

Increasing the Competitiveness of the  
Agriculture, Food & Forestry Sectors to Close  
the Development Gap for the CLMV  
Economies

Final Report

For the ASEAN Secretariat

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CONSULTANTS ON GLOBAL ISSUES

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## Executive Summary

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The Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan 2 (2009-2015) sectoral work plan on food, agriculture and forestry includes a study on “how to increase competitiveness of food, agriculture and forestry products/commodities including addressing the gap among CLMV and other ASEAN Member States in relation to food, agriculture and forestry related issues” (Action A.7.iii).

This report demonstrates a strategy to measure gaps in competitiveness in agricultural, food and forestry industries and a method to rate the importance of integration commitments in the IAI and AEC Blueprint to enhance competitiveness. Specifically it:

- demonstrates a methodology to measure competitiveness;
- proposes a strategy for CLMV economies to measure gaps in competitiveness in all their key agriculture, food and forestry industries; and
- proposes strategies to enable CLMV economies to:
  - i. improve the competitiveness of industries in those sectors, principally by implementing select commitments in the IAI and AEC Blueprint to enhance competitiveness; and
  - ii. achieve competitiveness in a stepped and orderly manner.

### **The global setting - world prices rising**

Over the last decade, world commodity prices have on average risen in real terms. Forecasts are that global demand for food products will continue to rise. This will increase prices, raising the cost of food in consumer economies, with price increases relatively greater in low-income developing countries.

This will generate a challenge for governments – incomes for producers will rise, enabling agriculture, food and forestry industries to expand their contribution to national economic growth. It will also challenge governments to ensure consumers have access to essential food stuffs at affordable prices.

To ensure the agriculture, food and forestry industries make their optimal contribution to national growth and in doing so close the development gap within ASEAN, it is essential that these industries in the CLMV economies become more competitive.

### **What increases competitiveness? Better productivity**

International competitiveness is a function of the economic efficiency of the primary factors of production – land, labour and capital – employed by the agriculture, food and forestry industries. This in turn is partly a function of the efficiency of the various markets that they rely on.

These include the markets in which producers sell their output, the markets in which they purchase the goods and services that they use as intermediate inputs into their production, and the economy-wide markets in which they purchase their primary factors of production.

Increasing international competitiveness requires improving relative productivity.

The impediments to increasing international competitiveness of the sectors in question are those that result in greater prices in the relevant domestic markets in which producers sell their output or purchase their inputs relative to prices for equivalent products in other countries. The higher the relative price in the domestic market, the greater is the potential loss of international competitiveness to the affected producers.

The ASEAN integration strategies recognize this. Increasing the relative productivity of producers depends not only on operating in competitive markets, but, just as importantly, on reducing the cost of inputs – including agricultural tractors, tools and machinery, fertilizers and pesticides, transport services, etc. – and ensuring these markets are attractive to domestic and foreign investors.

It is clear that removal of barriers to trade and constraints on activities that provide inputs to agriculture, food and forestry products will increase competitiveness.

### **What the competitiveness model showed**

ITS Global devised a methodology comparing prices in five nominated CLMV products with prices in benchmark (important agricultural exporting) ASEAN-6 economies. Products were selected based on economic importance, integration priority and the ASEC's preferences. This method was used to analyse the price gap over 10 years and proved a reliable measure for this research.

Products assessed were cattle meat, chicken meat, cassava, maize and tropical hardwood. These were selected as a representative range of products following analysis and consultation with the ASEAN Secretariat.

Findings for the period analysed were that generally competitiveness increased in most CLMV economies in the products selected, with the exception of cassava and maize:

- **Cambodia** appears competitive in tropical hardwood logs and cattle meat, but not in cassava, maize and chicken meat.
- **Lao PDR** was competitive in tropical hardwood logs, cattle meat, maize and chicken meat, but not in cassava.
- **Myanmar** was competitive in cattle meat, chicken meat and tropical hardwood, but not in cassava and maize.
- **Viet Nam** was only competitive in the production of cattle meat and was not competitive in the production of chicken meat, maize, cassava and tropical hardwood.

The Consultant cautions these findings are no basis for generalisations about agriculture, food and forestry in each CLMV economy. Important industries within these sectors, in which some CLMV economies are internationally competitive, were not assessed and should be taken into account before more general conclusions can be drawn.

The aim of the exercise was to trial a methodology for assessing the competitiveness of industries against regional competitors. This provides a basis for policy development to improve performance.

### **ASEAN integration programs contribute to competitiveness**

ITS Global was asked to assess the contribution to competitiveness to agriculture, food and forestry in the CLMV economies of the ASEAN economic integration programs, and specifically to the products analysed.

The Consultant concluded the AEC integration programs, once fully implemented, would enhance competitiveness of the sectors in question by reducing the domestic and international barriers to entry in the markets for the commodities they produce and the inputs they use to produce those commodities. They do so by reducing and eliminating tariffs and non-tariff barriers and by lessening or removing legislative barriers to foreign involvement in the domestic delivery of services that are used as inputs to production.

The Report demonstrates a framework for rating the contribution of specific AEC initiatives to competitiveness. This framework:

- categorises measures that adversely affect the efficient operation of each market on which the agriculture, food and forestry sectors rely (e.g. import tariffs, non-tariff barriers);
- rates the extent to which each of these measures is expected to impede the international competitiveness of those sectors (rated as high, medium-high, medium, medium-low, or low); and
- identifies the AEC initiatives that remove the impediments in question (e.g. actions or commitments from the AEC Blueprint).

### **How can CLMV economies improve competitiveness in the products reviewed?**

The ASEAN Secretariat's review of the draft report asked the Consultant to report on this question on the basis of the research conducted and provide model strategies for each CLMV economy.

Overall, tariffs and non-tariff barriers on the five assessed products are minimal. Removal of them would increase competitiveness. Significant impediments remain to the efficient operation of services used by the agriculture, food and forestry sectors and by producers of material inputs to these sectors. These include restrictions on foreign investment through commercial presence and on the movement of skilled and unskilled labour. There may also be restrictions on innovative approaches to improve productivity by CLMV producers.

Accordingly the Consultant provided possible strategies for each CLMV economy to improve the competitiveness of the products reviewed.

### **A caution**

However, the Consultant does not recommend implementing those strategies for the products reviewed in isolation from the bigger picture.

Product-specific policies viewed in isolation can have unforeseen impacts on production in other industries within the sector. Improving the competitiveness of one of those products might be at the cost of competitiveness in others.

As most agricultural land can produce more than one commodity, most farmers have a choice in what commodities they produce or in what combination they produce them. In such an environment the removal of commodity-specific impediments to competitiveness on a selective basis can have negative and unintended consequences, both for the agricultural, food and forestry sectors as well as for the economy as a whole. For example, the removal of a modest tariff on one farm commodity while retaining a much higher tariff on one of its production substitutes could perversely encourage the more highly protected farm activity to expand at the expense of the less protected one.

The Consultant recommends assessing the level of and key factors contributing to competitiveness of all key products in agriculture, food and forestry before strategies to improve competitiveness for specific products are initiated.

### **Strategies for reducing the CLMV competitiveness gap in agriculture, food and forestry**

The Consultant identified two strategies for improving competitiveness in these sectors:

1. For the five products assessed, implement measures to remove restrictions impacting the competitiveness in this Report in the following services industries:
  - Transport services;
  - Distribution services;
  - Business services;
  - Financial services; and
  - Communication services

Restrictions and sub-sectors are detailed in Annex H.

2. For the sectors in question, up-skill officials in relevant agencies so they can:
  - (a) assess the competitiveness of all key products in the agriculture, food and forestry sectors and
  - (b) develop and implement strategies to raise competitiveness in a deliberate and orderly way in those sectors.

The Consultant considers strategy two offers the best prospect of a path to increase the competitiveness of the agriculture, food and forestry sectors in CLMV economies.

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## Abbreviations

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<b>ACIA</b>	ASEAN Comprehensive Investment Agreement
<b>ADB</b>	Asian Development Bank
<b>AEC</b>	ASEAN Economic Community
<b>AEM</b>	ASEAN Economic Ministers
<b>AFAS</b>	ASEAN Framework Agreement on Services
<b>AMS</b>	ASEAN Member State
<b>ASEAN</b>	Association of Southeast Asia Nations
<b>ASEC</b>	ASEAN Secretariat
<b>ATIGA</b>	ASEAN Trade in Goods Agreement
<b>CCA</b>	ASEAN Coordinating Committee on Goods
<b>CCI</b>	ASEAN Coordinating Committee on Investment
<b>CLMV</b>	Cambodia, Lao PDR, Myanmar and Viet Nam
<b>UN FAO</b>	United Nations Food and Agriculture Organization
<b>FAOSTAT</b>	FAO Statistics Department
<b>GATS</b>	General Agreement on Trade in Services
<b>HS</b>	Harmonized System
<b>IAI</b>	Initiative for ASEAN Integration
<b>IMF</b>	International Monetary Fund
<b>ISIC</b>	International Standard Industrial Classification
<b>ITTO</b>	International Tropical Timber Organization
<b>MMK</b>	Myanmar Kyat currency code
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>REG</b>	ADB Regional Integration Program
<b>AMAF</b>	ASEAN Ministerial Meeting on Agriculture and Forestry
<b>UNECE</b>	United Nations Economic Commission for Europe
<b>WTO</b>	World Trade Organization



# 1. Introduction

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ITS Global has been commissioned by the ASEAN Secretariat (ASEC) to conduct a study under the technical assistance program TA-7491 (REG): *Strengthening the Capacity of the ASEC for Policy Dialogues and Regional Integration*.

The Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan 2 (2009-2015) sectoral work plan on food, agriculture and forestry includes a study on “How to increase competitiveness of food, agriculture and forestry products/commodities including addressing the gap among CLMV and other ASEAN Member States in relation to food, agriculture and forestry related issues”.

The IAI recognizes the development gap between Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV; the newer ASEAN members) and other ASEAN Member States (AMS). It includes actions to support the CLMV in implementing ASEAN goals and commitments including the ASEAN Economic Community (AEC) Blueprint on measures to raise the international competitiveness of the food, agriculture, and forestry sectors and ASEAN’s economic integration agreements in goods (ATIGA), services (AFAS), and investment (ACIA).

The Study comprises:

- An assessment of the gap in international competitiveness between each of the CLMV member states and the rest of ASEAN, looking at prices of representative products in each of the three sectors in CLMV with those of economically equivalent products sourced from other AMS. Representative ASEAN-6 economies are selected for the purpose of the price comparison;
- A review of the ASEAN integration programs. This involves assessing the extent to which CLMV have implemented measures to improve competitiveness in food, agriculture and forestry to meet ASEAN integration commitments and goals; assessing the extent to which implementation of such measures has helped increase competitiveness and reduce the gap; and identifying other factors which need to be further addressed to improve competitiveness; and
- Strategies to advance the implementation of programs which reduce the competitiveness gap and other actions to close the competitiveness gap in the selected commodities in food, agriculture and forestry between ASEAN and each CLMV economy.

This study was not designed to enable assessment of the competitiveness of all products in the agriculture, food and forestry industries in each CLMV country. It was funded by the ADB as a more limited study where assessment of the competitiveness of representative products in the CLMV economies would be trialled to then advise of how broader assessments of competitiveness might be mounted and strategies developed from there.

## 2. Assessing international competitiveness

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### 2.1 Why competitiveness matters

International competitiveness is a measure of the ability of domestic firms, industries and sectors to successfully employ the primary factors of production — the land, labour, capital and entrepreneurial talent — which are available at any time in an economy that is open to international trade.

In a well-functioning economy, this ability is a direct reflection of the relative productivity of the uses to which its resources may be put — over time they will tend to move to their more productive applications and away from their less productive ones. Raising the competitiveness of any part of the tradeable goods sector will therefore increase economy-wide productivity and raise living standards.

The competitiveness of products depends on trends and factors in the global environment. A review of that, indicating key factors, is set out in Annex A.

### 2.2 The approach in this study

Two broad approaches are used to measure the international competitiveness of particular firms, industries or sectors in an economy.<sup>1</sup> They involve comparing either the unit labour costs of domestic producers with those of their international competitors or comparing the prices received by domestic producers with those received by their competitors, on the other.

ITS Global has used the price approach in this study.<sup>2</sup>

This compares the domestic producer prices for a selection of the commodities produced by the agriculture, food and forestry sectors in the CLMV economies, with the equivalent prices in one of the ASEAN-6 economies.

The prices received by producers at the farm gate were used rather than the prices paid at other points in the value-chain, such as when sold to the final consumer or export prices for internationally traded output. Relevant data was not readily available. One exception was the forestry sector, where producer prices at the farm gate were not readily available but unit export values or average export prices were. All the prices used in this assessment were sourced from the FAO and were expressed in US dollars (USD) for ease of comparison.<sup>3</sup>

Because prices for most agriculture, food and forestry products in international commodity markets are volatile due to the variations in seasonal conditions over time, the assessment has been conducted over a ten-year time horizon, from 2000

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<sup>1</sup> OECD, 2007, *OECD Glossary of Statistical Terms*, OECD, Paris, accessed at: <http://stats.oecd.org/glossary/download.asp>

<sup>2</sup> The unit labour cost approach was not feasible in these cases due to the absence of good quality and timely data in the public domain.

<sup>3</sup> FAO, 2012, *FAOSTAT*, Statistics Division, FAO, Rome, accessed at: [www.faostat.org](http://www.faostat.org)

to 2010.<sup>4</sup> We consider that this period is sufficiently long for the purpose of estimating robust averages and establishing long term trends.

### 2.3 Identifying the representative products

During the inception phase the Consultant reviewed 11 products to enable ASEC to determine which products to assess. They were selected according to economic importance, integration priority and ASEC's preferences. Details of those reviewed are set out in Annex B.

Based on the selection criteria, the following commodities were selected for the assessment:

- cassava;
- cattle meat (indigenous);
- chicken meat (indigenous);
- maize; and
- tropical hardwood logs (used to manufacture pulp, paper and wood products).

### 2.4 Comparing to ASEAN-6 economy benchmarks

The choice of which ASEAN-6 economy to act as the benchmark for the competitiveness assessment detailed in section 2.3 was based on which economies were a well-established regional exporter of the commodity in question. An established regional exporter can be expected to be the most efficient producer in ASEAN so their producer price is taken as the 'reference price'.

This was Thailand in the case of cassava, cattle meat, chicken meat and maize, and Malaysia in the case of tropical hardwood (industrial round wood) logs.<sup>5</sup>

ITS Global compared producer prices in the CLMV economies with their equivalents in the benchmark ASEAN-6 economy. This involved estimating the ratio of the two prices in USD for each of the selected commodities in each of the CLMV economies in each year of the evaluation period, as well as the average price ratio over the whole period. The numerator is the CLMV producer price and the denominator is the reference price. In addition, ITS Global calculated the strength and direction of the trend that was evident in each of the annual price ratio series over the period in question. This is explained further in Annex C.

A producer price ratio of '1' indicates that the producer prices for the commodity under examination are equal in the two economies. A ratio of more than '1' means that the producer price in the CLMV economy in question is greater than the reference price for the commodity under examination, and vice versa. On the face of it, a producer price ratio in excess of '1' means that the CLMV economy is not

<sup>4</sup> For Viet Nam, the time period used is 2000 to 2009 due to availability of data.

<sup>5</sup> Thailand and Malaysia were also chosen because of their relatively close proximity to the CLMV economies, which should minimize any differences in transport costs in terms of any competition from producers in the rest of the world.

internationally competitive in producing the selected commodity. Conversely, a ratio of less than '1' means that it is internationally competitive in that commodity. Further details are provided in Annex C.

## 2.5 Results of the competitiveness assessment

### 2.5.1 The methodology

The consultant is satisfied that the method used here of comparing prices received by domestic producers with those of comparators in the ASEAN-6 group provides a reliable measure of competitiveness.

The consultant cautions the results are indicative only. For a full scale assessment, a wider set of data is recommended.

### 2.5.2 Cambodia

The results of the competitiveness assessment for Cambodia reveal a mixed performance by its agricultural, food and forestry sectors over the evaluation period in terms of international competitiveness. On the face of it, they indicate that Cambodian primary producers were competitive in production of two of the five commodities that were examined — namely tropical hardwood logs and cattle meat.

