

# Regional Economic Integration: a Perspective Offering for Myanmar

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ESCAP Conference on Regional Cooperation and Integration  
Yangon, May 9<sup>th</sup> 2016



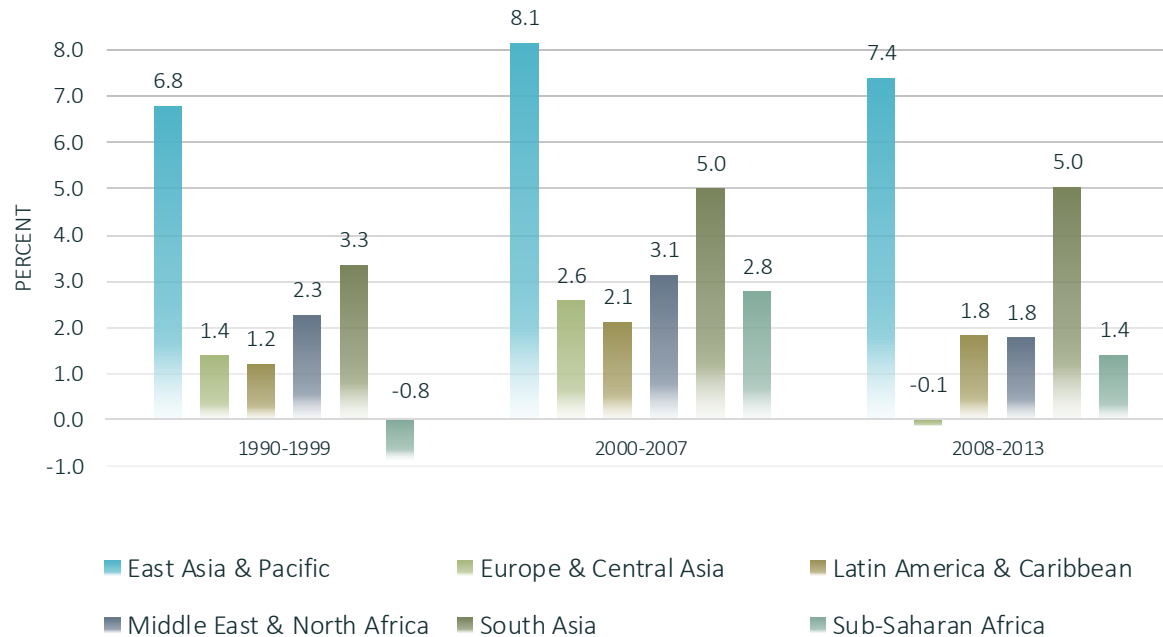
## Asia is a dynamic region..

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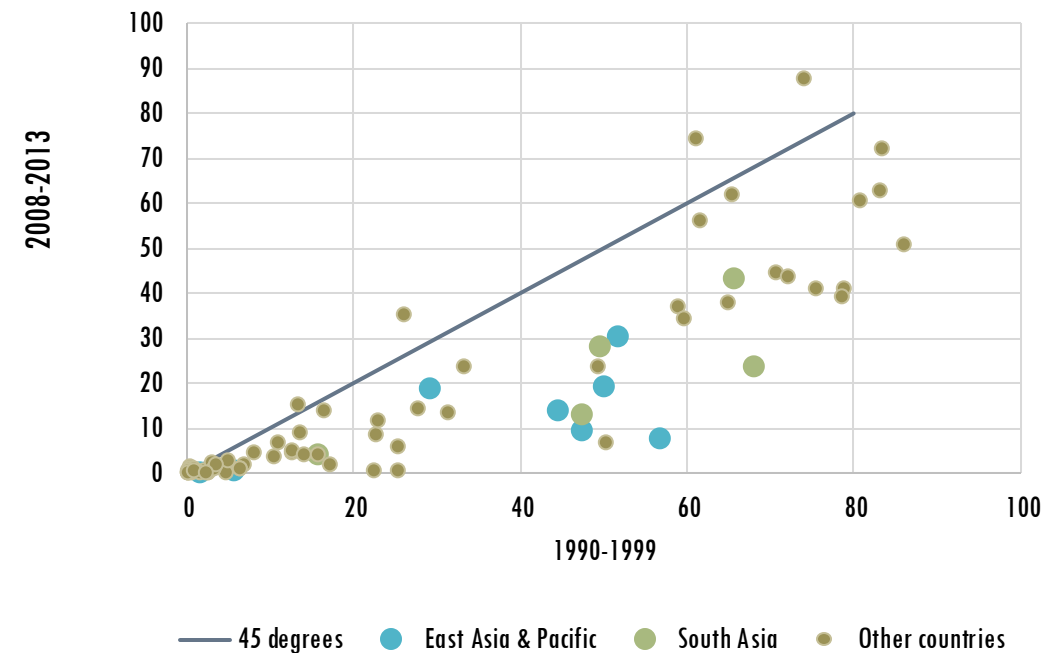
- Region where growth and poverty reduction is sustained
- Region where economic integration is driven by regionalism
- Factory Asia continues to reshape and offer opportunities

