

In Pursuit of the ASEAN Economic Community

Closing the Development Gap between
CLMV and ASEAN-6 Through the
Initiatives for ASEAN Integration

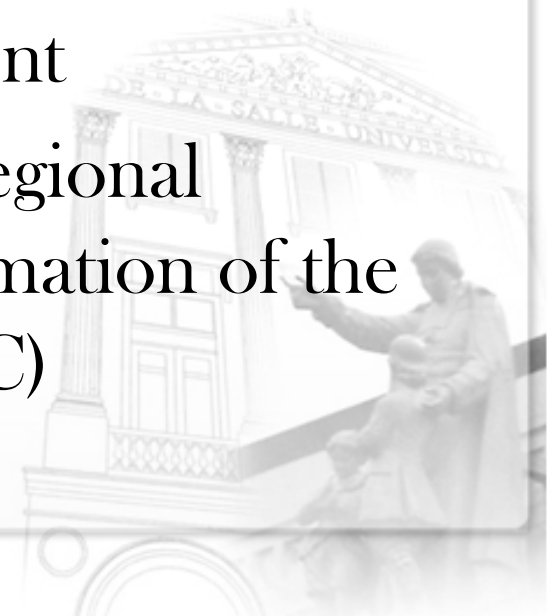
Denise Jannah Serrano
Kurt See
James Sy
De La Salle University – Manila



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Introduction

- ASEAN has experienced much progress in the context of regional integration.
 - ASEAN Free Trade Area (AFTA)
 - ASEAN Framework on Services (AFS)
 - ASEAN Investment Area (AIA)
 - ASEAN Trade in Goods Agreement
- Today, the ASEAN seeks to calcify regional cooperation through the eventual formation of the ASEAN Economic Community (AEC)



ASEAN Economic Community

- Single market and production base
- Highly competitive economic region
- Equitable economic development
- Full-integration into the global economy (outward-looking as opposed to inward-looking)