These results are summarised in Table 2.1 and in Figure 2.3.

Table 2.1 shows the average producer price ratio that was estimated for each of the selected commodities over the ten-year evaluation period. In the case of tropical hardwood logs, unit export values were used to calculate the price ratio because data on producer prices was unavailable. The ratio of unit export values is included in the Table for transparency in international competitiveness. The price ratio estimates for each commodity for each year of the assessment period are set out in full in Annex D.

**Table 2.1: Ratio of producer price in Cambodia to ASEAN reference price, selected commodities, average ratio & slope of linear trend in ratio, 2000 to 2010**

Commodity	Average Ratio	Slope of Trend (a)
Cassava (b)	5.74	-1.225
Cattle meat (b)	0.73	0.033
Chicken meat (b)	2.49	0.169
Maize (b)	1.33	0.058
Tropical hardwood logs (c)	6.41	1.243

**Notes:**

(a) Slope of the linear trend estimated by least squares. A negative sign indicates the producer price ratio declined over the period, while a positive sign indicates that the ratio increased.

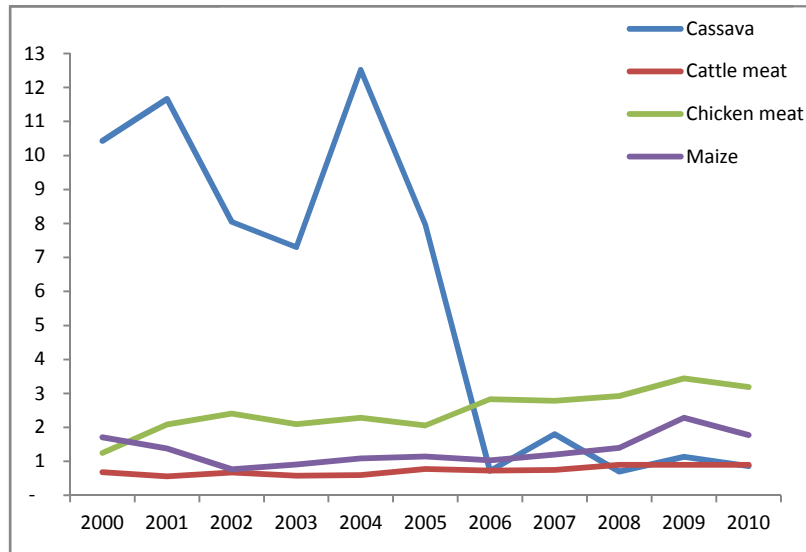
(b) Ratio of producer prices in USD at the farm gate. Reference price is ex Thailand.

(c) Ratio of unit export values in USD for the period 2004 to 2010 inclusive. Reference unit export value is ex Malaysia.

**Source:** FAOSTAT 2012, ITS Global estimates

Figure 2.3 has the annual producer price ratios for each of the four non-forestry commodities. The price ratio for tropical hardwood has not been included in the graph as it was computed on a different basis and, for this reason, involves a different interpretation of its results. This interpretation is discussed below. Over the evaluation period the volume of **tropical hardwood logs** that were exported from Cambodia grew dramatically if somewhat unevenly and albeit from negligible levels at the beginning of the period.<sup>6</sup> The average export price received by Cambodian hardwood log producers followed a similar pattern and in doing so increased relative to what was a rising Malaysian reference price.<sup>7</sup>

**Figure 2.3: Ratio of producer price in Cambodia to ASEAN reference price, selected agricultural commodities, 2000 to 2010**



Source: FAOSTAT 2012, ITS Global estimates

The Malaysian reference price is also an average of the export prices received for the different log species exported by Malaysia in each calendar year. As the composition of log exports varies from year to year, some of the movement in that average may partly reflect compositional changes. Unfortunately FAOSTAT does not allow for disaggregation of any of its log export price series and the International Tropical Timber Organization (ITTO) does not publish sufficiently disaggregated log price data.

These developments of course do not indicate any loss of export competitiveness, rather the contrary. The rising export price ratio is most likely a reflection of rising quality premiums for Cambodian hardwood logs in the relevant export markets. Such an outcome is completely consistent with the buoyancy in prices in world markets for wood and wood products that has been observed over the evaluation period.

In the case of **cattle meat**, however, the results indicate that Cambodian producers progressively lost their competitive advantage in the production of that commodity over the assessment period, albeit at a relatively modest rate. The major factor behind this loss was the fact that the rate of growth in the domestic

<sup>6</sup> FAO STAT, 2012, accessed at: <http://faostat.fao.org/>

<sup>7</sup> Ibid.

producer price in US dollars consistently outstripped the growth in the Thai reference price in that currency.

The results indicate that Cambodian producers suffered from a massive competitive disadvantage in the production of **chicken meat** and **cassava** over the evaluation period. That said, its competitive disadvantage in the production of cassava declined more or less progressively over the first half of the valuation period, to the point where the price received by the Cambodian producer was approximating the Thai producer price for the second half of the period. Although the closing of the producer price gap for cassava reflected both a decline in the price received by the Cambodian producer and the Thai reference price, the decline in the former was by far the more dominant influence.

### 2.5.3 Lao People's Democratic Republic

Taken together the results for the Lao PDR indicate a relatively strong performance by its agricultural, food and forestry sectors over the evaluation period in terms of their international competitiveness. The sectors were competitive in the production of four of the five commodities used as the basis for the assessment — namely, tropical hardwood logs, cattle meat, maize and chicken meat.

The results for the Lao PDR are summarised in Table 2.2 and in Figure 2.4. The producer price ratio estimates for each commodity for each year of the assessment period are detailed in full in Annex D.

**Table 2.2: Ratio of producer price in Lao PDR to ASEAN reference price, selected commodities, average ratio & slope of linear trend in ratio, 2000 to 2010**

Commodity	Average Ratio	Slope of Trend (a)
Cassava (b)	1.61	-0.080
Cattle meat (b)	0.52	0.011
Chicken meat (b)	1.03	0.002
Maize (b)	0.91	0.016
Tropical hardwood logs (c)	2.29	-0.003

**Notes:**

(a) Slope of the linear trend estimated by least squares. A negative sign indicates the producer price ratio declined over the period, while a positive one indicates that the ratio increased.

(b) Ratio of producer prices in USD at the farm gate. Reference price is ex Thailand.

(c) Ratio of unit export values in USD for the period 2004 to 2010 inclusive. Reference unit export value is ex Malaysia.

**Source:** FAOSTAT 2012, ITS Global estimates

Over the evaluation period the volume of **tropical hardwood logs** that were exported from Lao PDR grew by a factor of seven, to 183,000 cubic metres in 2010.<sup>8</sup> At the same time the average US dollar price that was received by Lao PDR exporters showed a substantial downward trend, while the Malaysian reference price went in the opposite direction, thereby exacerbating the decline in relative prices. The net result is highlighted by our estimate of the slope of the trend in the producer price ratio for tropical logs in Table 2.2.

<sup>8</sup> FAOSTAT, 2012.

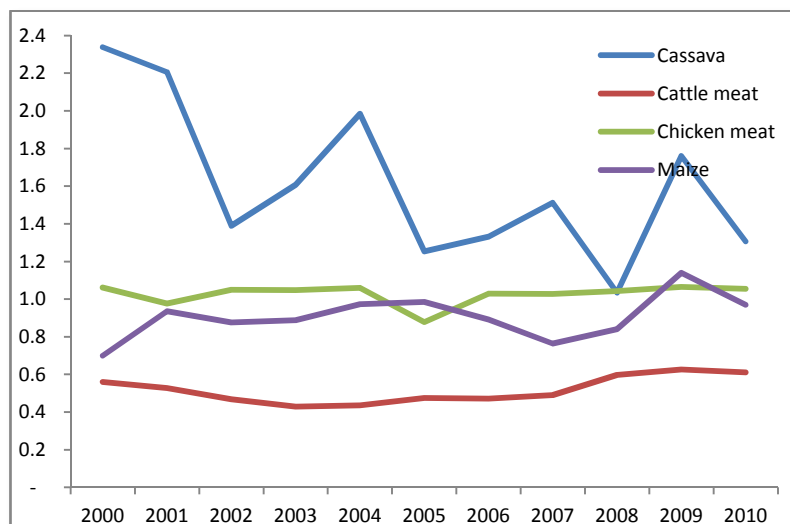
Notwithstanding the apparently adverse changes in relative prices in export markets for tropical hardwood logs, the size of the gains in export volumes that were achieved by Laotian producers of tropical hardwood logs strongly indicate that they were internationally competitive over the period in question.

The extent of the competitive advantage in **cattle meat** and **maize** were pretty clear cut on the face of the results. Each had an average producer price over the assessment period that was substantially less than its Thai reference price — 48 per cent less for cattle meat and 9 per cent less for maize. Nevertheless, in both cases the competitive advantage appears to have been progressively eroded over the assessment period. In both cases this was due to the fact that the reference price in US dollars increased at a faster rate than did the target price. It is unclear what role that quality differences between the pairs of products may have played, if any. Such an explanation does not seem likely to account for the entire price gap that we estimated for either commodity.

In the case of **chicken meat**, the margin of competitive advantage that the Laotian producers enjoyed may not have been particularly strong, particularly if there are quality differentials between the Laotian product and its Thai counterpart, which formed the basis for the reference price. If the Thai product is of a higher quality in the eyes of the consumer the Laotian producers may not be as internationally competitive as can be inferred from their relative producer prices at face value.

Finally the price ratios that were estimated for **cassava** indicate that the Laotian producers suffered from a very substantial competitive disadvantage over the entire assessment period. Nevertheless, as was the case for the Cambodia producers, the extent of the competitive disadvantage of the Laotian producers declined significantly over the first half of the assessment period, before it more or less levelled out in terms of its subsequent trend. In contrast to the experience in Cambodia, however, the trend over the second half of the period stabilised at a much less advantageous level from a competitiveness perspective, than was the case for the Cambodian producers of cassava.

**Figure 2.4: Ratio of producer price in Lao PDR to ASEAN reference price, selected agricultural commodities, 2000 to 2010**



Source: FAOSTAT 2012, ITS Global estimates

## 2.5.4 Myanmar

The results for Myanmar indicate that its agricultural, food and forestry sectors were internationally competitive over the evaluation period. This was particularly impressive given the significant internal and external barriers to trade that remained in place in Myanmar during this time.

Mindful of the caveats previously emphasised, the agricultural, food and forestry sectors in Myanmar were, on the face of it, internationally competitive in the production of tropical hardwood logs, cattle meat, chicken meat, and, to a lesser extent, maize over the assessment period.

The results for Myanmar are summarised in Table 2.3 and in Figure 2.5. The producer price ratio estimates for each commodity for each year of the assessment period are detailed in full in Annex D.

**Table 2.3: Ratio of producer price in Myanmar to ASEAN reference price, selected commodities, average ratio & slope of linear trend in ratio, 2000 to 2010**

Commodity	Average Ratio	Slope of Trend (a)
Cassava (b)	7.11	-0.610
Cattle meat (b)	0.25	-0.011
Chicken meat (b)	0.41	-0.022
Maize (b)	1.17	0.049
Tropical hardwood logs (c)	2.47	0.149

**Notes:**

(a) Slope of the linear trend estimated by least squares. A negative sign indicates the producer price ratio declined over the period, while a positive one indicates that the ratio increased.

(b) Ratio of producer prices in USD at the farm gate. Reference price is ex Thailand. FAOSTAT only has Myanmar producer prices in MMK. They were converted to USD with the average exchange rate for year in question from the IMF *World Economic Outlook* database.

(c) Ratio of unit export values in USD for the period 2004 to 2010 inclusive. Reference unit export value is ex Malaysia.

**Source:** FAOSTAT 2012, IMF 2012, ITS Global estimates

Myanmar producers have become progressively more competitive over time in two of these commodities: **cattle meat** and **chicken meat**. A significant part of the competitive gains in the production of these two commodities was due to the depreciation of the Myanmar currency — the Kyat — against the USD. On the other hand, the competitive gains that the agricultural sector had achieved in the production of maize over the middle of the assessment period had, by its end, been more than completely eroded.

Myanmar is a well-established exporter of **tropical hardwood logs**. Over the evaluation period the volume of tropical hardwood logs that were exported from Myanmar grew by over 30 per cent, from 1.1 million cubic metres in 2000 to nearly 1.5 million cubic metres in 2010.<sup>9</sup> Over the same time horizon the average annual unit export value for these logs in USD increased by more than 120 per cent.<sup>10</sup> In contrast log export volumes from Malaysia contracted by 37 per cent

<sup>9</sup> FAOSTAT, 2012.

<sup>10</sup> ITTO 2012, accessed at: <http://www.itto.int/>

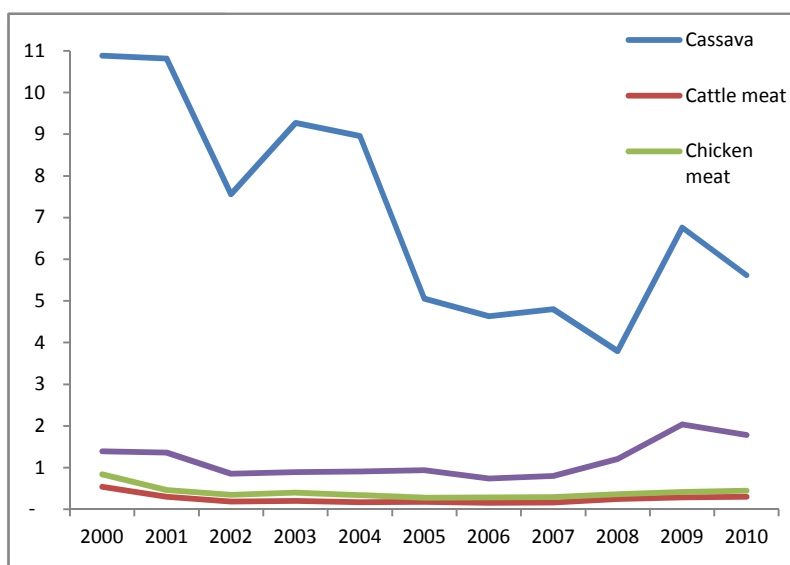


and its unit export values in USD did not increase as much.<sup>11</sup> Myanmar is therefore highly competitive in the production and harvesting of tropical hardwood. Nevertheless, the significantly higher unit export returns that its producers have been able to sustain over the period were probably at least partly a reflection of the superior quality of its logs and the wood that they contain.

In the case of **cassava** production in Myanmar the story implied by the producer price ratio estimates is similar to that in Cambodia and the Lao PDR. That is, an extremely high producer price ratio at the start of the assessment period has seen a dramatic fall in the ratio over time, albeit with a fair degree of volatility around that trend.

As was the case for the Laotian producers, the decline in the producer price ratio in Myanmar was simply due to the fact that the Thai reference price for cassava grew at a significantly faster rate than did the domestic producer price. Only in Cambodia did the two happen to work in the same direction, which made for a faster convergence with an internationally competitive outcome. In contrast the price received by domestic producers of cassava in Myanmar, expressed in USD, appears to have stabilised at around five times the level of the Thai reference price. This is a long way short of an internationally competitive result given that, when expressed in MMK, the price to the Myanmar producer appears have continued its upward course for the entire assessment period.

**Figure 2.5: Ratio of producer price in Myanmar to ASEAN reference price, selected agricultural commodities, 2000 to 2010**



Source: FAOSTAT 2012, ITS Global estimates

### 2.5.5 Viet Nam

The only commodity of the four assessed for Viet Nam in which producers appear to enjoy a substantial competitive advantage is in the production of cattle meat. In the case of the production of chicken meat, maize and cassava, the degree of competitive disadvantage that the domestic producers had to confront over the assessment period was significant for each commodity.

<sup>11</sup> FAOSTAT 2012; ITTO 2012.

The results for Viet Nam are summarised in Table 2.4 and in Figure 2.6. The producer price ratio estimates for each commodity for each year of the assessment period are detailed in full in Annex D.