# At a glance: Sustained growth drove progress in poverty reduction

Growth of Asian economies - Average GDP per capita growth, 1990-2013



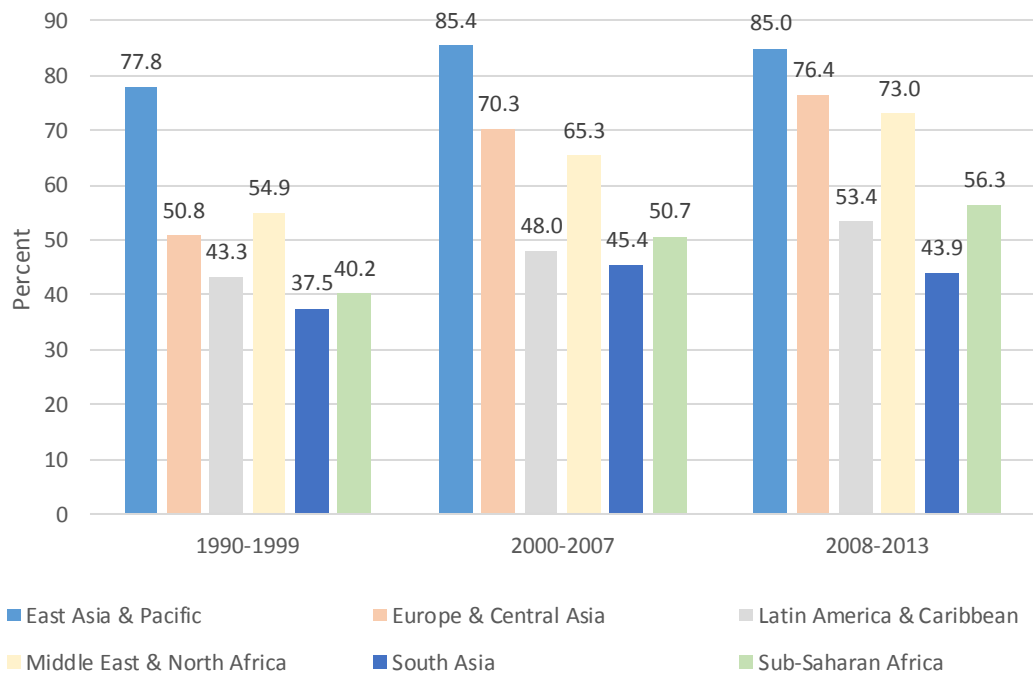
Progress in reducing extreme poverty - Poverty headcount ratio at \$1.25 a day (PPP) (% of population)



Source: World Bank WDI database; Calculations based on the World Bank WDI database

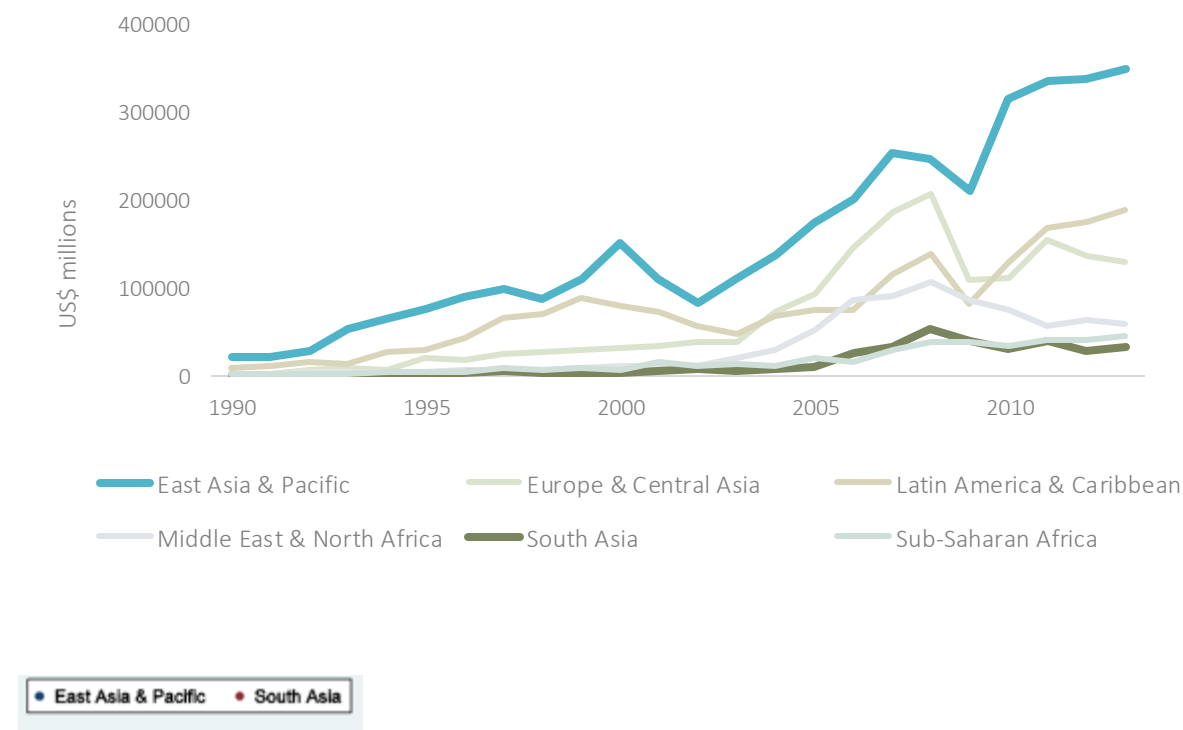
# At a glance: East Asia is relatively well-integrated