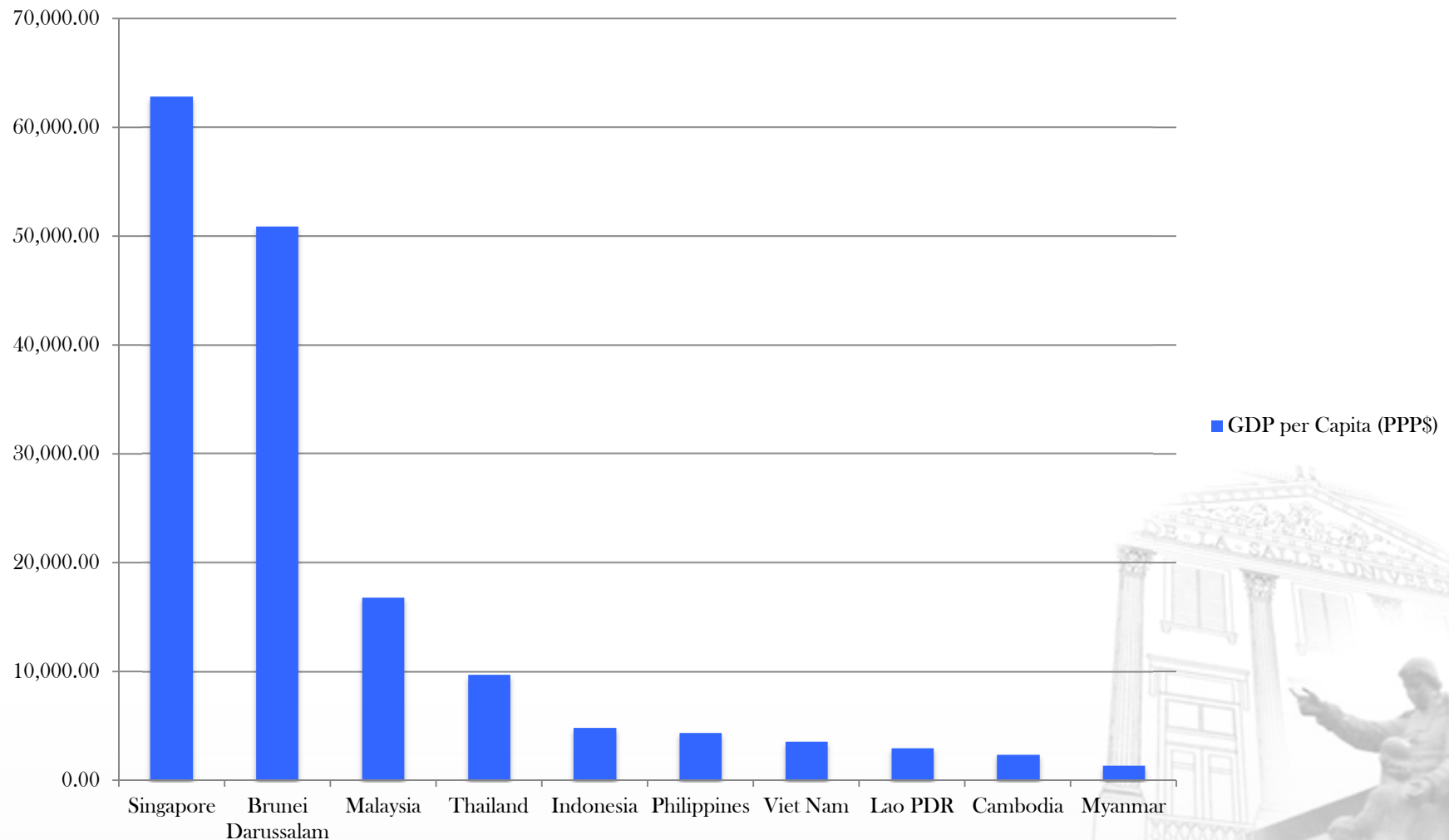


Roadblocks to AEC

- Large development gaps exist within the the ASEAN region. This is especially true with regards to the ASEAN-6 and the CLMV
- This is evidenced by wide disparities in per capita income (Lim, 2007).
- The exists severe deficiencies in income, infrastructure, integration, and institutional development (Thanh, 2008).



Figure 1. Per Capita Income of ASEAN Countries PPP (US\$), 2012



Source: World Development Indicators



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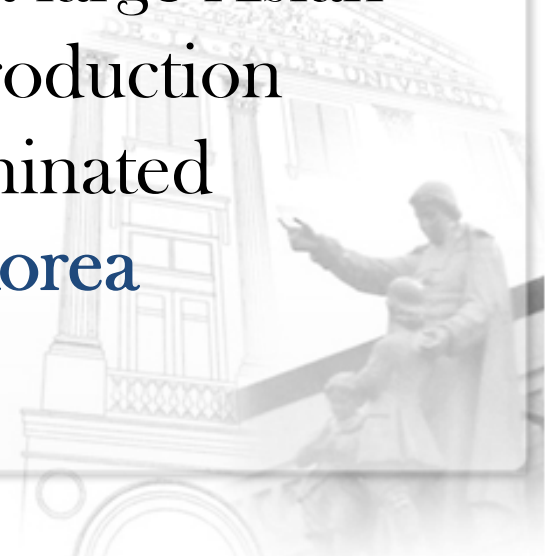
Implications

- Such development gaps pose various threats to the eventual formation of the AEC
 - Harmonization of customs regulations, trade policies, and fiscal and monetary measures
 - Low regional demand for traded goods
 - Limits level of intra-regional trade
 - Competitiveness in the field of **Global Production Networks (GPN)** amidst the emergence of China and India



ASEAN Competitiveness

- Rising wages and cost of production in the ASEAN-4
- Eventual upgrading of ASEAN-4 to high-technology goods
- ASEAN may be marginalized within a large Asian region dominated in size, cost, and production capacity by **China and India**, and dominated technologically by **Japan and South Korea** (Sussangkarn, 2006).



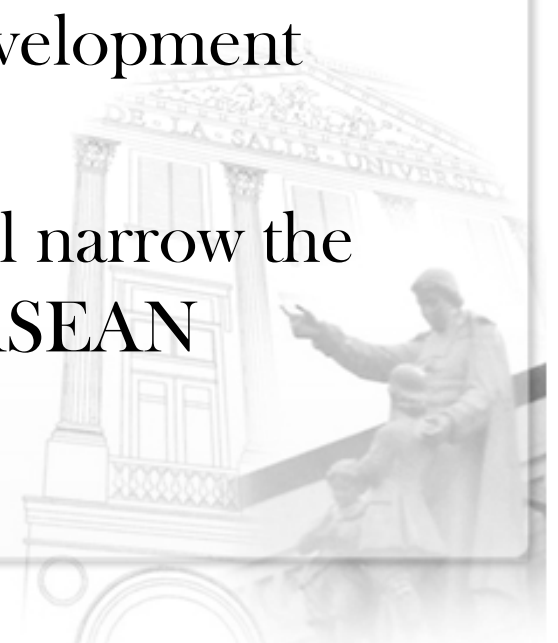
ASEAN's Response

- Initiative for ASEAN Integration
 - Infrastructure
 - Human Resource
 - Information and Communications Technology (ICT)
 - Regional Integration