Note that ITS Global was unable to obtain price data on Vietnamese production of any of the commodities in question for 2010, so the analysis has to be restricted to the period from 2000 to 2009 inclusive. Moreover, no data were available on the domestic prices for the tropical hardwood logs that were produced in Viet Nam in any of the years in this period.<sup>12</sup>

For this reason there are no producer price ratios for the production of tropical hardwood logs in Viet Nam.

**Table 2.4: Ratio of producer price in Viet Nam to ASEAN reference price, selected commodities, average ratio & slope of linear trend in ratio, 2000 to 2009**

Commodity	Average Ratio	Slope of Trend (a)
Cassava (b)	2.53	-0.1062
Cattle meat (b)	0.56	0.0285
Chicken meat (b)	1.59	0.0829
Maize (b)	1.22	-0.0021
Tropical hardwood logs (c)	n.a.	n.a.

**Notes:**

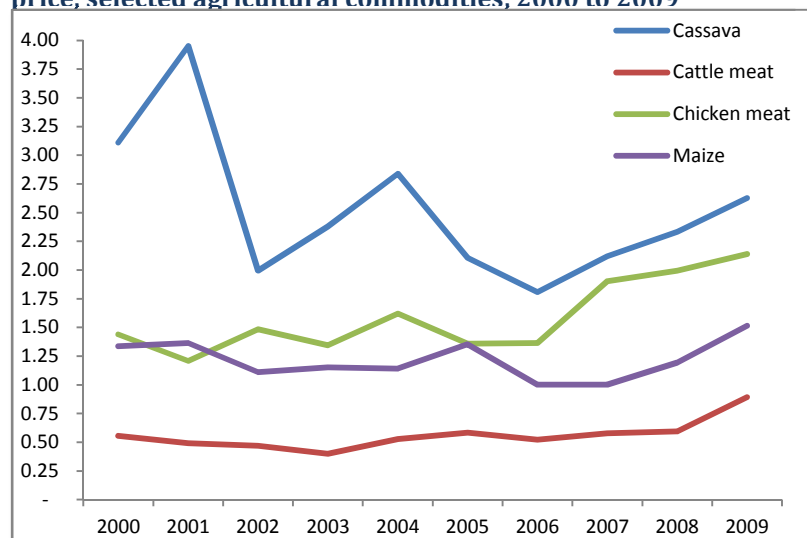
(a) Slope of the linear trend estimated by least squares. A negative sign indicates the producer price ratio declined over the period, while a positive one indicates that the ratio increased.

(b) Ratio of the prices in USD at the farm gate. Reference price is ex Thai. The unit value of production in VN is used as the proxy for the domestic price.

(c) Not available

Source: FAOSTAT 2012, IMF 2012, ITS Global estimates

**Figure 2.6: Ratio of producer price in Viet Nam to ASEAN reference price, selected agricultural commodities, 2000 to 2009**



Source: FAOSTAT 2012, ITS Global estimates

<sup>12</sup> Neither the FAO nor the ITTO, the two most likely sources of such data, make the sort of data that we require for this analysis available publically.

Of the four remaining commodities, the only one in which Viet Nam appears to have a substantial competitive advantage is in the production of **cattle meat**. As with the other CLMV economies, a part of the very large production price advantage that the Vietnamese producer seems to possess over his Thai counterpart may be due to the differential in the quality of their respective products types, if any such differential exists in the mind of the prospective consumer. What is clear, however, is that a significant amount of this competitive advantage has been lost over the assessment period.

Perhaps more troubling from a public policy perspective, however, was the fact that the trend over the assessment period was an increasing competitive disadvantage in the production of **chicken meat** and **maize** by Vietnamese producers. The trend was clear, notwithstanding the ebb and flow that is evident in the time series of annual producer price ratios for each commodity. The loss of competitiveness was most pronounced in the case of chicken meat.

The results for the production of **cassava** in Viet Nam were somewhat of an exception to this pattern. The international competitiveness of the Vietnamese producers in cassava production in Viet Nam showed very distinct signs of improvement over the first half of the assessment period. Moreover, the cumulative gains in competitiveness that they had realized were also substantial. However, they subsequently lost most of these gains in the latter half of the assessment period.

This is a pattern that can be readily seen in the results for Viet Nam, Lao PDR and Myanmar. In all three economies, cassava production remains the least competitive of the commodities that have been examined in this report. Given its role as a food staple throughout the CLMV economies this should be a matter of some concern for policy makers in these economies and elsewhere in ASEAN.

### 3. Assessing ASEAN integration programs

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This Chapter reviews actions the CLMV economies are taking under the ASEAN integration plans and agreements and assesses the extent to which CLMV have implemented measures to improve competitiveness in agriculture, food and forestry.

The Initiative for ASEAN Integration (IAI) recognizes the development gap between the CLMV economies and other ASEAN Member States and entails commitments by CLMV economies to take action which will also enhance competitiveness. Commitments are set out in:

- AEC Blueprint (Single Market and Production Base) measures to improve the international competitiveness of the food, agriculture, and forestry sectors;
- ASEAN's economic integration agreements on goods (ATIGA), services (AFAS), and investment (ACIA); and
- IAI Strategic Framework and Work Plan (2009-2015) on food, agriculture and forestry.

The ASEAN Economic Community Scorecard launched in 2010 tracks implementation among AMS of the provisions contained in the AEC Blueprint, in particular the focal areas of this report, namely the creation a Single Market Production Base with the region. The scorecard provides a high-level perspective of progress made toward realisation of the free flow of goods, services, investment, skilled labour and capital, thereby facilitating the emergence of a 'highly competitive single market'. However, the scorecard stops short of assessing the prospective contribution to enhancing competitiveness of the measures.

#### 3.1 Framework for assessment

To assess the contributions of policy actions to enhance the international competitiveness of the agriculture, food and forestry sectors in the CLMV economies, the contribution has to be rated.

Accordingly, ITS Global has developed a framework to rate the relative contributions to competitiveness of ASEAN integration initiatives. It is based on the:

- factors (see Table 3.1) that adversely affect the efficient operation of each of the markets on which the agriculture, food and forestry sectors rely;
- extent to which the nature of each factor is expected to impede the international competitiveness of those sectors; and
- ASEAN initiatives that contribute to the removal or reduction of the impact of each of the impediments in question.

Determining the extent to which each of the factors act as an impediment to the international competitiveness of the agriculture, food and forestry sectors is qualitative rather than quantitative. A quantitative assessment would require economic modelling.

The more serious impediments to the international competitiveness of the sectors in question are those that increase prices in the relevant domestic markets in which commodity producers sell their output or purchase their inputs. The bigger the increase in prices, the greater is the potential loss of international competitiveness to the affected producers.

The impediments that directly impact prices include: tariffs, non-tariff barriers and some regulations. The markets concerned are not just those where primary products, but also those which provide goods and services used as inputs.

Such impediments can, however, be created indirectly as a result of inefficient institutions.

From an economic perspective, an institution is the set of formal and informal rules, conventions and norms that governs the behaviour of the members of a society in a given area of economic activity, such as the conduct of buyers and sellers in a domestic market or in international trade.<sup>13</sup>

### 3.2 A framework to rate the impact of AEC Blueprint initiatives

The framework set out in Table 3.1, below, rates how ASEAN initiatives are likely to contribute to competitiveness. The creation of open markets for the outputs of the agriculture, food and forestry sectors and for the material inputs they use are among the most powerful actions for improving the competitiveness of these sectors.

**Table 3.1: A framework to rating the impact**

Nature of the Market	Factors that Affect Efficient Operation of the Market	Potential Impact on Competitiveness	ASEAN Initiatives that Address the Impediment
1. Domestic markets for the outputs produced by the sectors	Tariffs on agricultural, food & forestry products	High	Eliminate all tariffs within ASEAN
	Non-tariff barriers (NTBs) on agricultural, food & forestry products	High	Eliminate all NTBs within ASEAN Responsive Rules of Origin
	Regulatory processes & procedures at the border	High	Streamline & harmonize trade & customs processes & procedures

<sup>13</sup> North, D 1991, Journal of Economic Perspectives, Vol.5, No.1, accessed at: [http://172.218.89.205:8080/pdfs/North%20\(1991\)%20-%20Institutions.pdf](http://172.218.89.205:8080/pdfs/North%20(1991)%20-%20Institutions.pdf)

Nature of the Market	Factors that Affect Efficient Operation of the Market	Potential Impact on Competitiveness	ASEAN Initiatives that Address the Impediment
	Quality of the institutions specific to international trade	Low-High	Integrate Customs ASEAN Single Window Harmonize trade standards & technical barriers
<b>2. Domestic markets for the material inputs used by the sectors</b>	Tariffs on agricultural, food & forestry plant & machinery, vehicles, chemicals, etc	Low-Medium	Eliminate all tariffs within ASEAN
	Non-tariff barriers (NTBs) on agricultural, food & forestry plant & machinery, vehicles, chemicals, etc	Low-Medium	Eliminate all NTBs within ASEAN Responsive Rules of Origin
	Regulatory processes & procedures at the border	Low-Medium	Streamline & harmonize trade & customs processes & procedures
	Quality of the institutions specific to international trade	Low-Medium	Integrate Customs ASEAN Single Window Harmonize trade standards & technical barriers
<b>3. Domestic markets for the services used by the sectors</b>	Legislative & regulatory barriers to domestic delivery of services, particularly marketing, transport, logistics, storage & distribution	Medium-High	None
	Legislative & regulatory barriers to foreign involvement in domestic delivery of services, particularly marketing, transport, logistics, storage & distribution	Medium-High	Remove substantial restrictions on trade in services within ASEAN Implement Mutual Recognition Agreements (MRAs) of professional services within ASEAN

Nature of the Market	Factors that Affect Efficient Operation of the Market	Potential Impact on Competitiveness	ASEAN Initiatives that Address the Impediment
4. Domestic markets for the labour used by the sectors	Legislative & regulatory barriers to domestic labour markets	Low	None
5. Domestic markets for the capital used by the sectors	Legislative & regulatory barriers to domestic equity, debt and other capital markets	Medium	None
	Legislative & regulatory barriers to foreign direct investment (FDI) in sectors	Medium	Extend National Treatment to all foreign investors in all sectors

Source: ITS Global

Further analysis of the five domestic markets identified in Table 3.1 is included in Annex E, section E.1.

### 3.3 Assessing initiatives that affect competitiveness

#### 3.3.1 ASEAN trade commitments on selected primary products

Commitments to lower import tariffs and non-tariff barriers made by each CLMV country under ATIGA in 2009 in relation to the five representative products were reviewed. ATIGA schedules represent the most recent data available for CLMV.<sup>14</sup>

##### *Tariffs*

CLMV countries have until 2015, with flexibility in agreed circumstances to 2018, to reduce import tariffs. Tariff reduction and elimination targets set in ATIGA for 2015/18 are on track. Details of tariff rates for the five products are set out below.

##### *Non-tariff barriers (NTBs)*

For NTMs, ATIGA commitments do not take effect before 2013. The elimination of NTBs is governed by ATIGA Article 42. Cambodia, Lao PDR, Myanmar and Viet Nam are to eliminate remaining NTBs in three tranches by 1 January of 2013, 2014 and 2015 with flexibilities up to 2018. Existing NTBs recorded in the ASEAN NTB database are set out below.

<sup>14</sup> ATIGA Article 19 sets out rules for progressively reducing and/or eliminating tariffs. Importantly, the ATIGA schedules represent the most recent available statement of the CEPT scheme. Assessing compliance with these schedules – namely, whether applied tariffs are at or below the rates set in the ATIGA schedules – requires more recent CEPT data. The latest available consolidated CEPT package with data for CLMV countries is the 2008 CEPT package. See <http://www.aseansec.org/19802.htm> accessed August 2012.

### 3.3.1.1 Cambodia

Cambodia's tariffs on imports from other ASEAN countries of the five select commodities have largely been removed under the ATIGA tariff schedule. Table 3.2 sets out the details.

Tariffs on four of these products are already very low and are expected to be zero or close to zero in 2015. The exception is chicken meat which attracts a significant duty of 35 per cent.

**Table 3.2: Cambodia's ATIGA tariff schedule for select products, 2010 to 2015**

Commodity	2010	2011	2012	2013	2014	2015
Cassava	5	5	5	5	5	0-5
Maize	0	0	0	0	0	0
Chicken meat	35	35	35	35	35	35
Cattle meat	5	5	5	5	5	0-5
Tropical hardwood logs	5	5	5	5	5	0

Source: ATIGA schedules<sup>15</sup>

Non-tariff barriers have been reported and recorded on two of the five commodities. Table 3.3 shows that Cambodia has no recorded NTBs for cassava, maize and tropical hardwood logs. However, Cambodia has a licensing regime in place for imports of chicken meat and cattle meat requiring a prior permit from the Ministry of Agriculture, Fishery and Forestry.

**Table 3.3: Cambodia's non-tariff barriers for select products, 2012**

Commodity	NTB type	NTB description
Cassava	-	
Maize	-	
Chicken meat	Non-automatic licensing	Import Licensing & Administrative Procedure. Prior permit from the Ministry of Agriculture, Fishery and Forestry is required prior to importation, for the protection of human and animal health.
Cattle meat	Non-automatic licensing	Import Licensing & Administrative Procedure. Prior permit from the Ministry of Agriculture, Fishery and Forestry is required prior to importation, for the

<sup>15</sup> Viewed at <http://www.aseansec.org/25053.htm>, accessed August 2012.



		protection of human and animal health.
Tropical hardwood logs	-	

Source: ASEAN Secretariat<sup>16</sup>

### 3.3.1.2 Lao PDR

Lao PDR's tariffs on imports from other ASEAN countries of the five select commodities are low. As Table 3.4 shows, in 2012 Lao PDR has committed to applying rates of between 7 and 10 per cent on three of the five commodities: cassava (10 per cent in 2012), chicken meat (7 per cent) and cattle meat (7 per cent). The schedule does not show whether these will be further reduced in 2013-2015. This will need to be addressed by Lao PDR.

**Table 3.4: Lao PDR's ATIGA tariff schedule for select products, 2010 to 2015**

Commodity	2010	2011	2012	2013	2014	2015
Cassava	15	13	10			
Maize	0	0	0			
Chicken meat	13	10	7			
Cattle meat	13	10	7			
Tropical hardwood logs	0	0	0			

Source: ATIGA schedules<sup>17</sup>

Lao PDR has no recorded NTBs in place impacting the five commodities. See Table 3.5.

**Table 3.5: Lao PDR's non-tariff barriers for select products, 1 July 2011**

Commodity	NTB type	NTB description
Cassava	-	-
Maize	-	-
Chicken meat	-	-
Cattle meat	-	-
Tropical hardwood logs	-	-

Source: ASEAN Secretariat<sup>18</sup>

### 3.3.1.3 Myanmar

Myanmar's tariffs on imports from other ASEAN countries of the five select commodities have largely been removed under the ATIGA tariff schedule. Table 3.6 has the details. Myanmar has tariffs of zero for four of the five products throughout the period 2010-15 and a five per cent duty on boneless cattle meat.

<sup>16</sup> Viewed at <http://www.aseansec.org/16355.htm>, accessed August 2012.

<sup>17</sup> Viewed at <http://www.aseansec.org/25053.htm>, accessed August 2012.

<sup>18</sup> Viewed at <http://www.aseansec.org/16355.htm>, accessed August 2012.

**Table 3.6: Myanmar's ATIGA tariff schedule for select products, 2010 to 2015**

Commodity	2010	2011	2012	2013	2014	2015
Cassava	0	0	0	0	0	0
Maize	0	0	0	0	0	0
Chicken meat	0	0	0	0	0	0
Cattle meat (bone)	0	0	0	0	0	0
Cattle meat (boneless)	5	5	5	5	5	0
Tropical hardwood logs	0	0	0	0	0	0

*Source:* ATIGA schedules<sup>19</sup>

Non-tariff barriers have been reported and recorded for three of the five commodities reviewed. Table 3.7 shows that importers of cassava require a licence, and importers of chicken and cattle meat are subject to inspection requirements on public health grounds. They are subject to quality and standard requirements. No measures are recorded for imports of maize or tropical logs.