Trade openness<sup>1</sup>: average Trade-to-GDP ratio, 1990-2013



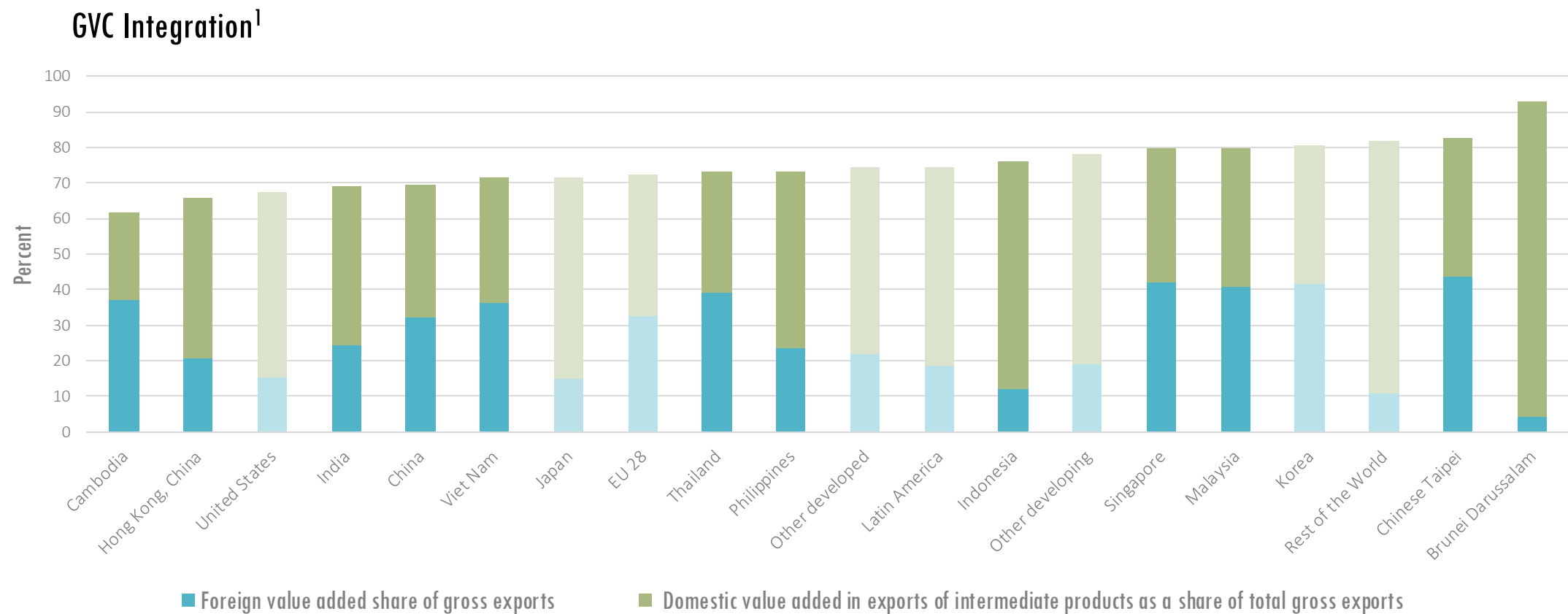
Share of imports and exports in parts and components on total trade<sup>2</sup>, 1990-2013

FDI flows<sup>3</sup>



Source: Calculations based on the World Bank WDI, COMTRADE and UNCTAD FDI databases  
 1. Trade openness is defined as the ratio of imports plus exports to GDP 2. Parts and components trade is defined according to the BEC classification. 3. The lines represent the total value of inward FDIs in US\$ at current prices and current exchange rates in millions

# At a glance: a key feature is GVC participation (import for export)



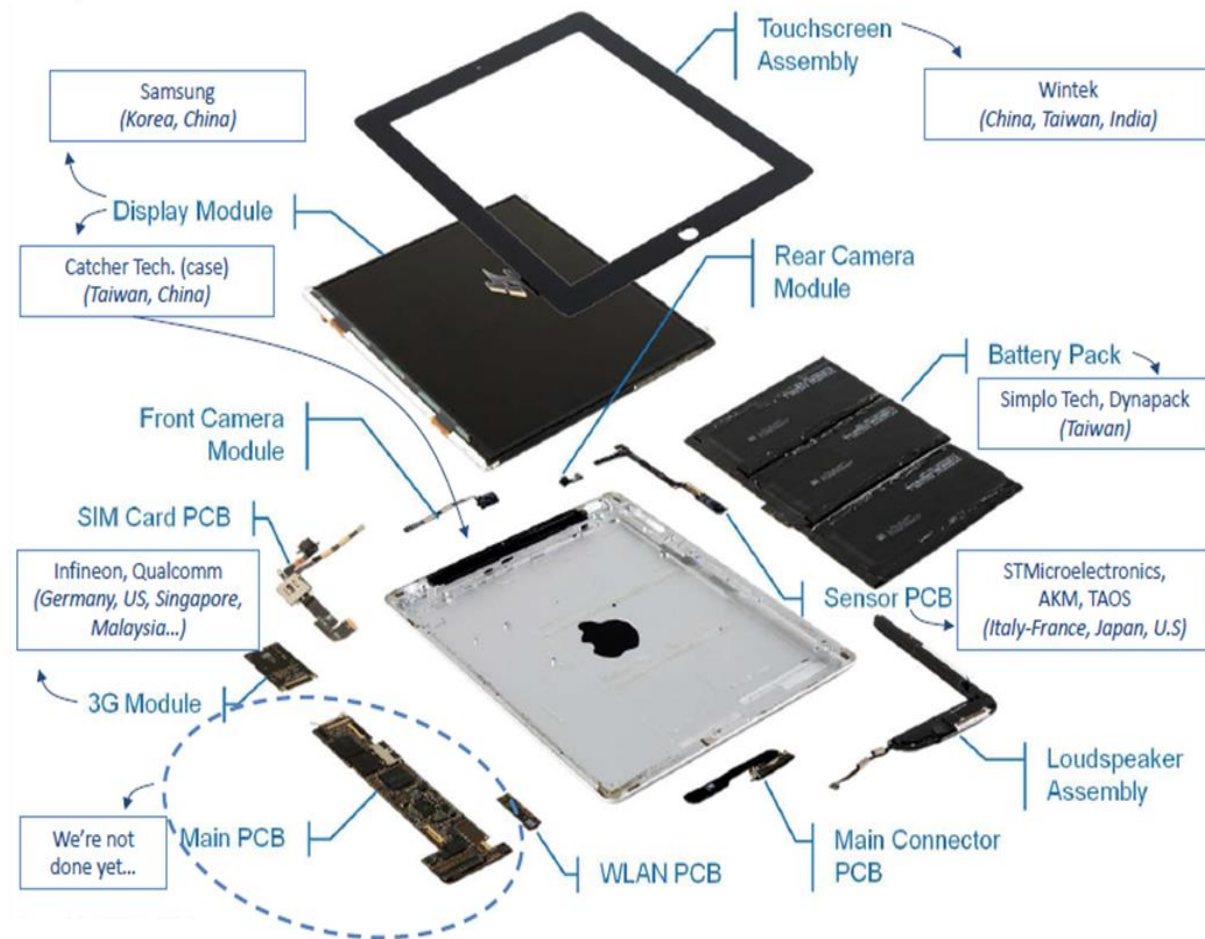
Source: Calculations based on the OECD TiVA dataset and the WTO Regional Trade Agreements Information System (RTA-IS)

