policy are not surprising.¹⁰³

Therefore, ASEAN should work with and understand policy narratives within national legislatures. More research on the perspectives of elected officials about ASEAN is needed to delve deeper. The importance of having an institutional framework with the appropriate rhetoric to engage with complex issues such as inequality is a necessary step to maintaining long-term regional stability.

According to respondents, policies to support infrastructure and encourage trade are perceived favourably. In practice there remains a debate about if and how increased trade will reduce or exacerbate income inequality.¹⁰⁴ Even if not the most effective policy to reduce regional income inequality, forgoing an infrastructure project within CLMV due to concerns over the unequal distribution of benefits is not politically viable. Regarding other policy prescriptions viewed favourably by respondents (e.g., education and the support of small and medium enterprises) the distributional benefits vary.

A regional decline in absolute poverty will instil the image of program effectiveness, even if income inequality is rising slightly, i.e., a decline in absolute poverty will offset a slight rise in relative poverty, which will stave off criticism about the fairness of ASEAN integration. ASEAN has limited financial resources so must leverage multi-lateral and partner funding to support the development of CLMV countries

Consequently, income inequality among and within ASEAN member states should be monitored directly by the ASEAN Secretariat. By tracking inequality, an indicator related to long-term stability, the effective implementation of NDG programs will be cast against a backdrop of income inequality. The goal is to promote a normative framework that maximizes stability, not simply growth.

¹⁰² Carpenter and McGillivray, 'Narrowing the Development Gap: Policy Recommendations for ASEAN and Development Partners'. 178.

¹⁰³ Ruland, 'Deepening ASEAN Cooperation through Democratization? The Indonesian Legislature and Foreign Policymaking', 384.

¹⁰⁴ See Paul R. Krugman, *Trade and Inequality, Revisited*, Globalization - Economic Development and Inequality: What Is the Evidence? (Centre for Economic Policy Research: Vox, 2007); Paul R. Krugman, *Trade and Wages, Reconsidered*, Brookings Paper on Economic Activity (Washington D.C., USA: Brookings Institution, 2008); and Joseph E. Stiglitz, *The Price of Inequality* (New York, USA: W.W Norton & Company, 2012), 63.

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