**Table 3.7: Myanmar's non-tariff barriers for select products, 1 July 2011**

Commodity	NTB type	NTB description
Cassava	Non Automatic Licensing	Import license is required for all importation and all requirements and regulations of the ministry concerned.
Maize	-	
Chicken meat	Testing, inspection and quarantine measures	Imports are subject to inspection requirements by the Ministry of Livestock and Fisheries to protect public health from epidemic of harmful disease e.g. foot and mouth disease and anthrax. Health Certificate must also accompany every shipment of importation. They are also subject to quality and standard requirements by the Food and Drug Administration (FDA).
Cattle meat	Testing, inspection and quarantine measures	Imports are subject to inspection requirements by the Ministry of Livestock and Fisheries to protect public health from epidemic of harmful disease e.g. foot and mouth disease and anthrax. Health Certificate must also accompany every shipment of importation. They are also subject to quality and standard requirements by the Food and Drug Administration (FDA).

<sup>19</sup> Viewed at <http://www.aseansec.org/25053.htm>, accessed August 2012.

Tropical hardwood logs	-
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Source: ASEAN Secretariat<sup>20</sup>

### 3.3.1.4 Viet Nam

Viet Nam's tariffs on imports from other ASEAN countries of the five select commodities are negligible according to the ATIGA schedule for 2012. Chicken and cattle meat imports attract a duty of five per cent in 2012, whilst cassava, maize and tropical hardwood logs are duty free. The schedule does not show whether these will be further reduced in the period 2013-2015. This will need to be addressed by Viet Nam.

**Table 3.8: Viet Nam's ATIGA tariff schedule for select products, 2010 to 2015**

Commodity	2010	2011	2012	2013	2014	2015
Cassava	0	0	0			
Maize	0	0	0			
Chicken meat	10	5	5			
Cattle meat	5	5	5			
Tropical hardwood logs	0	0	0			

Source: ATIGA schedules<sup>21</sup>

Reported non-tariff barriers for Viet Nam include a requirement that cassava importers comply with certain technical regulations. This is detailed in Table 3.9. No NTBs are recorded for the other four commodities.

**Table 3.9: Viet Nam's non-tariff barriers for select products, 1 July 2011**

Commodity	NTB type	NTB description
Cassava	Technical regulations	No. 12/2006/NĐ-CP dated 23 Jan 2006: This Decree makes detailed provisions for implementation of the Commercial Law with respect to international purchases and sales of goods including import, export, temporary import for re-export, temporary export for re-import, and trans shipment; and for activities of principals and authorized dealers in importing and exporting goods and in agency for sale and purchase, processing and transit of goods involving foreign business entities. This Decree promulgated the list of goods the import or export of which is prohibited, the list of goods for which import and export is subject to issuance of a permit, the list of import and export goods subject to specialized industry management and the

<sup>20</sup> Viewed at <http://www.aseansec.org/16355.htm>, accessed August 2012.

<sup>21</sup> Viewed at <http://www.aseansec.org/25053.htm>, accessed August 2012.

		principles applicable in each specialized industry
Maize	-	-
Chicken Meat	-	-
Cattle meat	-	-
Tropical hardwood logs	-	-

Source: ASEAN Secretariat<sup>22</sup>

### 3.3.2 General ASEAN trade commitments in agriculture, food and forestry

ITS Global had previously assessed the progress that has been made with the implementation of the ATIGA commitments by each of the ASEAN Member States.<sup>23</sup> Drawing on that evaluation, we have identified the state of play in the implementation of the commitments that relate to those commodity and intermediate goods markets that are of direct relevance to the competitiveness of the agriculture, food and forestry sectors. The results are set out in Annex F.

A notable aspect of our assessment is the absence of domestic laws in the CLMV economies to implement the agreed tariff reductions for sensitive and highly sensitive products by 2015/2018. This reform toward liberalisation is necessary as many important livestock, crop and forestry products are protected under the Highly Sensitive Lists of each CLMV.

The other notable aspect is the absence of laws to reduce or remove NTBs that protect the markets for agricultural products and the intermediate inputs into primary production. For example, all the CLMV economies have in place legal regimes that underpin extensive, highly detailed and trade restrictive import licensing systems, particularly for sensitive and highly sensitive agricultural products.

#### 3.3.1.5 Conclusions on commodity commitments

Based on the 2008 CEPT (Common Effective Preferential Tariff) schedule for the CLMV economies, the indications are that this process is, on the whole, well advanced. Still, some gaps remain between commitment and compliance, and there are impediments that are hindering compliance in the CLMV economies, which should be addressed to facilitate greater market openness and increased competitiveness.

As the framework that was outlined in Table 3.1 suggests, the removal of all tariffs and non-tariff barriers to the product markets remains a high priority for improving competitiveness in the agriculture, food and forestry sectors of the CLMV economies. Although the priority of the removal of such barriers in the input markets for the sectors in question is not as high as it is in the product markets, their contribution to competitiveness would be significant nevertheless.

<sup>22</sup> Viewed at <http://www.aseansec.org/16355.htm>, accessed August 2012.

<sup>23</sup> ITS Global, 2010, *Enhancing ASEAN Framework Agreements on Goods, Services and Investment*, ASEAN Secretariat and AADCP II.

### 3.3.3 ASEAN commitments on services

Efficient and competitively priced services used directly by commodity producers and in the manufacture and delivery of material inputs, such as transport, freight forwarding and telecoms, will increase competitiveness in primary product markets.

#### 3.3.3.1 AFAS services commitments

Services reform in ASEAN is progressing through the ASEAN Framework Agreement on Services (AFAS). AFAS has adopted the system for classifying services used by the WTO for its *General Agreement on Trade in Services* (GATS) – the services sectoral classification list.<sup>24</sup>

To date ASEAN Member States have negotiated eight packages of commitments under the AFAS. These packages include commitments to open services markets that would improve the competitiveness of agriculture, food and forestry in the CLMV economies.

Foreign direct investment in these services sectors – the so-called ‘commercial presence’ of foreign services suppliers – is important to this objective.

Those services sectors that are most relevant to the issue of competitiveness of agriculture, food and forestry are as follows:

- Business Services (wholesale and retail trade, and repairs)
- Communications
- Distribution services<sup>25</sup>
- Finance and insurance
- Transport and storage;
- Electricity, gas and water supply.

ASEAN integration programs, including the AEC Blueprint and accompanying strategic schedule, also accord priority to removing substantially all restrictions on trade in ‘logistics services’. Though not used in the WTO nomenclature, this term encompasses a range of transport service including:

- Services auxiliary to all modes of transport
  - Maritime cargo handling services
  - Storage & warehousing services
  - Freight transport agency services
  - Other auxiliary services (e.g. bill auditing, freight brokerage services, freight inspection, etc.)

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<sup>24</sup> This is somewhat different to the ISIC but there is a broad correspondence between the two classification systems, particularly at their most disaggregated levels. The major difference is that the WTO classification system does not include those activities captured under the category Electricity, gas and water supply in the ISIC.

<sup>25</sup> Internal research by ITS Global has confirmed that the Wholesale and retail trade is an important source of material inputs for the agriculture, food and forestry sectors in ASEAN economies, particularly the CLMV. For the primary producers in these economies the transaction costs of sourcing inputs such as fertilizer, tools, fuel, etc., directly from the manufacturer is likely to be much higher than purchasing the same or a similar product from a local distributor or middleman.

- International maritime freight transportation excluding cabotage;
- Air freight services;
- International rail freight services;
- International road freight transport services.

The Consultant identified services as most important to agriculture, food and forestry competitiveness and tabulated commitments in the WTO by CLMV economies have committed to removing 'market access' or 'national treatment' restrictions on services and the nature of these commitments.<sup>26</sup>

Results for all four countries are set out in Annex G.

The eighth package of services commitments negotiated under AFAS was on the basis that, subject to limited pre-agreed flexibility, the commitments would be in line with the targets set under the AEC Blueprint, which include

- Scheduling no restrictions for cross border supply (mode 1) and consumption abroad (mode 2);
- Allowing for foreign equity participation of 51 per cent or more;
- Progressively removing other restrictions.<sup>27</sup>

### 3.3.3.2 Further reducing barriers to domestic delivery of services

The results from the Table in Annex G suggest that agriculture, food and forestry competitiveness could be improved if CLMV countries were to extend market access and national treatment commitments in two ways:

1. By each country including entries in the AFAS schedule for those services in Annex G where **no commitment** is currently included.

As a minimum, this would require the country in question committing to offering foreign services providers the level of market access or national treatment that current laws and policies provide for;

2. By each country prioritising efforts to amend laws and revise the AFAS schedules to **allow foreign equity participation of 51 per cent or more** in those services sectors where foreign commercial presence remains limited to a minority holding.

Those services where foreigners are restricted from holding a majority shareholding are indicated in bold in Annex G.

While there are few gaps between the legal and regulatory framework that the CLMV economies apply to these services sectors and their legal commitments under AFAS, the gaps between AFAS commitments and the AEC goal of services liberalization by 2015 (or earlier in some sectors) are significant in all the CLMV economies. The majority of the impediments that they have retained relate to either:

<sup>26</sup> Market access restrictions include legislation and regulation that place a limitation on a foreign service provider's access to the CLMV domestic market. National treatment limitations include any law or regulation that results in a foreign service provider being treated differently to an equivalent national service provider.

<sup>27</sup> ASEAN Economic Community (2011), 'Handbook for Business'.

- Restrictions on the establishment of a commercial presence in the economy in question (such as foreign equity limits, mandated legal entity, licensing and authorization requirements, restrictions on employment of personnel); or
- Restrictions on the movement of labour, both skilled and unskilled (such as nationality and residency requirements, economic needs tests, licensing and qualifications).

Restrictions on foreign firms establishing a commercial presence in the CLMV economies limit external access to the domestic services markets in those economies. Labour restrictions tend to discriminate in favour of national service providers.

### **3.3.3.3 Conclusions on services commitments**

The foregoing assessment, utilizing the framework for assessment adopted in this study (Table 3.1), indicates that these restrictions adversely affect the competitiveness of the agriculture, food and forestry sectors of the CLMV. Restrictions in the services markets of the CLMV economies are especially severe. Services liberalisation is therefore a high priority for improving the competitiveness of the agriculture, food and forestry sectors of the CLMV economies, especially in the services in Annex G.

Country-specific actions which might achieve these objectives are set out in Annex H.

### **3.3.4 ASEAN commitments on investment**

The AEC Blueprint is predicated on, among other things, the free flow of investment from the rest of the world and within ASEAN, development and integration of capital markets within ASEAN, greater capital mobility, and the free flow of skilled labour.

Investment co-operation is being implemented through the ASEAN Comprehensive Investment Agreement (ACIA) with the objective of fully liberalising AMS investment regimes by 2015. The ACIA entered into force in April 2012. Under ACIA all industries in the agriculture food and forestry sectors are to be open to foreign investment and foreign investors are to be accorded national treatment at both the pre-establishment and post-establishment stages of the investment process. Member States list exceptions to these requirements through the recently completed ACIA Reservation Lists (or Schedule).

The size of the gap between current treaty obligations and the ultimate goal of investment liberalization varies among ASEAN Member States. In CLMV economies there are gaps between the AEC priority for an open investment regime for the agriculture, food, and forestry sectors and the laws governing investment in those sectors. Moreover, foreign investors are not accorded national treatment in relation to ownership and use of land and there are restrictions on the number of foreigners who can work as senior managers for foreign invested businesses in the sectors or sit on their boards. Finally foreign investors have to obtain approval for almost all investments.

These restrictions limit investment flows into the agriculture, food and forestry sectors of the CLMV economies.

### **3.3.5 ASEAN commitments on labour**

In the case of skilled labour, ASEAN is working to facilitate the process of obtaining a visa or an employment passes for ASEAN professionals and skilled workers who are engaged in cross-border-trade or investment activities. This mainly involves the progressive completion of Mutual Recognition Agreements covering the recognition of qualifications for the major professional services, such as engineering, legal and accounting services. As indicated by Table 3.1, the implications of these developments for the competitiveness of agriculture, food and forestry production is positive but relatively modest.

## **3.4 Conclusions**

The set of commitments made by CLMV economies is large. Implementing all at the same time is challenging for all Governments.

It would be more manageable for Ministries concerned with agriculture, food and forestry to be able to assess the impacts and gains on particular products and then develop strategies to work industry by industry. With such a strategy, actions to implement IAI commitments could be phased as part of a deliberate strategy to improve competitiveness in priority products.



## 4. General conclusions

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### 4.1 Mixed results on CLMV competitiveness

While a primary purpose of this report was to establish a methodology to measure competitiveness looking at selected products among CLMV agriculture, food and forestry industries, a broad conclusion is that, between 2000 and 2010, the CLMV economies were internationally competitive in the production of several of the commodities examined but not in others.

Primary producers in all four economies appear to have been consistently competitive in the production of cattle meat and tropical hardwood and consistently uncompetitive in cassava production. Competitiveness in the production of chicken meat and maize varied across the four economies.

- **Cambodia** appears competitive in tropical hardwood logs and cattle meat, but not in cassava, maize and chicken meat.
- **Lao PDR** was competitive in tropical hardwood logs, cattle meat, maize and chicken meat, but not in cassava.
- **Myanmar** was competitive in cattle meat, chicken meat and tropical hardwood, but not in cassava and maize.
- **Viet Nam** was only competitive in the production of cattle meat and was not competitive in the production of chicken meat, maize, cassava and tropical hardwood.

This report shows there are gaps in competitiveness in representative agriculture, food and forestry products between CLMV economies and ASEAN reference economies.

The report also demonstrates CLMV economies have a number of relevant commitments to fulfil under the AEC Blueprint (Single Market and Production Base) and ASEAN economic integration agreements to change measures which will enhance competitiveness.

### 4.2 An analytical tool worthy of broader application

The analytical approach trialled in the Study identifies gaps in competitiveness between each of the CLMV member states and the rest of ASEAN for a small sample of products from the agriculture, food and forestry sectors.

This method proved a useful means of assessment and warrants broader application to a greater range of products as part of a systematic assessment of the competitiveness of these sectors. As the report has set out, results must be viewed in light of a number of qualifications. If successful, the model can be used to measure the gap across the food agriculture and forestry sectors of each CLMV member and identify options to improve the international competitiveness of them.

### **4.3 A framework for rating the impact of ASEAN programs on competitiveness**

The review of the ASEAN integration programs, particularly the ASEAN Agreements, shows implementation of all commitments in all ASEAN integration programs will improve competitiveness. But to contribute to enhancing competitiveness in specific programs the contribution of commitments needs to be known. This report provides a framework for rating that contribution for products in food, agriculture and forestry industries in CLMV countries.

It includes economy-wide and sectoral initiatives that ASEAN has agreed that would improve the competitiveness of these sectors. Using a scale — high, medium and low — this framework ranks the potential impacts of initiatives in each of the domestic markets, which are relevant to the competitiveness of their agriculture, food and forestry sectors.

Chapter 5 identifies strategies to enhance ASEAN initiatives that address factors rated as having a high or medium-high impact on the efficient operation of domestic markets.

### **4.4 A pathway for comprehensive strategies to enhance competitiveness is clear**

As well as proving a method of measuring competitiveness, the review of ASEAN programs demonstrates all relevant activities to enhance competitiveness in these sectors for the CLMV economies are covered. The commitments are the right ones, in a number of important areas they need to be turned into concrete policy goals by CLMV economies.

## 5. Strategy alternatives

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The Consultant was commissioned to develop strategies to:

1. advance the implementation of programs which reduce the competitiveness gap, and
2. take other measures and actions to close the competitiveness gap in the selected commodities in food, agriculture and forestry between ASEAN and each CLMV economy.

In addition, the Consultant was asked to set out actions that could be taken by CLMV economies to improve the competitiveness of the five products reviewed, with particular reference to commitments made in the AEC commitments.

The consultant has accordingly developed two alternative strategies:

1. Measures to improve the competitiveness of the products assessed;
2. Measures to give CLMV officials in the agriculture, food and forestry the capacity to assess the competitiveness of products in the three sectors and develop strategies to improve competitiveness.

### 5.1 Strategy 1: Improving competitiveness of selected products

Strategy one sets out measures that can immediately be taken by each of the four countries to improve the competitiveness of the five products assessed in this Report. This is set out in Annex H.