1. Data refers to 2011. The values for other developed, other developing and Latin America are simple averages of the shares of the countries in the group. Other developed includes: Australia, Canada, Iceland, Israel, New Zealand, Norway and Switzerland; Other developing includes: Russia, Saudi Arabia, South Africa, Tunisia and Turkey. Latin America includes: Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.

2. The size of the nodes is proportional to the number of PTA partners

# Trade and FDI are strongly linked in the era of “Trade in Tasks”: technology and innovation are the key channels leading to sustained growth

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Efficient trade logistics are key, but the challenge for developing countries is not just to integrate with the global economy, but to do so in a way that allows them to learn, absorb new technological capabilities, and upgrade their productive structures.

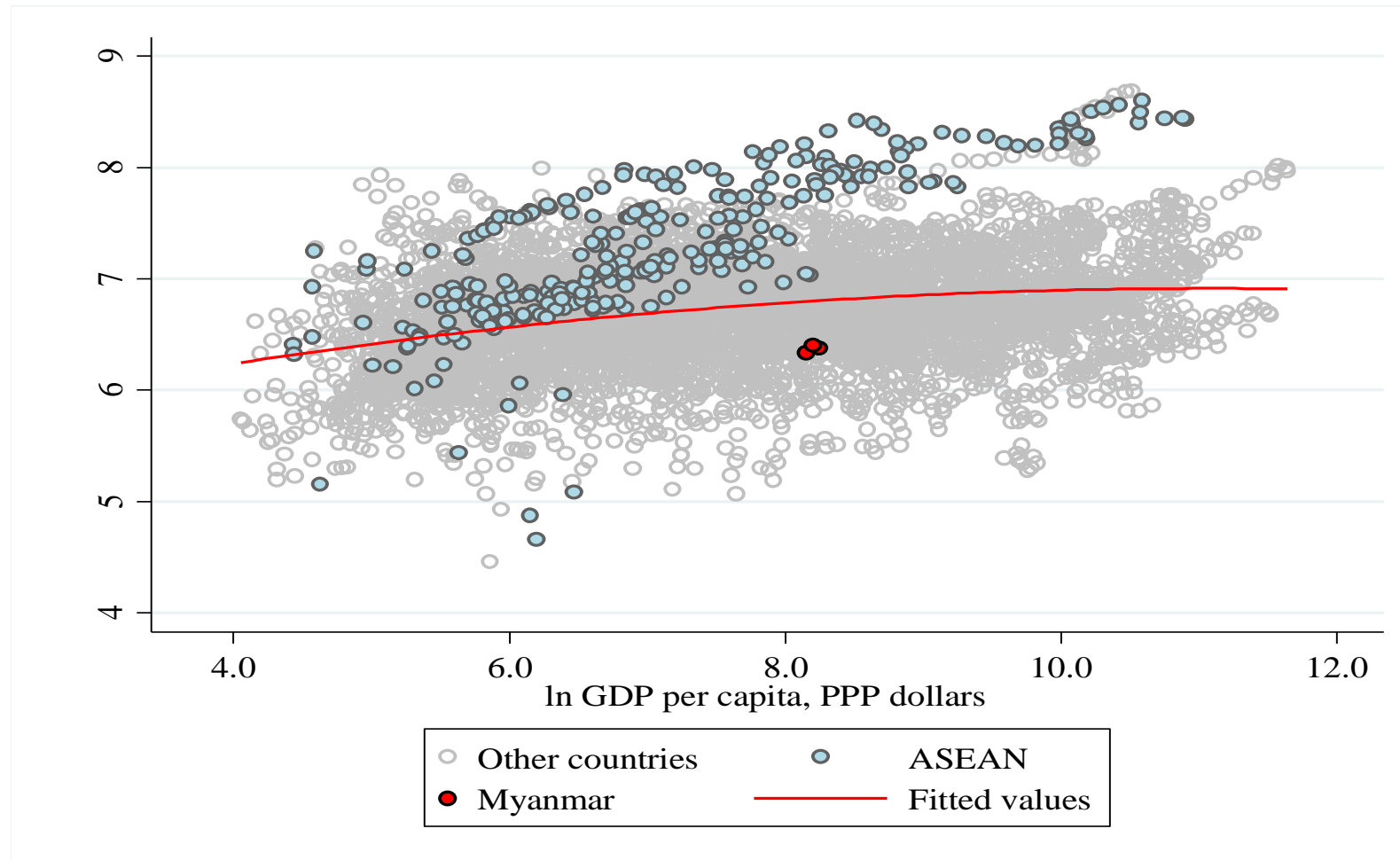
# Myanmar has geographical comparative advantage