Objectives of the Study

- Assess the progress of CLMV since their accession into the ASEAN
- Identify opportunities and challenges presented by the inclusion of CLMV
- Assess preferential programs and development initiatives facilitating the reduction of development gaps
- Design policy recommendations that will narrow the development gap between the original ASEAN members and the CLMV



Theoretical Framework

- Global Production Networks
 - Involves the creation of a value-chain network wherein the various stages of production are stationed in different countries.
 - The concept of a GPN recognizes that each stage of the production process requires varied factor intensities.
 - In most cases, technology and skill intensive processes are carried out in developed countries. These intermediate goods are then sent to labor-abundant developing countries for labor-intensive processes of assembly and testing. Final goods are then shipped back to developed countries for end-user consumption
 - Implications



Economic Progress of CLMV

- Robust economic growth
- Highly dependent on agricultural sector
- Heterogeneity in level of openness
- Foreign direct investment inflow varies



Figure 2. GDP growth of CLMV, 1994-2012 (%)

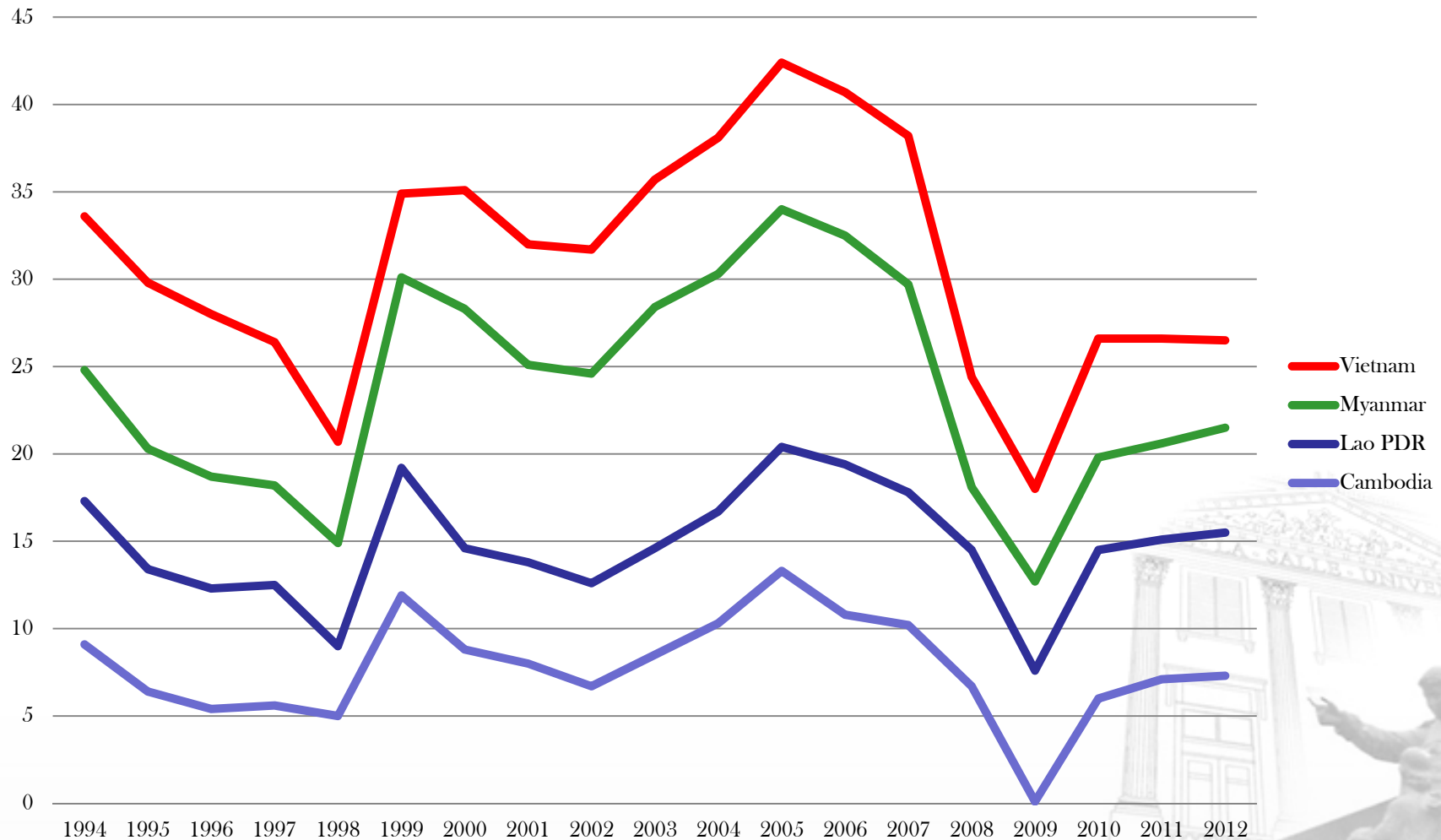


Table 1. GDP by Origin of CLMV (%), 1990-2010

Year	1990	2010
Cambodia		
Agriculture	56.5	36.0
Industry	11.3	23.3
Services	32.2	40.7
Laos		
Agriculture	61.2	30.3
Industry	14.5	27.7
Services	24.3	42.0
Myanmar		
Agriculture	57.3	36.4
Industry	10.5	26.0
Services	32.2	37.6
Vietnam		
Agriculture	38.7	20.6
Industry	22.7	41.1
Services	38.6	38.3

Source: Key Indicators for Asia and the Pacific 2010 (ADB)



Table 2. Ratio of total trade to GDP of CLMV, 1993-2006 (%)

Year	1993	1995	1997	2000	2003	2006