#### Positives

- The competitiveness of the products has already been assessed.
- Would achieve product specific boost to competitiveness of the three industries.

#### Negatives

- Impact on the agriculture, food and forestry sectors at large is unknown
  - Product specific gains could be adverse for other products.
- Impracticality of trying to reduce input costs for single products means suggested actions are confined to services & investment
- Implementation is disconnected from the agriculture, food and forestry agencies.

## 5.2 Strategy 2: Enhancing the capacity of CLMV officials to assess competitiveness and develop sector-wide strategies to close the competitiveness gap

Strategy two is an approach to implement a program based on the results of this Study to enhance the capacity in the relevant agencies in each CLMV member to:

- i. assess the competitiveness of all key products (of economic or national importance including new or minor products that may have been prevented from coming to the fore) in agriculture, food and forestry;
- ii. review economic analysis of the interactions between different commodity markets within these sectors and understand the policy implications of the analysis;
- iii. assess, based on the results of i. and ii., the economic and social impacts of each those measures;
- iv. identify, based on iii, commitments and actions in ASEAN economic integration agreements and programs that should be prioritised (i.e. ahead of timeframes set down in the agreements) to achieve the changes to improve competitiveness;
- v. design, based on i. – iv., sector-wide strategic plans for improving competitiveness; and
- vi. implement those strategies in each sector.

This program would require:

- using the methodology developed and tested in this Study as the basis of a comprehensive sector-wide assessment of all key products;
- developing an economic model (for example, using partial equilibrium analysis) to look at interactions between different commodity markets within these sectors to assess the impact on the sector and national economy of commodity-related policy changes (this could be commissioned externally)
- enhancing the capacity of responsible officials in the relevant ministries
  - to use the price-comparison methodology to assess product competitiveness;
  - to review and assess the results of economic analysis, including possible modelling,
  - to develop and implement programs removing impediments to improve competitiveness, and
  - to work with officials in other areas, e.g. those responsible for services inputs and infrastructure to secure the changes necessary to enhance competitiveness.

**Positives**

- Agriculture, food and forestry officials will acquire in-house capacity to
  - assess competitiveness of all key products, and articulate gains from improved competitiveness and strategies,
  - devise strategies to enhance competitiveness of comprehensive range of products of national importance, and generate national support for the programs,
  - implement deliberate strategies to improve competitiveness of key products, fully aware of impacts.
- This will enable articulation of a national strategy to enhance the competitiveness of the three industries, close the gap with ASEAN-6 benchmarks and increase the contribution of the industries to national development

**Negatives**

- Will require establishment of analytical capacity in the agencies concerned.
- Will require national endorsement to secure the necessary priority.

The Consultant considers the second strategy offers the best prospect of a path to increase the competitiveness of the agriculture, food and forestry sectors in CLMV economies.

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## Annex A – International context of the assessment

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This section provides further details of the approach outlined in section 2.1 of the report.

### A.1 Trends in global commodity markets

In the economies that export or import agricultural, food and forestry commodities, the prices that their domestic producers receive at the farm gate from commodity production are generally affected by the behaviour of prices in global commodity markets. The extent to which that behaviour is transmitted to domestic commodity producers and over what period of time will, of course, depend upon the degree to which public policy insulates domestic commodity markets from global ones.

For these reasons any assessment of the competitiveness of the agriculture, food and forestry sectors in the CLMV economies will depend, at least to some degree, on the evolution of global commodity markets over the period in question.

There has been a strong and persistent trend for world commodity prices to rise over the ten-year period, particularly in the second half of the decade. The increases in world prices were much more pronounced in the case of wheat, rice and maize than they were for cattle meat, chicken meat and tropical hardwood logs.

This is illustrated in Figures A.1 and A.2. The evolution of prices in the world markets for a selection of agricultural, food and forestry commodities can be expected to exert a significant influence on the evolution of the producer price benchmarks, which we have used for the competitiveness assessment.<sup>28</sup>

In all cases these world price movement can be expected to feed through to the reference prices that were used for the assessment, albeit after a lag. In the case of maize, beef, chicken meat and tropical hardwood logs the impact would be direct as the commodity pairs in question are very close consumption substitutes for each other. For cassava, the impact is indirect as, wheat and rice for example, are not particularly close substitutes for cassava in many of the uses to which cassava is put.

Strong growth in manufacturing demand due to strong economic growth in China and the other emerging economies as well as new applications for agricultural commodities (e.g. the use of agricultural crops, such as maize, to manufacture biofuels) were responsible for much of the upward pressure on prices. However, prices were also affected by the worsening economic conditions associated with

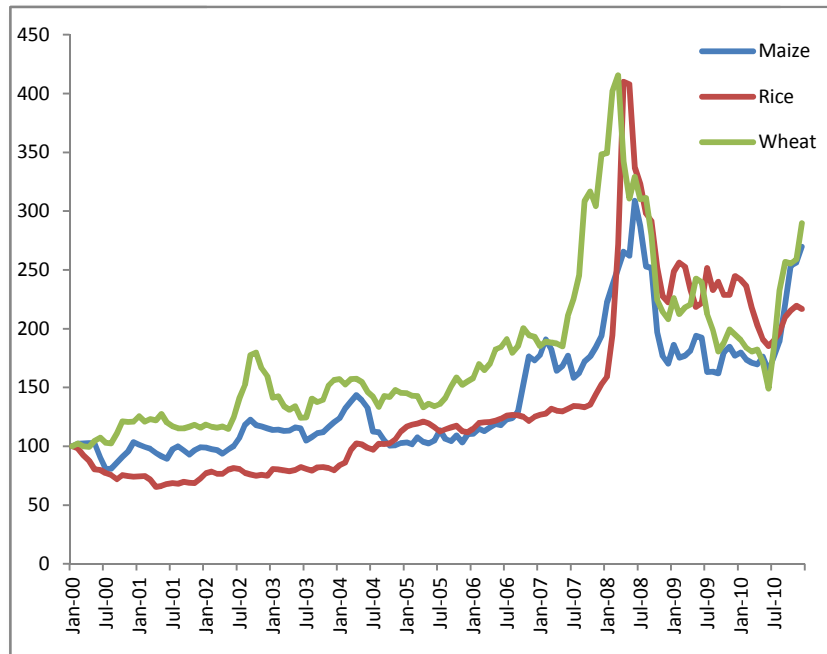
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<sup>28</sup> Figure 2.1 has the indexes of monthly commodity prices for wheat, rice and maize over the period from January 2000 to December 2010, while Figure 2.2 has the equivalent indexes for beef, poultry and tropical hardwood logs. In all cases ITS Global sourced the commodity price data in USD from the IMF and used them to estimate each index based on the price level observed in January 2000. IMF, Exchange Rate Archive, 2012, accessed at: [http://www.imf.org/external/np/fin/data/param\\_rms\\_mth.aspx](http://www.imf.org/external/np/fin/data/param_rms_mth.aspx)



the emergence of the global financial crisis in 2008-09, extreme seasonal conditions in some parts of the world (such as severe floods in North America and the Mekong region) as well as other one-off events (such as outbreaks of livestock diseases).

**Figure A.1 Index of monthly prices in world markets, selected agricultural crops, January 2000 to December 2010 (a)**



Note: (a) January 2000 = 100

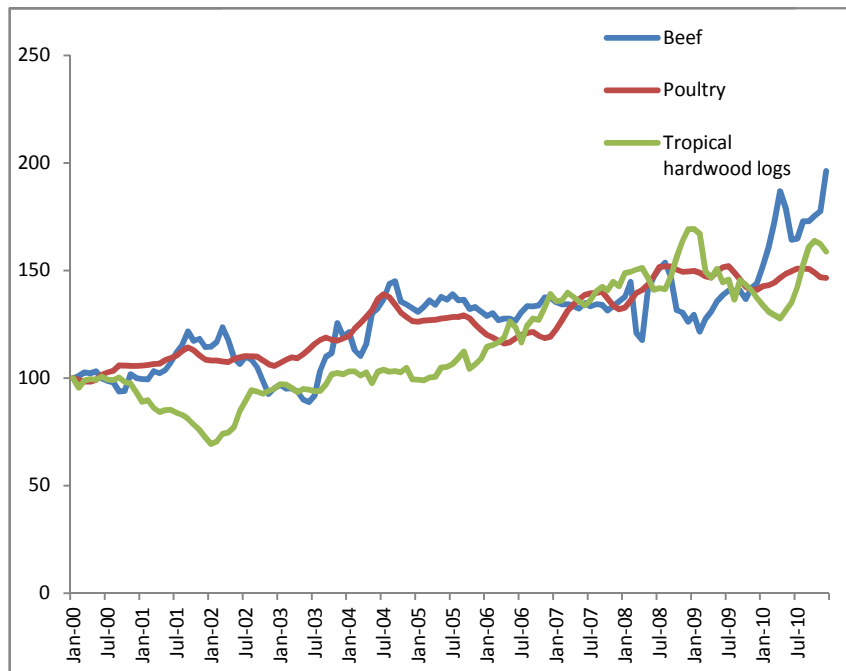
Source: IMF 2012, ITS Global estimates

Shifts in supply and demand for particular commodities have affected their substitutes in production and consumption right around the world. For example, rising prices for maize due to increasing demand have encouraged US farmers to plant more maize and less soybeans, thereby putting upward pressure on soybean prices. At the same time higher maize prices have led households in the tropical countries to consume less maize and more cassava, thereby putting upward pressure on cassava prices in those countries.

The development of the biofuel industry has put strong upward pressure on the agricultural commodities used as feedstock, particularly maize and cassava.<sup>29</sup> These developments raised the cost of beef and chicken production by increasing stock feed costs.

<sup>29</sup> OECD-FAO Agricultural Outlook, 2007-2016, accessed at: <http://www.oecd.org/dataoecd/6/10/38893266.pdf>

**Figure A.2 Index of monthly prices in world markets, selected livestock & forestry products, Jan 2000 to Dec 2010 (a)**



Note: (a) January 2000 = 100

Source: IMF 2012, ITS Global estimates

## A.2 Trends in select commodities 2006-10

In **2006**, beef prices also suffered from outbreaks of mad cow and foot-and-mouth disease in the US and Argentina. In response Japan and South Korea imposed trade bans on the affected exporting countries, further tightening the demand and supply imbalance and raising prices.

In poultry production, the onset of avian influenza virus globally resulted in a significant decrease in demand as consumers moved to other, perceived to be, safer meat products.<sup>30</sup> This led to a build-up of stocks and lower poultry prices, eroding industry profitability.

The forestry industry responded to a number of supply and demand side factors. Strong US housing and EU construction markets prior to the global financial crisis and along with continued demand in China stimulated the demand for industrial logs. Supply was squeezed by high crude oil prices as log producers shifted production into the more profitable activities.<sup>31</sup>

In **2007**, maize prices peaked at a ten-year high. High crude oil prices encouraged maize and cassava producers to shift into energy production. Cassava prices also rose due to the appreciation of the Thai baht against the USD — Thailand being a major regional exporter. The year saw the reversal in US demand for wood products, as housing construction declined. This had severe impacts on some

<sup>30</sup> FAO Food Outlook Global, Meat Products (2006), accessed at:

<http://www.fao.org/docrep/009/j7927e/j7927e08.htm>

<sup>31</sup> FAO Forest Products Annual Market Review (2005-2006), accessed at:

<http://www.unece.org/fileadmin/DAM/timber/docs/fpama/2006/fpamr2006.pdf>

though not all forest product markets; industrial round-wood prices remained buoyant.

The onset of the global financial crisis in **2008** led indirectly to sharp declines in prices for coarse grains, including maize, and other starch based crops such as cassava. The downward pressure was a response to a steep decline in crude oil prices and the subsequent reduction in demand for bio-fuel, a substitutable good, and goods used in bio-fuel production.

Livestock prices however continued the upward trend which began in 2006 until mid-2008. This was supported by a lag in response of livestock markets to the changes in feed markets, and limited export supplies from Argentina, Australia, Canada and New Zealand, and import supplies by major importers.<sup>32</sup> The largest increases were in poultry where energy and feed costs affected production more severely than other sectors.

The escalation of the global financial crisis caused severe demand-side disruptions in forest product markets. The US housing market fell from 2.2 million units in 2005 to 500,000 units at the end of 2008. Although industrial round wood usage hit a record low, the structural shift towards wood-based renewable energy continued due to government policy incentives.<sup>33</sup>

In **2009** world prices for beef and chicken meat started to reflect falling consumer demand and contracting credit conditions. Poultry production was also hit by a return of avian influenza in Asia and a resulting shift in consumer demand to safer meat products. Crop prices started to rise following the dip in the previous year. Maize prices rose in response to poor seasonal conditions in the US. Cassava prices fell to a 30-month low in early 2009 although they subsequently rallied due to a resurgence in biofuel demand.

In **2010** prices for cassava and maize continued to rebound from the low levels of 2008, in part, due to poor seasonal conditions in Asia, particularly in Thailand. Livestock product prices also rallied. Chicken meat prices tightened in response to sanitary standards in importing countries in response to avian influenza outbreaks in previous years. Beef prices increased due to limited availability in traditional export markets, high grain prices and moderate import demand.

Demand for wood-based biofuels continued to increase due to government policies. This supported demand for round wood, while key construction and housing markets declined further due to ongoing financial instability.<sup>34</sup> There were signs of a modest recovery in the US construction sector, though housing remained subdued. Industrial round wood production recovered from record lows in 2009.

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<sup>32</sup> FAO Food Outlook Global, Meat Products (2008), accessed at:

<http://www.fao.org/docrep/010/ai466e/ai466e08.htm>

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<sup>34</sup> UNECE & FAO, 2010, *Forest Products Annual Market Review 2009-2010*, 'Geneva Timber and Forest Study Paper 25', accessed at: <http://www.unece.org/fileadmin/DAM/timber/publications/sp-25.pdf>

## Annex B – Selection of the commodities for the competitiveness assessment

For the purposes of assessment of price competitiveness (see Section 5), the Consultant has selected the following products based on the methodological criteria, including consultation with the ASEC:

- Cassava;
- Maize;
- Chicken meat;
- Cattle meat; and
- Industrial round wood (tropical hardwood).

During the inception phase of the project, eleven commodities were selected for assessment against the selection criteria of economic importance, integration priority and AMS preferences.

The short list of 11 commodities was based on the Consultant's review of production data, together with the preference of relevant AMS as conveyed by the ASEAN Secretariat. The results are summarised in Table B.1 below. The assessment of the economic importance of these commodities was based on available production data for the four CLMV economies – this is included in Table B.2 in the Annex.

**Table B.1: Commodity selection matrix**

Sector	Key commodities	Selection criteria			Data	Econ
		Econ import	Integr priority	AMS pref		
Agriculture (crops)	Rice	✓	✓	x	✓	
	Cassava	✓	✓	✓	✓	CLMV
	Maize	✓	✓	?	✓	CLMV
Agriculture (livestock)	Pig meat	✓	✓	x	✓	
	Chicken meat	✓	✓	?	✓	CLMV
	Cattle meat	✓	✓	?	✓	CLMV
Agriculture (aquaculture)	Shrimp/Prawn	?	✓	✓	x	
	Live fish	?	✓	✓	x	
Forestry	Sawn wood	✓	✓	x	✓	

Industrial round wood	✓	✓	?	✓	CLMV
Bamboo	?	✓	✓	x	

*Notes: UN FAO and national agency data assessed.*

## B.1 Agriculture, crops

### Paddy rice

Paddy rice accounts for the largest share (by value) of crop production in all four countries (Table B.2); however, the nature of production and trade is relatively well understood because of past analyses of the rice industry. Consequently, paddy rice is a low priority for CLMV countries.

### Cassava

Cassava is of significant economic importance in some though not all CLMV economies. It is the third most important source of calories in tropical areas after rice and maize and is vital to food security and income generation in most South East Asian countries. Cassava is also an important input to a range of products requiring starch.

In Cambodia and Viet Nam cassava's share of the value of production of all crops is 12 per cent and 4.3 per cent respectively. In Lao PDR and Myanmar the share of production value is at present marginal (1.1 and 0.2 per cent respectively) however the economic benefit that would be obtained from increasing the competitiveness of cassava production in these two economies substantiates the commodity's selection.