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- Shares border with countries that make up 40% of global population, % of global GDP
- Rising consumer classes and restructuring of industrial employment
- Global value chain offers Myanmar to accelerate industrialization (no need to build the whole chain).

And there is plenty of room for Myanmar to trade more

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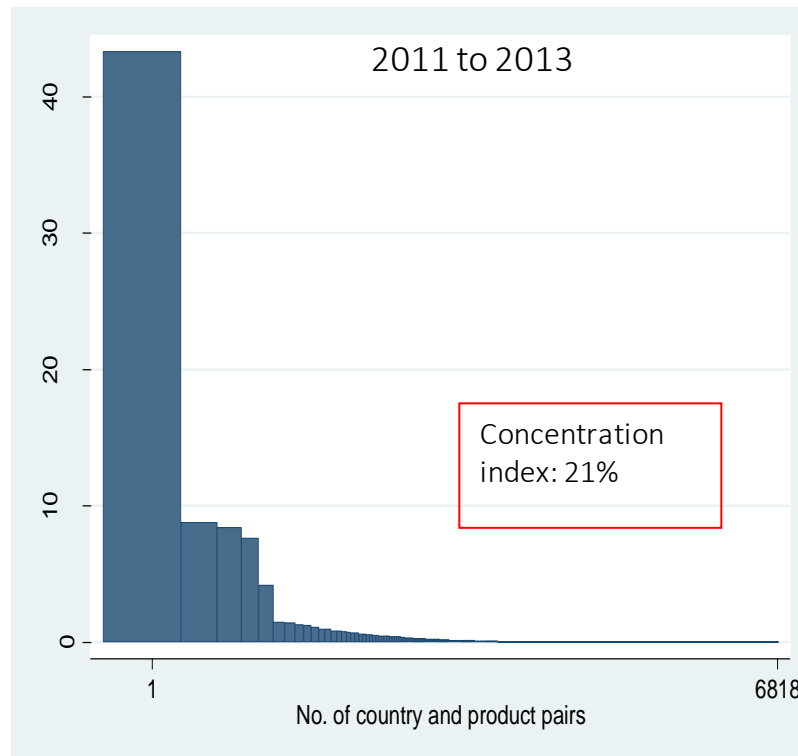
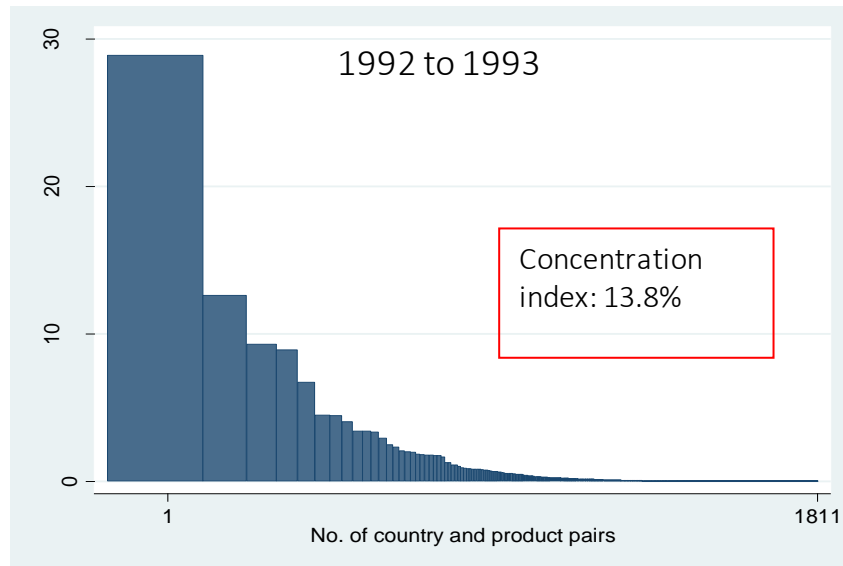
# Trading partners can be further diversified