Trade Openness (sum of export and import ratios)						
Cambodia	48.72426	77.76673	78.93464	111.6095	123.0808	144.6161
Laos	52.62881	60.55447	65.15697	74.04842	62.52175	85.02866
Myanmar	3.372301	2.535847	1.859119	1.084602	0.356594	-
Vietnam	66.21227	74.72127	94.34448	112.5281	126.9487	151.7713

Source: World Bank



Table 3. Foreign direct investments net inflow, intra- and extra-ASEAN, 2009 (value in US\$ million; share and change in percent)

Country	2009			Share to total net inflow to ASEAN, 2009			Share of Intra-ASEAN, 2009		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	0.1	176.7	176.8	0.0	0.5	0.4	0.1	99.9	100.0
Cambodia	170.8	359.3	530.2	3.9	1.0	1.3	32.2	67.8	100.0
Indonesia	1,380.1	3,496.7	4,876.8	31.2	9.9	12.3	28.3	71.7	100.0
Lao PDR	57.3	261.3	318.6	1.3	0.7	0.8	18.0	82.0	100.0
Malaysia	(269.7)	1,650.7	1,381.0	(6.1)	4.7	3.5	-19.5	119.5	100.0
Myanmar	19.5	559.1	578.6	0.4	1.6	1.5	3.4	96.6	100.0
The Philippines	18.7	1,929.3	1,948.0	0.4	5.5	4.9	1.0	99.0	100.0
Singapore	2,037.6	14,218.6	16,256.2	46.0	40.4	41.0	12.5	87.5	100.0
Thailand	585.8	5,371.1	5,956.9	13.2	15.3	15.0	9.8	90.2	100.0
Viet Nam	428.7	7,171.3	7,600.0	9.7	20.4	19.2	5.6	94.4	100.0
Total	4,428.9	35,194.1	39,623.0	100.0	100.0	100.0	11.2	88.8	100.0
ASEAN 5	3,752.4	26,666.5	30,418.9	84.7	85.9	83.7	12.3	87.7	100.0
BLCMV	676.5	8,527.6	9,204.1	15.3	14.1	16.3	7.4	92.6	100.0

Source: ASEAN Statistics



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Cambodia

Strengths

- Tourism
- Agriculture
- Construction

Challenges

- Poverty
- Low human capital development
- Infrastructure development
 - Agricultural productivity
 - Industrialization
 - Foreign Direct Investment (FDI)
- Lack of information and trade promotion activities
- Primitive financial system
- Low production base