### Maize

Maize production in Cambodia and Lao PDR accounts for a significant share of the value of crops produced in these countries. In Myanmar and Viet Nam, Maize is an important commodity in the context of raising agricultural productivity given its use in many value-added products. In Lao PDR, maize makes up 8.2 per cent of total crops production and in Cambodia 4.2 per cent. Maize too is a key food source in the region and is an important input in processed foods.

## B.2 Agriculture, livestock and aquaculture

Animal production in developing countries is set to account for 78 per cent of global production by 2020.<sup>35</sup> Predominately growth will take place in Southeast Asia at 56 per cent of production volume.<sup>36</sup> This is a result of both population growth and the increasing affluence of consumers in Southeast Asia, and also cost of production factors in northern markets.

<sup>35</sup> OECD & FAO, Agricultural Outlook, 2011-2020, p.136 see: <http://www.oecd.org/dataoecd/2/36/48184304.pdf>

<sup>36</sup> Ibid, p.135.

**Pig meat**

Pig meat is economically important in all four countries. See Table B.1. ASEC has, however, indicated that pig meat is not a high priority to AMS given past work in the sector.

**Chicken meat**

Chicken meat is economically important in all four countries. In Myanmar it accounts for 34.6 per cent of the value of total livestock production. In Viet Nam it is 10.9 per cent. In Cambodia it is 6.4 per cent and in Lao PDR it is 9.4 per cent.

**Cattle meat**

Cattle meat is also economically important both in its share of livestock production values and with respect to medium to long-term consumption growth rates in the Southeast and East Asia region.

In Lao PDR, cattle meat accounts for 23.7 per cent of the total value of livestock produced, and in Cambodia it is higher at 41.2 per cent. In Myanmar it is 12.1 per cent of total value added to the livestock sector and in Viet Nam it is 10.3 per cent.

**Shrimp/prawn**

We understand relevant AMS accord policy priority to aquaculture and that commodities in this sector are broadly economically important to CLMV economies. Our understanding of the aquaculture sector in the region led us to explore the option of selecting shrimp/prawn. Unfortunately we are constrained from examining shrimp/prawn due to serious limitations in the publically available data.

**Live fish**

Another important aquaculture product is live fish, in particular carp and flatfish. Unfortunately we are similarly constrained in examining live fish because of serious limitations in the publically available data.

**B.3 Forestry****Sawn wood**

Sawn wood products are of notable economic importance in each CLMV economy. Sawn wood accounts for a significant share of the value of the wood product industry. Sawn wood is also important for its contribution to value added direct and non-wood based processing industries, technologies and services.

The ASEC has conveyed to the Consultant that current AMS policy priorities are not focussed on the wood industry. This is due to the work already being undertaken in that sector by the ASEC and ASEAN agencies.

### **Industrial round wood (tropical hardwood)**

Industrial round wood (tropical hardwood), including sawlogs, veneer logs and pulp wood, accounts for a notable share of production (measured in m<sup>3</sup>) in the forestry product sub-sector of several CLMV economies. It comprises 13.5 per cent in Viet Nam and 9.1 per cent in Myanmar. In Cambodia (1.3 per cent) and Lao PDR (3.4 per cent) the percentage is smaller however the commodity should still be considered of importance given each countries endowment of timber resources and economic benefit that would be obtained from developing this primary industry. This wood is an important input to many downstream industries and returns a higher price for producers due to the value added in processing.

### **Bamboo**

Bamboo is of some interest to relevant AMS, however we are constrained in selecting this commodity because public data on the production value of bamboo is not available. The Consultant has proposed industrial round wood as a suitable alternative commodity.

**Table B.2 Value of production for selected commodities as a % share of their sector and sub-sectoral totals, 2000 & 2009 (a) (b) (c)**

	Agriculture, seasonal crops						Agriculture, livestock products						Agriculture, aquaculture products		Forestry products (d)							
	Paddy rice		Cassava		Maize		Pig meat		Chicken meat		Cattle meat		Shrimp/ prawn	Live fish	Sawn wood		Industrial Round wood		Bamboo			
	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009	2000	2009			2000	2009	2000	2009	2000	2009		
<b>Cambodia</b>																						
<i>% of sector production value</i>	59.2	60.9	.8	10.5	1.2	3.8	9	4	1.5	.8	8.1	5	-	-	-	-	.2	.1	1.7	1.3	-	-
<i>% of sub-sectoral production value</i>	75.6	69.3	1	12	1.5	4.3	39	33	6.7	6.5	37.2	41.2	-	-	-	-	31	40	1.7	1.3	-	-
<b>Lao PDR</b>																						
<i>% of sector production value</i>	52.6	50.7	.6	.9	1.4	7	4	5	1.2	1.4	4.7	3.5	-	-	-	-	3	2	7.8	3.3	-	-
<i>% of sub-sectoral production value</i>	62.3	59.6	.8	1.1	1.7	8.2	23	37	7.6	9.4	30.3	23.7	-	-	-	-	89	84	8.1	3.4	-	-
<b>Myanmar</b>																						
<i>% of sector production value</i>	56.5	47.2	.1	.2	.5	.9	2	4	2.9	5.9	2.3	2.1	-	-	-	-	1	3	8.5	8.8	-	-
<i>% of sub-sectoral production value</i>	64	56.8	.1	.2	.5	1.1	16	21	25.2	34.6	20.1	12.1	-	-	-	-	91	92	8.7	9.1	-	-
<b>Viet Nam</b>																						
<i>% of sector production value</i>	47.2	39	1.1	3.2	1.5	2.2	14	16	2.18	2.6	1.3	2.5	-	-	-	-	8	13	6.5	9.5	-	-
<i>% of sub-sectoral production value</i>	59.3	51.5	1.4	4.3	1.9	3	67	66	10.7	10.9	6.4	10.3	-	-	-	-	99	90	10	13.5	-	-

**Notes:** (a) Share of production values for paddy rice, cassava, maize, pig meat, chicken meat and cattle meat based on values measured in constant 2004-2006 prices, calculated on the basis of international commodity prices; (b) subsectors: crops (paddy rice, cassava, maize); livestock (pig meat, cattle meat, chicken meat); forestry products (industrial round wood); wood products (sawn wood); (c) Public data on production value\$ for shrimp/ prawn, live fish, bamboo n/a; (d) industrial round wood and sawn wood measured in m3, value\$ data n/a.

**Source:** UN FAO, 2011e



## Annex C – Further details of our approach to the assessment

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This section provides further details of the approach outlined in section 2.1 of the report.

We used farm gate prices as the basis for the assessment as this study is meant to focus on the performance of the agricultural, food and forestry sectors. Of course, it is the case that the efficiency of the value-adding activity that takes place beyond the farm-gate — such as early-stage processing, transport, storage and distribution of agricultural, food and forestry products — directly affects the ability of the upstream producers to compete successfully with international competition in downstream commodity markets. Nevertheless, efficiency in the conduct of such post-harvest activities does not guarantee them success. That requires the on-farm activities to be internationally competitive in their own right. An efficient farm sector is capable of carrying the competitive disadvantages of inefficient downstream industries but the reverse can never be the case.

This involved estimating the slope of the linear trend based on a least squares regression analysis of the annual price ratios for each of the commodity series. The linear function that was used in the analysis was of the following form:

$$y = mx + b$$

Where  $m$  (the slope of the trend) and  $b$  (the constant) are the coefficients to be estimated by least squares regression.

This interpretation assumes that the difference between the two prices does not reflect any differences in quality for the commodity in question. This is likely to be a major consideration in the case of hardwood logs as the commercial value of the wood is a function of the dimensions of the log — which collectively determines the rate of yield of commercially usable wood — as well as the quality of the wood that can be recovered from it. In fact there are significant differentials in world prices for different species of tropical hardwood. They are purely due to quality differentials, however, and they have nothing to do with the international competitiveness of the exporters in question.

## Annex D – Results of the competitiveness assessment

**Table D.1.1: Cambodia – domestic and reference prices (USD per unit) (a) and price ratios, all commodities, 2000 to 2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Cassava</b>											
Domestic price	164	181	196	164	249	264	24	62	41	40	40
Reference price	16	16	24	22	20	33	34	34	58	35	46
Price ratio	10.43	11.66	8.05	7.30	12.52	7.96	0.72	1.80	0.70	1.14	0.86
<b>Maize</b>											
Domestic price	163	123	74	97	125	135	149	239	294	362	328
Reference price	95	89	96	107	114	119	144	200	210	158	184
Price ratio	1.71	1.38	0.77	0.90	1.09	1.14	1.03	1.20	1.40	2.29	1.78
<b>Chicken Meat</b>											
Domestic price	1,295	2,197	2,329	2,161	2,556	2,921	3,746	4,315	5,182	6,086	5,634
Reference price	1,037	1,051	969	1,030	1,119	1,418	1,323	1,549	1,770	1,767	1,768
Price ratio	1.25	2.09	2.40	2.10	2.28	2.06	2.83	2.79	2.93	3.44	3.19
<b>Cattle Meat</b>											
Domestic price	919	744	992	994	1,105	1,388	1,443	1,629	1,855	1,811	1,833
Reference price	1,344	1,332	1,485	1,719	1,861	1,792	1,971	2,169	2,064	2,010	2,037
Price ratio	0.68	0.56	0.67	0.58	0.59	0.77	0.73	0.75	0.90	0.90	0.90
<b>Ind Roundwood</b>											
Domestic price	-	-	-	-	205	135	303	1,281	1,326	1,090	1,090
Reference price	100	81	93	94	102	112	92	92	141	138	153
Price ratio	-	-	-	-	2.02	1.20	3.30	13.95	9.39	7.91	7.12

**Notes:** (a) Price per tonne for Cassava, Maize, Chicken Meat, Cattle meat; Price per m3 (meter squared) for Industrial roundwood;

**Sources:** UN FAO STAT, 2012; ITTO, 2012.

**Table D.1.2: Lao PDR – domestic and reference prices (USD per unit) (a) and price ratios, all commodities, 2000 to 2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Cassava</b>											
Domestic price	37	34	34	36	40	42	45	52	60	61	61
Reference price	16	16	24	22	20	33	34	34	58	35	46
Price ratio	2.34	2.21	1.39	1.61	1.98	1.25	1.33	1.51	1.03	1.76	1.31
<b>Maize</b>											
Domestic price	67	83	85	95	111	117	128	153	177	181	179
Reference price	95	89	96	107	114	119	144	200	210	158	184
Price ratio	0.70	0.94	0.88	0.89	0.97	0.99	0.89	0.76	0.84	1.14	0.97
<b>Chicken Meat</b>											
Domestic price	1,102	1,027	1,016	1,080	1,186	1,244	1,363	1,592	1,847	1,882	1,864
Reference price	1,037	1,051	969	1,030	1,119	1,418	1,323	1,549	1,770	1,767	1,768
Price ratio	1.06	0.98	1.05	1.05	1.06	0.88	1.03	1.03	1.04	1.07	1.05
<b>Cattle Meat</b>											
Domestic price	753	702	695	738	810	850	931	1,063	1,234	1,258	1,246
Reference price	1,344	1,332	1,485	1,719	1,861	1,792	1,971	2,169	2,064	2,010	2,037
Price ratio	0.56	0.53	0.47	0.43	0.44	0.47	0.47	0.49	0.60	0.63	0.61
<b>Ind Roundwood</b>											
Domestic price	390	143	143	143	143	143	377	329	294	290	285
Reference price	100	81	93	94	102	112	92	92	141	138	153
Price ratio	3.89	1.77	1.53	1.53	1.41	1.28	4.11	3.58	2.08	2.11	1.86

**Notes:** (a) Price per tonne for Cassava, Maize, Chicken Meat, Cattle meat; Price per m3 (meter squared) for Industrial roundwood;

**Sources:** UN FAO STAT, 2012; ITTO, 2012.

**Table D.1.3: Myanmar – domestic and reference prices (USD per unit) (a) and price ratios, all commodities, 2000 to 2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Cassava</b>											
Domestic price	171	168	184	208	178	167	158	164	220	235	260
Reference price	16	16	24	22	20	33	34	34	58	35	46
Price ratio	10.89	10.82	7.56	9.27	8.95	5.05	4.64	4.80	3.80	6.76	5.61
<b>Maize</b>											
Domestic price	133	121	82	95	104	111	107	160	254	322	329
Reference price	95	89	96	107	114	119	144	200	210	158	184
Price ratio	1.40	1.36	0.85	0.89	0.91	0.94	0.74	0.80	1.21	2.03	1.79
<b>Chicken Meat</b>											
Domestic price	875	484	337	417	382	397	377	459	646	734	789
Reference price	1,037	1,051	969	1,030	1,119	1,418	1,323	1,549	1,770	1,767	1,768
Price ratio	0.84	0.46	0.35	0.40	0.34	0.28	0.28	0.30	0.37	0.42	0.45
<b>Cattle Meat</b>											
Domestic price	725	401	281	347	317	318	301	362	509	569	616
Reference price	1,344	1,332	1,485	1,719	1,861	1,792	1,971	2,169	2,064	2,010	2,037
Price ratio	0.54	0.30	0.19	0.20	0.17	0.18	0.15	0.17	0.25	0.28	0.30
<b>Ind Roundwood</b>											
Domestic price	185	192	193	191	161	189	281	334	489	405	368
Reference price	100	81	93	94	102	112	92	92	141	138	153
Price ratio	1.85	2.38	2.06	2.04	1.58	1.69	3.06	3.64	3.46	2.94	2.40

**Notes:** (a) Price per tonne for Cassava, Maize, Chicken Meat, Cattle meat; Price per m3 (meter squared) for Industrial roundwood;

**Sources:** UN FAO STAT, 2012; ITTO, 2012.

**Table D.1.4: Viet Nam – domestic and reference prices (USD per unit) (a) and price ratios, all commodities, 2000 to 2010**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Cassava</b>											
Domestic price	49	61	49	53	57	70	62	73	135	91	-
Reference price	16	16	24	22	20	33	34	34	58	35	46
Price ratio	3.11	3.95	1.99	2.38	2.84	2.11	1.81	2.12	2.33	2.63	-
<b>Maize</b>											
Domestic price	127	121	107	123	130	161	144	200	251	240	-
Reference price	95	89	96	107	114	119	144	200	210	158	184
Price ratio	1.34	1.36	1.11	1.15	1.14	1.35	1.00	1.00	1.19	1.52	-
<b>Chicken Meat</b>											
Domestic price	1,494	1,270	1,437	1,385	1,812	1,926	1,807	2,945	3,528	3,780	-
Reference price	1,037	1,051	969	1,030	1,119	1,418	1,323	1,549	1,770	1,767	1,768
Price ratio	1.44	1.21	1.48	1.34	1.62	1.36	1.37	1.90	1.99	2.14	-
<b>Cattle Meat</b>											
Domestic price	748	656	698	685	982	1,048	1,029	1,256	1,226	1,793	-
Reference price	1,344	1,332	1,485	1,719	1,861	1,792	1,971	2,169	2,064	2,010	2,037
Price ratio	0.56	0.49	0.47	0.40	0.53	0.58	0.52	0.58	0.59	0.89	-
<b>Ind Roundwood (b)</b>											
Domestic price	-	-	-	-	-	-	-	-	-	-	-
Reference price	100.27	80.79	93.49	93.54	101.91	112.23	91.75	91.84	141.25	137.81	153.20
Price ratio	-	-	-	-	-	-	-	-	-	-	-

**Notes:** (a) Price per tonne for Cassava, Maize, Chicken Meat, Cattle meat; Price per m3 (meter squared) for Industrial roundwood; (b) No domestic price data available for industrial roundwood.

**Sources:** UN FAO STAT, 2012; ITTO, 2012.

## Annex E – Rating impacts on competitiveness of ASEAN Roadmap initiatives

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The following section provides further analysis of the rating of the impact on competitiveness of ASEAN Roadmap initiatives in section 3.2 of the report.