	Share of imports		Share of exports		Share of trade	
	1991-93	2011-13	1991-93	2011-13	1991-93	2011-13
ASEAN	46.4	35.7	36.3	12.9	42.3	28.8
Singapore	27.5	7.6	12.5	1.6	21.2	5.9
Thailand	9.6	20.0	20.1	4.4	14.5	15.4
Malaysia	7.4	3.8	2.4	3.6	5.1	3.7
Indonesia	2.2	3.1	1.2	1.2	1.7	2.5
China	26.0	40.5	22.9	32.4	24.3	39.0
Japan	9.8	6.7	6.7	11.8	8.4	8.1
Rep. of Korea	3.6	6.4	1.1	6.5	2.4	6.4
Australia & NZ	0.2	0.8	0.7	0.3	0.4	0.6
India	1.2	4.0	12.6	23.5	6.4	9.7
EU15	8.7	1.9	5.7	4.5	7.3	2.7
United States	1.3	0.5	5.0	0.2	3.0	0.4

# Highly concentrated export needs attention

While gas is important source of revenue and FDI, high dependence on gas exposes Myanmar to risks of macroeconomic instability (fiscal shock, chronic currency overvaluation)

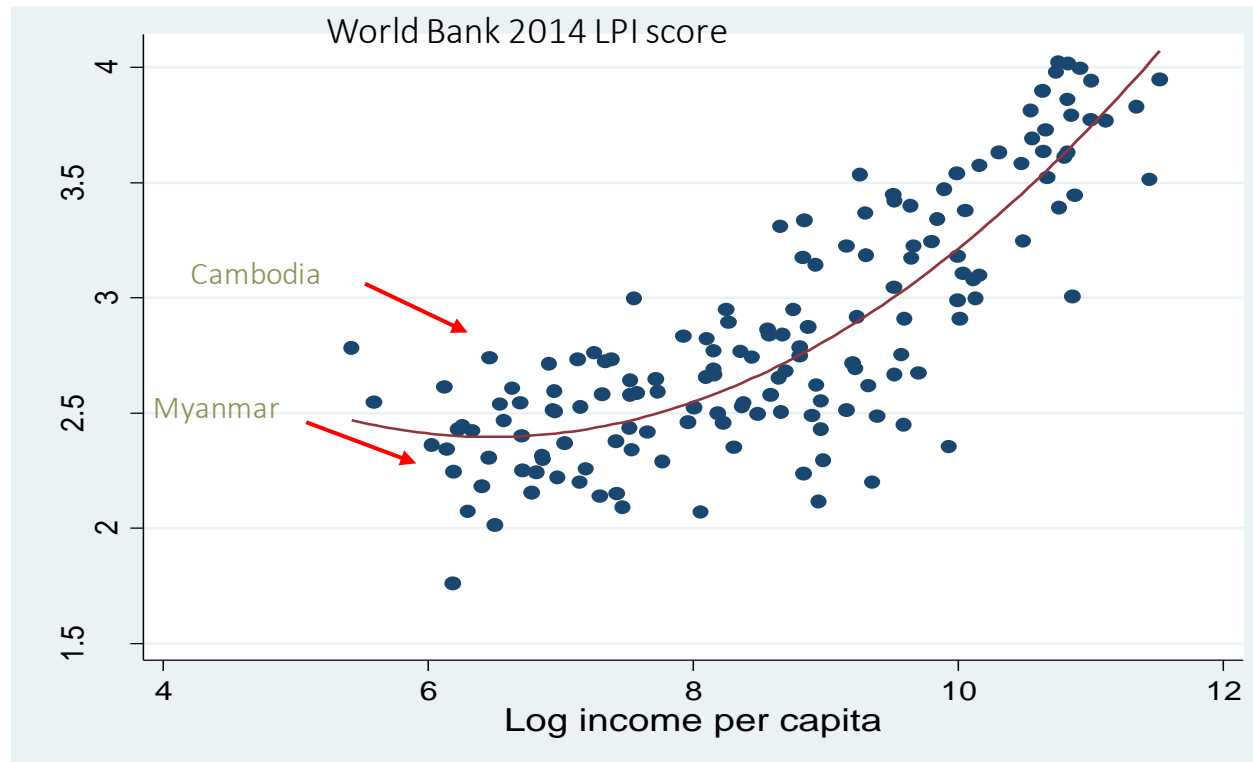
Share of country and product pair in total export (%)



# Challenges in business environment and constraints in freight logistics are still hampering Myanmar's export diversification

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High trade costs reduces incentives for private sector to exploit new trade opportunities