Laos

Strengths

- Unscathed by the Global Financial Crisis due to limited exposure
- Mining
- Energy
- Construction
- Primary industries (e.g. agriculture)

Challenges

- Low human capital development
- High production costs
 - Obsolete technology
 - Small-scale operations (inefficiency)
 - High transaction costs
 - Poor infrastructure
- Technology
- Infrastructure development
- Overemphasis on industrial expansion, overlooking the strengthening of industries



Myanmar

Strengths

- Gas and oil industry
- Privatization
- Establishment of industrial zones
- Large (but untapped) domestic market
- Young labor force

Challenges

- Budget misallocation
- Inadequate investment in human capital (healthcare, agriculture, and education)
- Improve inflation and output over and above economic development
- Inappropriate fixed currency regime
- Lack of enforcement of contracts and property rights
- Continued overdependence on agriculture



Vietnam

Strengths

- Successful transition from a centralized to a market economy
- Heightened involvement of investment, private, and export sector
- Continued industrialization and growth

Challenges

- Lack of competitiveness
- Rate of industrialization relatively low compared to other countries
- Slow diffusion of returns to investments
- Underdevelopment of SME
- Income inequality
- Structural unemployment (due to shift) and inflation
- Inefficiency and volatility to stock markets and financial institutions
- Price bubble



Findings

- CLMV face similar fundamental economic challenges which are inimical to the establishment of Global Production Networks within the region.
- There also exists problems which are exclusive to individual countries.
- Prospects also vary across the CLMV bloc.
- Implication: the general framework to narrowing the development gap must be complemented by country-specific frameworks/action plans.



Table 4. Status Update of the IAI Projects by Program Area, 2009

	Target Number of Projects	Actual Projects Completed	Incomplete (Variance)
Infrastructure	26	21	5
Human Resource Development	100	74	26
ICT	36	30	6
Regional Economic Integration	68	43	25
Tourism	10	7	3
Poverty and Quality of Life	4	0	4
General Coverage Projects	14	10	4
Total Number of Projects	258	185	73

Source: 35th Meeting of the IAI Task Force, 17 October 2009, ASEAN Secretariat, Jakarta, Indonesia



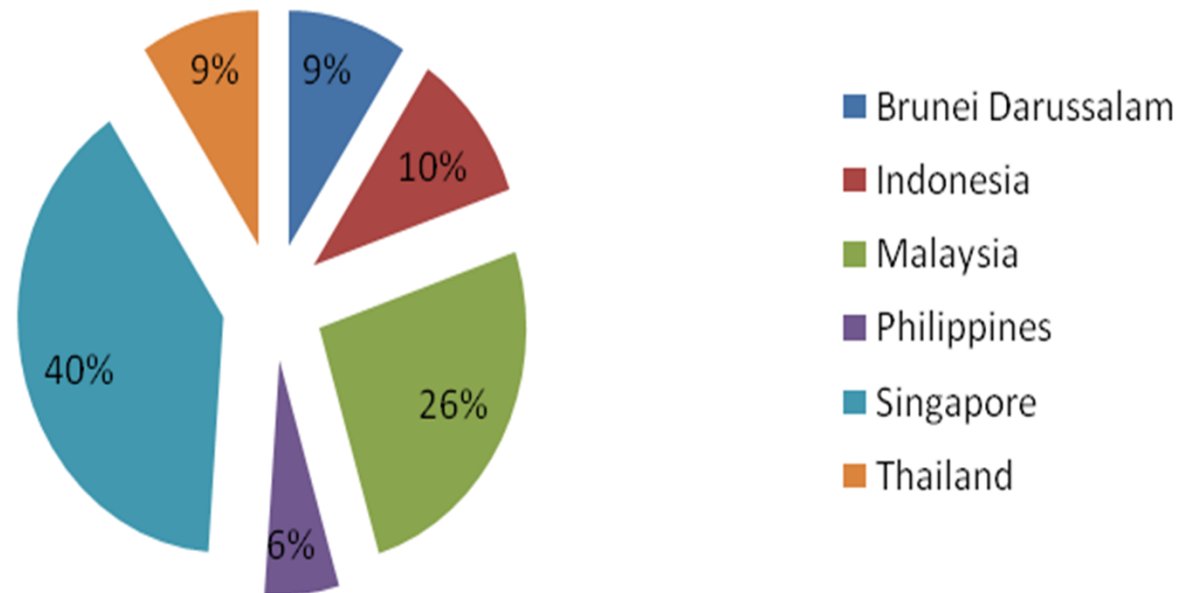
Table 5. Status Update of the IAI Projects by Program Area, 2009