### E.1.1 Markets for primary commodities

The impediments in product markets – e.g. tariffs, NTMs – outlined in Table 3.1 (the column headed, ‘factors that affect efficient operation of the market’) increase prices. This impact is sometimes referred to as the ‘price wedge’ effect. These impediments have therefore been rated as ‘high’ in Table 3.1.

For example, a tariff on the commodity leads to its domestic producers receiving a higher price for their output than they would receive if the commodity could be imported duty free. As a consequence, domestic primary producers expand production drawing resources from other more productive activities; this means they lose competitiveness.

In other cases the impediment operates on product quality. For example, a product standard imposed on imports simply eliminates the importation of any varieties deemed to be below the standard. The absence of competition amongst producers of lower quality goods pushes up the price of the domestic product compared to that sourced elsewhere.

### E.1.2 Markets for goods & services used in commodity production

On the other hand, an impediment in an intermediate input market – the markets for the goods or services used as an input in production – means input prices are artificially high. In primary production, a higher input price leads to a contraction in the output of the commodity which the input is used to produce. Output is reduced because labour and capital in commodity production are lost to less economically productive activities. Although the additional output occurs elsewhere, the primary producers have lost some of their international competitiveness. The extent of the loss is, other things being equal, proportional to the percentage share of the affected input in the gross value of production of the commodity in question.

To illustrate the variations that occur across inputs, ITS Global has estimated the percentage shares of the key input groups in the gross value of production by the agricultural, food and forestry sectors in Viet Nam.<sup>37</sup> The results are summarised in Table 3.2.

Input market impediments in Table 3.1 have been rated as less problematic for the competitiveness of the primary producers that use them, than impediments in the output markets, other things being equal. This is because purchased inputs can never account for all of the gross value of production. The price impact of impediments in an output market must therefore lead to a greater loss of competitiveness than equivalent impediments in any input market.

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<sup>37</sup> These estimates were based on an analysis of the national accounting input-output table for Viet Nam that has been published by the OECD (year).

**Table E.1: Value of intermediate input use by Agriculture, hunting, forestry & fishing in Viet Nam as share of its gross value of production (GVP), by ISIC class (a)**

ISIC Industry Class	Share of GVP of Agriculture, hunting, forestry & fishing (%)
Agriculture, hunting, forestry & fishing	29.1
Mining & quarrying	0.03
Manufacturing	11.9
Electricity, water & gas supply	0.9
Wholesale & retail trade; and repairs	3.9
Transport & storage	0.7
Finance & insurance	0.2
Business & professional services (real estate activities, renting of machinery & equipment, computer & related activities, R&D and other business activities)	0.1
All intermediate inputs	47.2

*Note:* UN International Standard Industrial Classification of All Economic Activities, Revision 3

*Source:* OECD 2012, ITS Global estimates

### E.1.3 Markets for primary factors of production

Finally impediments that are evident in the primary factor markets are generally critical to the competitiveness of the manufacturing and services sectors of most economies but they are generally not as important to the agriculture, food and forestry sectors of the CLMV economies.

In the case of the domestic labour market impediments, the assessment of the extent of their impact on competitiveness in Table 3.1 reflects a couple of things. First, the labour engaged in primary production in the CLMV economies is generally under-employed and the broad development challenge involves shifting labour out of the primary sectors and into the secondary and tertiary ones. Second, the highly valued labour that is used in primary production is generally sourced through externally provided professional or specialist services and not by direct employment. For this reason labour market impediments are rated as 'Low' in terms of their potential impact on the competitiveness of primary production in Table 3.1.

In the case of the domestic capital markets, the impediments are generally more important to the competitiveness of primary production in the CLMV economies than the impediments in the labour market but still less important than the impediments in the markets for goods and services. This reflects the fact that primary production will progressively become more capital intensive as labour is shifted to the other sectors of the economy. This is why capital market impediments are rated as 'Medium; in Table 3.1.

## Annex F - CLMV Gaps in meeting ASEAN commitments in agriculture, food and forestry

The following tables provide an overview of the gap between commitments in ASEAN instruments and impediments for agriculture, food and forestry. This is based on 2010 research by ITS Global.

**Table F.1.1: Cambodia**

Initiative	Gap with ASEAN Goals or Commitments	Nature of Impediment
Elimination of tariffs	Gap with 2015 goals: some sensitive and highly sensitive products still subject to relatively high tariff rates: wood-based product PIS exemptions, carp.	Absence of laws mandating tariff reductions/removal for sensitive and highly sensitive products by 2015/17.
Elimination of NTBs	Gap with 2015 goals: NTBs in the form of: <ul style="list-style-type: none"> <li>▪ Technical measures – sanitary certificate for shrimps, prawns and fish.</li> </ul>	Absence of laws requiring liberalization/removal of trade restrictive NTBs. Existing laws which provide for NTBs: (No detail in ASEAN NTB database)
Customs integration	None assessed	Not applicable

Source: ITS Global

**Table F.1.2: Lao PDR**

Initiative	Gap with ASEAN Goals or Commitments	Nature of Impediment
Elimination of tariffs	Gap with 2015 goals: Laos has until 2015 to remove high tariffs on some sensitive and highly sensitive agriculture and food products: <ul style="list-style-type: none"> <li>▪ Boneless beef,</li> <li>▪ Live poultry,</li> <li>▪ Mushrooms, onions,</li> <li>▪ Pineapples,</li> <li>▪ Oranges</li> </ul>	Absence of laws mandating tariff reductions/removal for sensitive and highly sensitive products by 2015 in line with ATIGA commitments
Elimination of NTBs	Gap with 2015 goals: Import controls (technical approvals) apply to products including: <ul style="list-style-type: none"> <li>▪ shrimps and prawns,</li> <li>▪ fish fillets and fish meat,</li> <li>▪ live poultry,</li> <li>▪ boneless beef and hams, processed</li> <li>▪ wood from natural forest.</li> </ul>	Absence of laws to liberalize/remove trade restrictive NTBs. Existing laws which provide for NTBs: <ul style="list-style-type: none"> <li>▪ Prime Minister's Decree on Commodity Price Management No. 207/PM, dated 11/10/2001.</li> <li>▪ Decision on Management of Import Businesses and Fuel Wholesales</li> </ul>



		<p>No. 1785/IC.VTE, dated 07/09/2009</p> <ul style="list-style-type: none"> <li>▪ Prime Minister's Decision on Mechanism for Imports of Auto Vehicles and Spare Parts for Assembly in Factory No. 14/PM, dated 28/2/2003.</li> <li>▪ PM's Instruction on increase of strictness in management and protection of forests and coordination in management of forest and wood industry business No.17/PM, dated 22/9/2008.</li> <li>▪ Prime Minister's Decree 180 on Import and Export Licensing, 7 July 2009.</li> </ul>
<b>Customs integration</b>	<p>Gap with ATIGA commitments:</p> <ul style="list-style-type: none"> <li>▪ Customs Law has not yet been amended to reflect certain commitments.</li> </ul>	<p>Existing laws which govern administration of customs:</p> <ul style="list-style-type: none"> <li>▪ Customs Law, 2005</li> </ul>

Source: ITS Global

**Table F.1.3: Myanmar**

Initiative	Gap with ASEAN Goals or Commitments	Nature of Impediment
<b>Elimination of tariffs</b>	No gaps identified.	No impediment identified.
<b>Elimination of NTBs</b>	<p>Gap with 2015 goals: NTBs in the form of:</p> <ul style="list-style-type: none"> <li>▪ Non-automatic licensing,</li> <li>▪ Import quotas and multiple exchange rates apply to all agro-based products, fisheries, rubber-based products and wood-based products.</li> </ul>	<p>Absence of laws to liberalize/remove trade restrictive NTBs. Existing laws which provide for NTBs:</p> <ul style="list-style-type: none"> <li>▪ Plant Pest Quarantine Law</li> <li>▪ National Food Law.</li> </ul>
<b>Customs integration</b>	None assessed	Not applicable

Source: ITS Global

**Table F.1.4: Viet Nam**

Initiative	Gap with ASEAN Goals or Commitments	Nature of Impediment
<b>Elimination of tariffs</b>	No gap identified.	No impediments identified
<b>Elimination of NTBs</b>	Gap with 2015 goals: NTBs in the form of Internal taxes and charges.	Absence of laws requiring liberalization/removal of trade restrictive NTBs.
<b>Customs integration</b>	None assessed	Not applicable

Source: ITS Global

## Annex G - AFAS CLMV commitments, 2012

**Table G.1: CLMV commitments under AFAS, 2012**

Sector	Sub-sector	Cambodia (MA, NT) <sup>38</sup>	Lao PDR (MA, NT)	Myanmar (MA, NT)	Viet Nam (MA, NT)
<b>Business services</b>					
Professional services	Accounting, auditing and bookkeeping services	(1) <sup>39</sup> No limitation, except auditor requires commercial presence (2)No limitation (3) No limitation (4)Unbound, except horizontal limitation <sup>40</sup>	(1) No limitation (2)No limitation (3) Licence required (4)Unbound	(1) No limitation (2)No limitation (3) JV, qualified & registered (4)Unbound	(1) No limitation (2)No limitation (3) No limitation (4) Auditors allowed if in compliance with conditions; horizontal limitation
Research and development services	R&D services on natural sciences	<b>No commitment</b>	(1) No limitation (2)No limitation (3) JV with Lao services provider required (4)Unbound, except horizontal limitation	(1) No limitation (2)No limitation (3) Unbound (4)Unbound	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation
Rental/leasing services without operators	Relating to other transport equipment	<b>No commitment</b>	(1) No limitation (2) No limitation (3) Horizontal limitation (4) Horizontal limitation	<b>No commitment</b>	<b>No commitment</b>
	Relating to other machinery & equipment	Commitment limited to construction machinery and equipment without operator.	(1) No limitation (2) No limitation (3) Horizontal requirement (4) Horizontal requirement	<b>No commitment</b>	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation
Other business services	Services incidental to agriculture, hunting & forestry	No commitment	<b>No commitment</b>	<b>No commitment</b>	<b>No commitment</b>
<b>Communication services</b>					
Telecommunication	Voice telephone	(1) No limitation	(1) No limitation	(1) No limitation	(1) Must be offered

<sup>38</sup> MA = market access; NT = national treatment

<sup>39</sup> (1) = mode 1, cross-border supply; (2) = mode 2, consumption abroad; (3) = mode 3, commercial presence; (4) = mode 4, presence of natural persons.

<sup>40</sup> MA and NT commitments are presented here as a combined summary.

Sector	Sub-sector	Cambodia (MA, NT) <sup>38</sup>	Lao PDR (MA, NT)	Myanmar (MA, NT)	Viet Nam (MA, NT)
services	services	(2) No limitation (3) No limitation, <b>except local shareholding of up to 49%</b> (4)Unbound, except horizontal limitation	(2) No limitation (3) No limitation (100% foreign owned or JV) (4) Must comply with labour law and foreign investment law.	(2) No limitation (3) Horizontal requirement (4) Horizontal requirement	through a locally established & licensed entity (2) No limitation (3) Foreign equity limits (4)Unbound, except horizontal limitation
<b>Distribution services</b>					
Wholesale trade services	Wholesale trade services of motor vehicles	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation	<b>No commitment</b>	(1) No limitation (2)No limitation (3) Commercial presence allowed in accordance with foreign investment law; at least 35% equity; limited company; lease land (4) Unbound	(1) Mostly unbound <sup>41</sup> (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation
Retailing services	Food retailing services (CPC 631)	<b>No commitment</b>	<b>No commitment</b>	(1) No limitation (2)No limitation (3) Commercial presence allowed in accordance with foreign investment law; at least 35% equity; limited company; lease land (4) Unbound	(1) Mostly unbound (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation
	Sales of parts of motor vehicles (CPC 6113)	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation	<b>No commitment</b>	<b>No commitment</b>	(1) Mostly unbound (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation
	Sales of motorcycles and related parts (CPC 6121)	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation	<b>No commitment</b>	<b>No commitment</b>	(1) Mostly unbound (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation

<sup>41</sup> Unbound except for distribution of products for personal use and distribution of commercial software for personal or business use.

Sector	Sub-sector	Cambodia (MA, NT) <sup>38</sup>	Lao PDR (MA, NT)	Myanmar (MA, NT)	Viet Nam (MA, NT)
	Retail sales of motor fuel (CPC 613)	(1) No limitation (2) No limitation (3) No limitation (4) Unbound, except horizontal limitation	<b>No commitment</b>	<b>No commitment</b>	(1) Mostly unbound (2) No limitation (3) No limitation (4) Unbound, except horizontal limitation
<b>Financial services</b>					
Banking & other financial services	Lending of all types	<b>No commitment</b>	<b>No commitment</b>	<b>No commitment</b>	<b>No commitment</b>
	Financial leasing	<b>No commitment</b>	<b>No commitment</b>	<b>No commitment</b>	<b>No commitment</b>
<b>Transport services</b>					
Maritime transport services	Freight transportation (except cabotage)	(1) No limitation (2) No limitation (3) No limitation (4) Unbound, except horizontal limitation	(1) No limitation (2) No limitation (3) Horizontal requirement (4) Horizontal requirement	(1) No limitation (2) No limitation (3) Commercial presence allowed either 100% foreign equity or JV with at least 35% foreign equity; (4) Subject to laws on foreign investment, labour and immigration.	(1) No limitation (2) No limitation (3) <b>JV with foreign equity up to 49%</b> (4) Unbound, except horizontal limitation
Road transport services	Freight transportation	(1) No limitation (2) No limitation (3) No limitation (4) Unbound, except horizontal limitation	(1) No limitation (2) No limitation (3) Domestic transportation 100% foreign equity allowed; cross border transportation requires JV and <b>49% equity limit</b> (4) Horizontal requirement	<b>No commitment</b>	(1) Unbound (2) No limitation (3) <b>JV with foreign equity up to 49%</b> (4) Unbound, except horizontal limitation
	Rental of commercial vehicles with operator	(1) No limitation (2) No limitation (3) No limitation (4) Unbound, except horizontal limitation	(1) No limitation (2) No limitation (3) Domestic transportation 100% foreign equity allowed; cross border transportation requires JV and 70% equity limit (4) Horizontal	<b>No commitment</b>	<b>No commitment</b>

Sector	Sub-sector	Cambodia (MA, NT) <sup>38</sup>	Lao PDR (MA, NT)	Myanmar (MA, NT)	Viet Nam (MA, NT)
			requirement		
	Maintenance & repair of road transport equipment	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation	(1) No limitation (2) No limitation (3) Horizontal limitation (4)Horizontal limitation	<b>No commitment</b>	<b>No commitment</b>
Internal waterways transport	Freight transportation (7222)	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation	(1) No limitation (2) No limitation (3) Horizontal limitation (4)Horizontal limitation	<b>No commitment</b>	(1) Unbound (2) No limitation (3) JV with foreign equity up to 51% (4)Unbound, except horizontal limitation
Rail transport	Freight transportation (7112)	(1) No limitation (2) No limitation (3) No limitation (4)Unbound, except horizontal limitation	(1) No limitation (2) No limitation (3) Horizontal limitation (4)Horizontal limitation	<b>No commitment</b>	(1) Unbound (2) No limitation (3) JV with foreign equity up to 51% (4)Unbound, except horizontal limitation
Services auxiliary to all modes of transport	Cargo-handling services	<b>No commitments</b>	<b>No commitment</b>	(1) No limitation (2) No limitation (3) Commercial presence allowed; either 100% foreign equity or JV with at least 35% foreign equity; (4) Subject to laws on foreign investment, labour and immigration.	(Maritime) (1) No limitation (2) No limitation (3) <b>JV with foreign equity up to 49%</b> (4)Unbound, except horizontal limitation  (Container handling services) (1) No limitation (2) No limitation (3) JV with foreign equity up to 49% (4)Unbound, except horizontal limitation
	Storage and warehouse	(1) No limitation	(1) No limitation	(1) No limitation	(1) No limitation

Sector	Sub-sector	Cambodia (MA, NT) <sup>38</sup>	Lao PDR (MA, NT)	Myanmar (MA, NT)	Viet Nam (MA, NT)
	services	(2) No limitation (3) <b>JV required and foreign equity participation limited to 49%</b> (4)Unbound, except horizontal limitation	(2) No limitation (3) Horizontal limitation (4)Horizontal limitation	(2) No limitation (3) Commercial presence allowed either 100% foreign equity or JV with at least 35% foreign equity; (4) Subject to laws on foreign investment, labour and immigration.	(2) No limitation (3) JV with foreign equity up to 51%; restriction removed in 2014 (4)Unbound, except horizontal limitation
	Freight transport agency services		(1) No limitation (2) No limitation (3) Horizontal limitation (4)Horizontal limitation	(1) No limitation (2) No limitation (3) Commercial presence allowed either 100% foreign equity or JV with at least 35% foreign equity; (4) Subject to laws on foreign investment, labour and immigration.	(1) No limitation (2) No limitation (3) JV with foreign equity up to 51%; restriction removed in 2014 (4)Unbound, except horizontal limitation
	Other auxiliary services <sup>42</sup>	<b>No commitment</b>	Ship brokerage services: (1) No limitation (2)No limitation (3) Horizontal limitation (4)Unbound, except horizontal limitation	Ship brokerage services: (1) No limitation (2) No limitation (3) Horizontal limitation (4)Horizontal limitation	Ship brokerage services: (1) Unbound (2) No limitation (3) Unbound (4) Unbound, except horizontal limitation  Other auxiliary: (1) No limitation (2) No limitation (3) JV with foreign equity up to 51%; restriction removed in 2014 (4) Unbound, except horizontal limitation

Source: ITS Global

<sup>42</sup> For example, bill auditing, freight brokerage services, freight inspection, weighing and sampling services; freight receiving and acceptance services; transportation document preparation services. These services are provided on behalf of cargo owners.