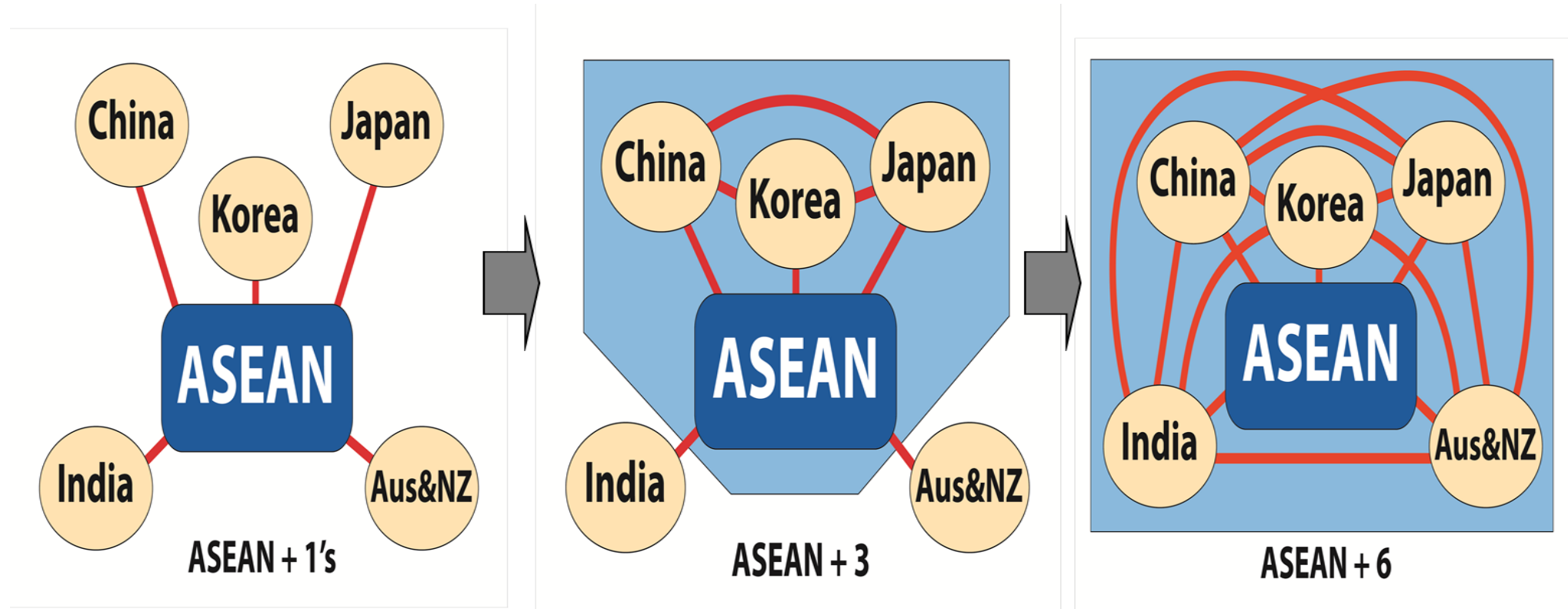
\* Controlling for size of the country

# Regional economic integration can help Myanmar further its reform agenda

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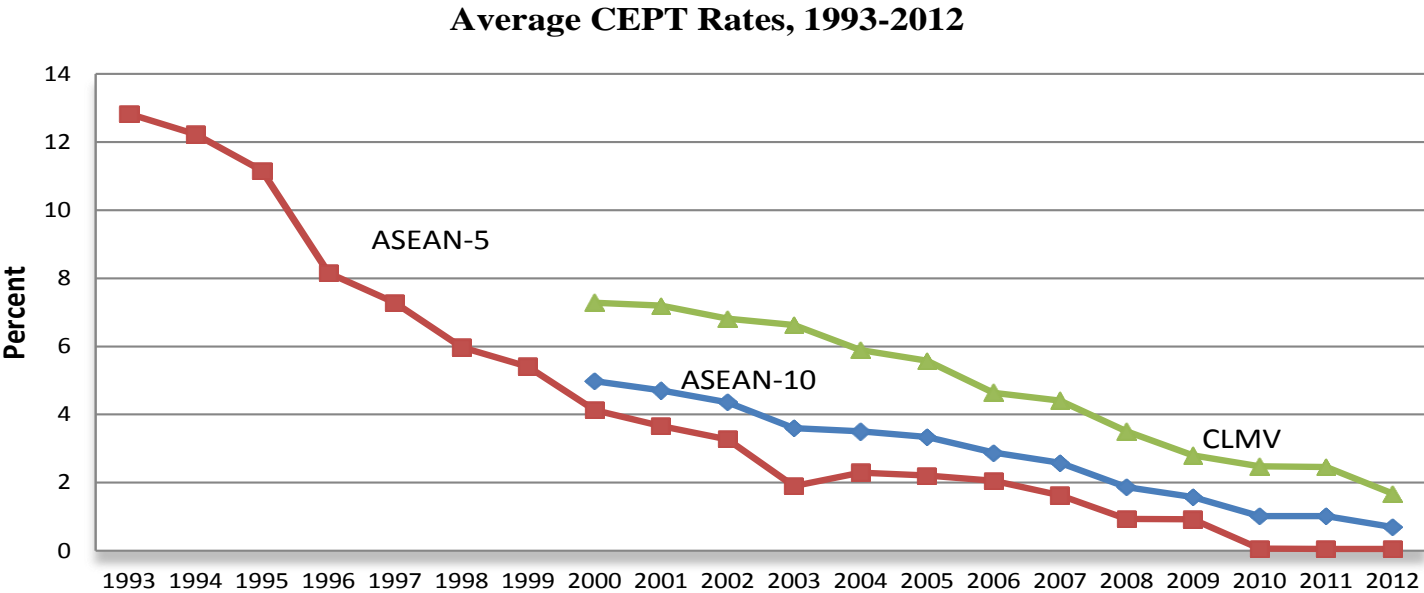
- Regional economic integration via regional trade agreement (RTA) is not so much about reducing tariff. Attention has shifted to:
  - Trade facilitation and non-tariff measures are big elephants in the room
  - Opening up services is not only opening up to FDI but also reforming regulations
- Recent RTAs goes beyond market access and covers “behind the border” issues that requires domestic reforms by developing countries:
  - Competition policy and role of state-owned enterprises
  - Investment policies and investor’s protection
  - Intellectual property rights
  - Government procurement