	Incomplete (Variance)	Under Implementation	No Progress
Infrastructure	5	1	4
Human Resource Development	26	12	14
ICT	6	1	5
Regional Economic Integration	25	10	15
Tourism	3	0	3
Poverty and Quality of Life	4	1	3
General Coverage Projects	4	1	3
Total Number of Projects	73	7	47

Source: 35th Meeting of the IAI Task Force, 17 October 2009, ASEAN Secretariat, Jakarta, Indonesia



Figure 3. Contribution of ASEAN-6 into IAI Work Plan, 2009



Source: 35th Meeting of the IAI Task Force, 17 October 2009, ASEAN Secretariat, Jakarta, Indonesia



Assessment of IAI Work Plan and Project Implementation

- Lack of country-specific frameworks and programs
- Failure to account for the advantages/potentials the CLMV region possesses
- Lack of long-term and sustainable planning
- Poor coordination between CLMV and benefactors (ASEAN countries)
- Breadth over depth approach is problematic
- Lack of investment in IAI's thrust for poverty reduction, infrastructure development, and information communications technology.

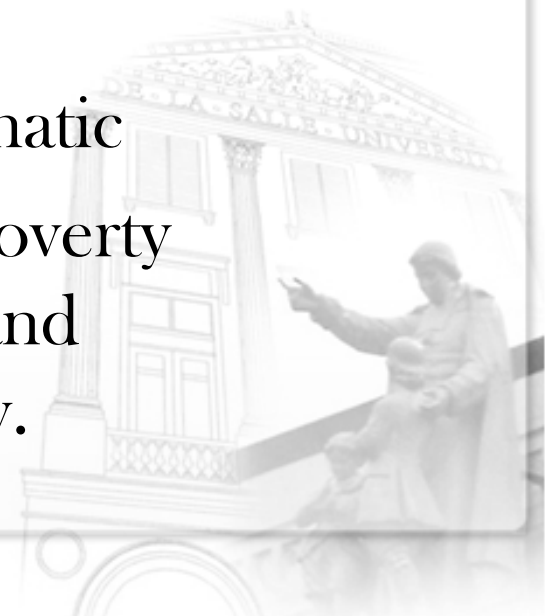
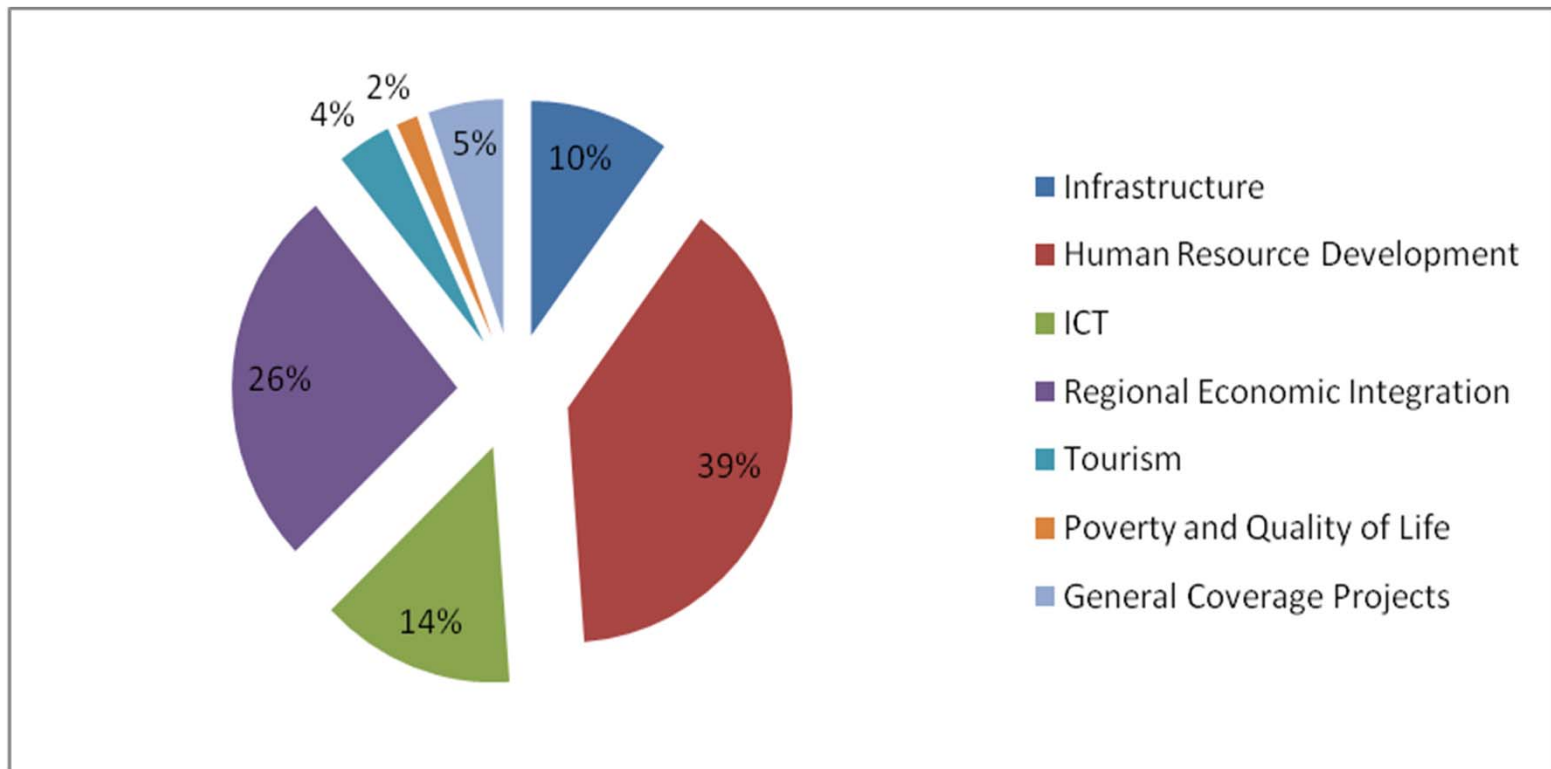


Figure 4. Distribution of IAI Projects by program, 2009



Source: 35th Meeting of the IAI Task Force, 17 October 2009, ASEAN Secretariat, Jakarta, Indonesia



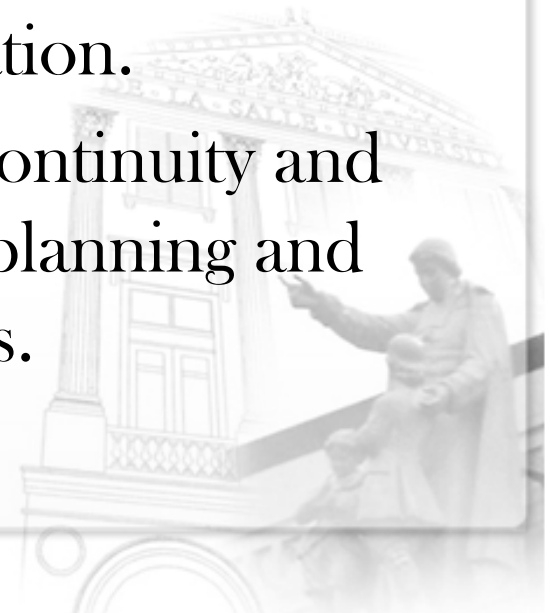
Conclusion

- Although CLMV has made significant leaps forward, it still faces severe developmental issues.
- Widening development gap is becoming a threat to the eventual realization of the AEC and to ASEAN's competitiveness.
- CLMV share common fundamental problems.
- There exists heterogeneity (country-specific) prospects and challenges.
- Certain flaws in the conceptualization and implementation of the IAI has led to little progress.



Policy Recommendation

- The IAI framework must incorporate country-specific work plans that will cater to the heterogeneous needs of CLMV nations.
- Increased consultation, dialogue and partnership between the ASEAN and CLMV countries will provide means to accurately identifying issues faced by each country and an avenue for cooperation.
- IAI programs must exhibit a degree of continuity and sustainability. This will entail long-term planning and regular assessment of program outcomes.



Policy Recommendation

- Simultaneity in addressing both challenges and prospects is crucial.
- Given limited resources, programs must be strategically planned and positioned. Implementing an excess number of small and short-term programs may have little to no contribution to the attainment of developmental objectives.