## ASEAN and AEC play an important role in Regional Integration Schemes



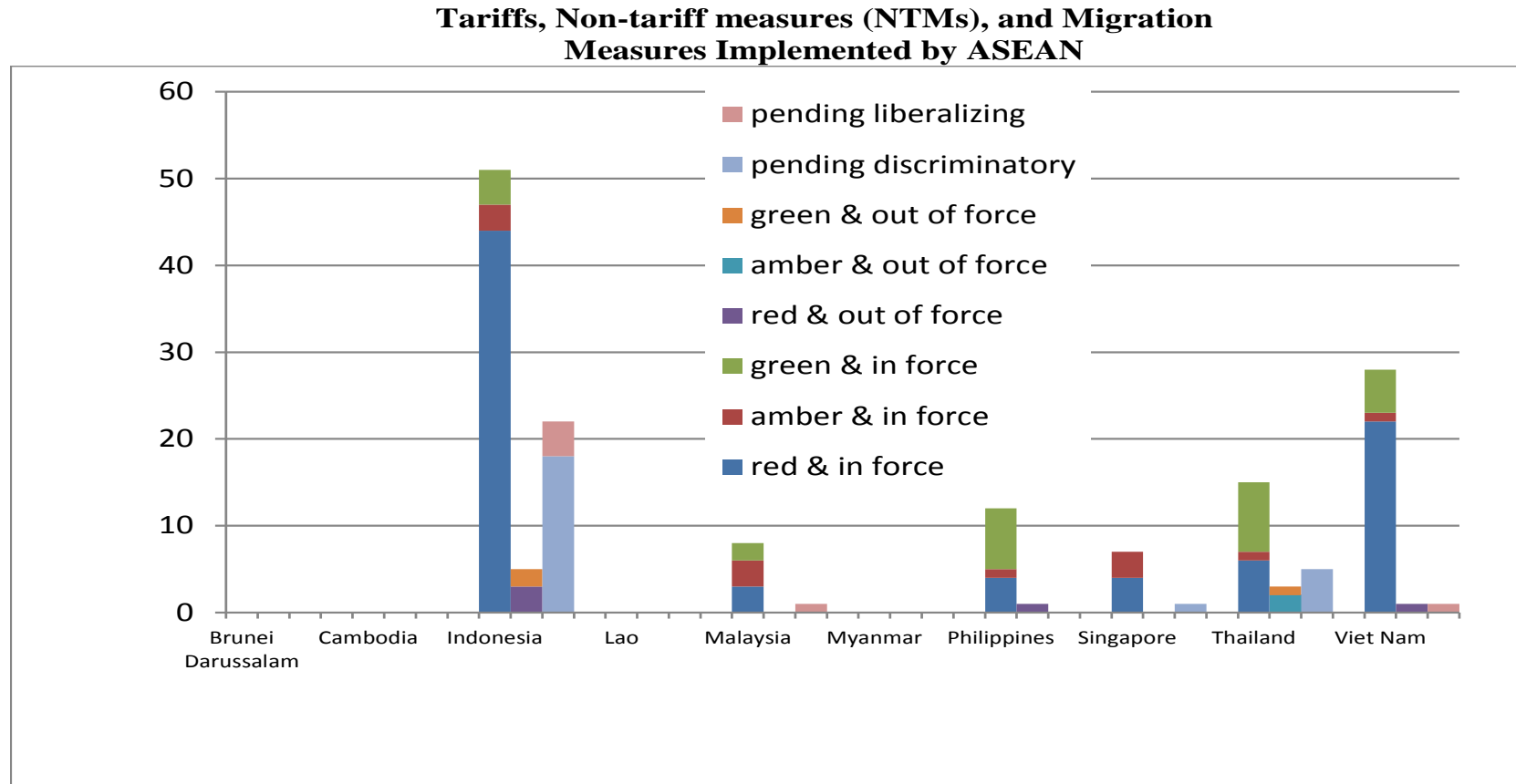
# Under the AEC agenda, intra-ASEAN Preferential Tariffs have been successfully reduced

Intra-ASEAN Preferential Tariffs, 1993-2012



Source: ASEC database

...but growth in intra-ASEAN trade flows  
seems to be slowed down by NTM proliferation



Source: Global Trade Alert database. Data accessed June 2012.

## Regional economic integration can help Myanmar further its reform agenda (continued)

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- It makes sense for Myanmar to prioritize engagement with ASEAN-led RTAs to ensure that its development interests are represented and infrastructure and institutional capacities are gradually developed
- Recent ASEAN RTAs (like RCEP) has “cooperation” component that can support developing countries to design and implement domestic policy reforms
  - For example, harmonizing procedures and regulations cannot be done overnight
- “Mega” RTA like TPP can divert trade and investment from Myanmar to other countries and erode preferences given to Myanmar in developed country markets



# What Myanmar may also want to expect

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- Integration is not only between capital cities but also between areas near land borders
  - How can we take advantage of that for promoting inclusive development and peace?
- Regional economic integration provides economies of scale that would otherwise too small for Myanmar businesses to enter/expand
  - For certain profit margin and risk, larger market can help more firms to enter businesses
  - But increased competition can cause *industrial restructuring*, where good firms will survive and bad/inefficient businesses will disappear (bankrupt or purchased)
  - How can we help link SMEs with global value chain?

# Thoughtful sequencing of reform can be important

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- With the right policy framework, Myanmar can formulate complementary policies to minimize impact of that process
  - Improve workers skills to meet demand, maintain efficiency of labor market and strengthen social protection
  - Improve the functioning of financial market to meet demand from firms and households
  - Identify parts of global value chain which Myanmar already has revealed or “latent” comparative advantage and design public-private support to further develop those activities (e.g. agri-business, manufacturing, tourism)

Thank You  
*Kyei Zu Tin Ba De*