## Annex H – A strategy for CMLV economies to improve competitiveness in agriculture, food & forestry

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This Annex sets out details relating to strategy one in chapter 5 for Cambodia, Lao PDR, Myanmar and Viet Nam.

### Cambodia

The development of Cambodia's agriculture sector has long been impacted by endogenous factors influenced by the legacy of the Khmer Rouge and its impact to skill and market development. This resulted in a decade of stagnant productivity and protectionist policy through the 1980's, further delaying the structural reform necessary to support some 13 million rural poor.

Since 1993 however, Cambodia has undergone a series of economic reforms culminating with its accession to the WTO in 2004, and the liberalisation of aspects of its trade and investment regime. These reforms have resulted in average real economic growth rates of 8 per cent between 2002 and 2010 and have raised per capita incomes from \$334 in 2002 to \$794 in 2010.

Agricultural development has to some extent accompanied this growth, encouraged by the entry of foreign capital and the transfer of technology and know-how. Agricultural value added per worker, a key measure of this development, increased from US\$326 in 2000 to US\$434 in 2010. However, considerable supply constraints such as high input costs and access to finance, poor trade facilitation and seasonal conditions continue to impede the productivity of Cambodia's agriculture sector.

*Source:* World Bank Development Indicators, 2012

### Key findings

- Analysis undertaken in this report relating to Cambodia's price competitiveness for the five selected products is set out in section 2.5.2.
- Cambodia's commitments under ASEAN agreements are reviewed at section 3.3.1.1 and Annex F (in respect of goods) and Annex G (for services).
- Factors that potentially have a high or medium-high impact on the efficient operation of the market for domestic output of the sectors are:
  - tariffs and NTBs on agricultural, food and forestry products; and

- legislative and regulatory barriers to the domestic delivery of services and foreign involvement in the delivery of these services.

See Table 3.1 in chapter 3 of the Report.

### ***Suggested actions***

- Actions directed at output and input markets should not be undertaken without a comprehensive review of the competitiveness of all key products in the agriculture, food and forestry sectors.
- Immediate action could be taken on sector-wide measures impacting the domestic delivery of services used by producers and in the production of material inputs. These actions are summarised in Table H.1 and explained in more detail below the table.

**Table H.1 Suggested actions for Cambodia**

No.	Finding	Suggested action
1	Cambodia has AFAS commitments in 14 of the 22 relevant services industries assessed.	It is suggested Cambodia make services commitments in the next package of commitments under AFAS in <b>eight</b> services industries identified below, including certain logistics industries.
2	Barriers to foreign involvement in domestic delivery of services in Cambodia impact competitiveness in food, agriculture and forestry.	It is suggested Cambodia prioritise efforts to amend investment laws and revise the AFAS schedules to allow foreign equity participation of 51 per cent or more in two sectors (identified below) where foreign commercial presence remains limited to a minority holding.

*Source:* ITS Global

The Consultant suggests that further action could be taken to address impediments to the delivery of services and efficient operation of the markets highlighted in Annex G. This includes further efforts to remove restrictions in logistics services, an ASEAN priority service sector.

In particular, the Consultant suggests that Cambodia includes services commitments in the next package of commitments under AFAS in the following sectors:

- R&D services on natural sciences;
- Rental/leasing services relating to other transport equipment;
- Services incidental to agriculture, hunting & forestry;
- Food retailing services;
- Bank lending services;
- Financial leasing services;



- Cargo handling services;
- Other auxiliary services (e.g. freight brokerage).

These commitments should follow the negotiating objective adopted by AMS in recent services negotiations: there should be no limitations on cross-border supply (mode 1) and consumption abroad (mode 2), and foreign equity participation of at least 51 per cent should be allowed for foreigners providing services through commercial presence (mode 3).

Further, Cambodia could also prioritise efforts to reduce barriers to foreign commercial presence. This would involve amending investment laws and revising Cambodia's AFAS schedule to allow foreign equity participation of 51 per cent or more in services industries where the current schedule (eighth package) limits foreign commercial presence to a minority holding. The industries are:

- Storage and warehouse services; and
- Voice telephone services.

## Lao PDR

Agricultural development is central to economic development in the Lao PDR's economic development. Some 80 per cent of Lao households depend on agriculture, food and forestry production for their incomes and close to 40 per cent of the population lives below the poverty line. These outcomes reflect the fact that the rural population relies heavily on subsistence farming for its livelihood and that such farming is disadvantaged inefficient technology and know-how, a lack of network infrastructure – water, electricity and roads, and inhibiting market regimes.

In recent years there has been a push to develop more commercially viable agricultural industries in remote areas, in part driven by investment from neighbouring countries. This has encouraged the rise of large-scale plantation farming and export oriented crops and contributed to the growth of agriculture exports over the 2006 to 2010 period.

Still, measures of rural economic development present a more realistic picture in line with the rates of rural poverty. Agriculture value-added per worker has remained stagnant at roughly US\$500 per annum over the 2002 to 2010 period. It follows that increasing price competitiveness will go some way toward encouraging market access and rural development for the poor.

*Source:* World Bank Development Indicators, 2012

### ***Key findings***

- Analysis undertaken in this report relating to Lao PDR's price competitiveness for the five selected products is set out in section 2.5.3.

- Lao PDR's commitments under ASEAN agreements are reviewed at section 3.3.1.2 and Annex F (in respect of goods) and Annex G (for services).
- Factors that potentially have a high or medium-high impact on the efficient operation of the market for domestic output of the sectors are:
  - tariffs and NTBs on agricultural, food and forestry products; and
  - legislative and regulatory barriers to the domestic delivery of services and foreign involvement in the delivery of these services.

See Table 3.1 in chapter 3 of the Report.

### ***Suggested actions***

- Actions directed at output and input markets should not be undertaken without a comprehensive review of the competitiveness of all key products in the agriculture, food and forestry sectors.
- Immediate action could be taken on sector-wide measures impacting the domestic delivery of services used by producers and in the production of material inputs. These actions are summarised in Table H.2 and explained in more detail below the table.

**Table H.2 Suggested actions for Lao PDR**

No.	Finding	Suggested action
1	Lao PDR has AFAS commitments in 13 of the 22 relevant services industries assessed.	It is suggested Lao PDR make services commitments in the next package of commitments under AFAS in the <b>nine</b> services industries identified below, including certain logistics industries.
2	Barriers to foreign involvement in domestic delivery of services in Lao PDR impact competitiveness in food, agriculture and forestry.	It is suggested Lao PDR prioritise efforts to amend investment laws and revise the AFAS schedules to allow foreign equity participation of 51 per cent or more in one sector (identified below) where foreign commercial presence remains limited to a minority holding.
3	Commitments in logistics services – a services integration priority sector – could be broadened	It is suggested Lao PDR extend AFAS logistics services commitments, including in the category 'other auxiliary services'. <sup>43</sup>

*Source:* ITS Global

The Consultant suggests that further action could be taken to address impediments to the delivery of services and efficient operation of the markets highlighted in Annex G. This includes further efforts to remove restrictions in logistics services, an ASEAN priority service sector.

<sup>43</sup> At present, there are commitments scheduled only for shipping brokerage services.

In particular, the Consultant suggests that Lao PDR includes services commitments in the next package of commitments under AFAS in the following sectors:

- Services incidental to agriculture, hunting & forestry
- Wholesale trade services of motor vehicles
- Food retailing services
- Retail sales of parts of motor vehicles
- Retail sales of motorcycles & related parts
- Retail sales of motor fuel
- Bank lending services
- Financial leasing services
- Cargo handling services.

These commitments should follow the negotiating objective adopted by AMS in recent services negotiations. That is, there should be no limitations on cross-border supply (mode 1) and consumption abroad (mode 2), and foreign equity participation of at least 51 per cent should be allowed for foreigners providing services through commercial presence (mode 3).

The third suggested action in the table suggests that Lao PDR could also prioritise efforts to reduce barriers to foreign commercial presence. This would involve amending investment laws and revising Lao PDR's AFAS schedule to allow foreign equity participation of 51 per cent or more in **Cross-border freight transportation** where the current schedule (eighth package) limits foreign commercial presence to a minority holding.

## Myanmar

Since the country's independence in 1948 and up until recently, Myanmar's ability to drive the structural reforms necessary to encourage economic development has been hindered by political and economic stagnation. As a consequence, the country still relies on its agriculture, food and forestry sectors to contribute 40 per cent of the country's GDP and to support around 70 per cent of the population.

It follows that agricultural development is critical to Myanmar's developmental aspirations. Notwithstanding seasonal factors such as cyclone Nagris in 2008, progress has in recent times been hindered by supply side factors including livestock and crop disease, poor institutional frameworks and sanitary and phyto-sanitary measures, and low levels of network infrastructure in rural areas.

*Source:* World Bank, Development Indicators, 2012

### Key findings

- Analysis undertaken in this report relating to Myanmar's price competitiveness for the five selected products is set out in section 2.5.4.
- Myanmar's commitments under ASEAN agreements are reviewed at section 3.3.1.3 and Annex F (in respect of goods) and Annex G (for services).
- Factors that potentially have a high or medium-high impact on the efficient operation of the market for domestic output of the sectors are:
  - tariffs and NTBs on agricultural, food and forestry products; and
  - legislative and regulatory barriers to the domestic delivery of services and foreign involvement in the delivery of these services.

See Table 3.1 in chapter 3 of the Report.

### Suggested actions

- Actions directed at output and input markets should not be undertaken without a comprehensive review of the competitiveness of all key products in the agriculture, food and forestry sectors.
- Immediate action could be taken on sector-wide measures impacting the domestic delivery of services used by producers and in the production of material inputs. These actions are summarised in Table H.3 and explained in more detail below the table.

**Table H.3 Suggested actions for Myanmar**

No.	Finding	Suggested action
1	Myanmar has AFAS commitments in 9 of the 22 relevant services industries assessed.	It is suggested Myanmar make services commitments in the next AFAS package of commitments in the <b>13</b> services industries identified below.
2	Barriers to foreign involvement in domestic delivery of services in Myanmar impact competitiveness in food, agriculture and forestry.	It is suggested Myanmar prioritise efforts to amend investment laws and revise the AFAS schedules to allow foreign equity participation of 51 per cent or more in one sector (identified below) where foreign commercial presence remains limited to a minority holding.
3	Commitments in logistics services – a services integration priority sector – could be broadened.	It is suggested that Myanmar extend AFAS logistics services commitments, including in the category 'other auxiliary services'. <sup>44</sup>

<sup>44</sup> At present, there are commitments scheduled only for shipping brokerage services.

*Source:* ITS Global

The Consultant suggests that further action could be taken to address impediments to the delivery of services and efficient operation of the markets highlighted in Annex G. This includes further efforts to remove restrictions in logistics services, an ASEAN priority service sector.

In particular, the Consultant suggests that Myanmar includes services commitments in the next package of commitments under AFAS in the following sectors:

- Rental/leasing relating to other transport equipment
- Rental/leasing relating to other machinery & equipment
- Services incidental to agriculture, hunting & forestry
- Retail sales of parts of motor vehicles
- Retail sales of motorcycles & related parts
- Retail sales of motor fuel
- Bank lending services
- Financial leasing services
- Internal waterways: Freight transportation services
- Rail: Freight transportation services
- Road: Freight transportation services
- Rental of commercial vehicles

These commitments should follow the negotiating objective adopted by AMS in recent services negotiations. That is, there should be no limitations on cross-border supply (mode 1) and consumption abroad (mode 2), and foreign equity participation of at least 51 per cent should be allowed for foreigners providing services through commercial presence (mode 3).

The third suggestion in the above table is that Myanmar could also prioritise efforts to reduce barriers to foreign commercial presence. This would involve amending investment laws and revising Myanmar's AFAS schedule to allow foreign equity participation of 51 per cent or more in **research and development services on natural sciences** where the current schedule (eighth package) limits foreign commercial presence to a minority holding.

## Viet Nam

Agriculture, food and forestry production are an important part of the Vietnamese economy, accounting for 18 per cent of GDP. Around 70 per cent of Vietnamese live in the rural areas of the country and 60 per cent depend on primary production as a source of income or subsistence.<sup>1</sup> Since 2000, the growth of primary production in Viet Nam has averaged a healthy 4 per cent per year. In part this growth is a result of supply-side policy reforms directed at land access, utilities and connectivity infrastructure. It also reflects market-based incentives driving innovation and productivity, particularly in crop production.

Notwithstanding this progress, the World Bank reports that further agricultural development faces challenges such as stagnant productivity, slow rates of investment in agricultural diversification, weak institutions and infrastructure, poor industry standards in resource management – particularly in forestry – and vulnerability to natural hazards.<sup>1</sup> Raising competitiveness, further opening markets and facilitating a greater inflow of foreign capital are important elements of the policy response to these challenges.

*Source:* World Bank, Rural Development & Agriculture in Vietnam, 2012

### *Key findings*

- Analysis undertaken in this report relating to Viet Nam's price competitiveness for the five selected products is set out in section 2.5.5.
- Myanmar's commitments under ASEAN agreements are reviewed at section 3.3.1.4 and Annex F (in respect of goods) and Annex G (for services).
- Factors that potentially have a high or medium-high impact on the efficient operation of the market for domestic output of the sectors are:
  - tariffs and NTBs on agricultural, food and forestry products; and
  - legislative and regulatory barriers to the domestic delivery of services and foreign involvement in the delivery of these services.

See Table 3.1 in chapter 3 of the Report.

### *Suggested actions*

- Actions directed at output and input markets should not be undertaken without a comprehensive review of the competitiveness of all key products in the agriculture, food and forestry sectors.
- Immediate action could be taken on sector-wide measures impacting the domestic delivery of services used by producers and in the production of material inputs. These actions are summarised in Table H.4 and explained in more detail below the table.

**Table H.4 Suggested actions for Viet Nam**

No.	Conclusion	Suggested action
1	Viet Nam has AFAS commitments in 16 of the 22 relevant services industries assessed.	It is suggested Viet Nam make services commitments in the next AFAS package of commitments in the six services industries identified below.
2	Barriers to foreign involvement in domestic delivery of services in Viet Nam impact competitiveness in food, agriculture and forestry.	It is suggested Viet Nam prioritise efforts to amend investment laws and revise the AFAS schedules to allow foreign equity participation of 51 per cent or more in two sectors (identified below) where foreign commercial presence remains limited to a minority holding.

*Source:* ITS Global

The Consultant suggests that further action could be taken to address impediments to the delivery of services and efficient operation of the markets highlighted in Annex G. This could include further efforts to remove restrictions in logistics services, an ASEAN priority service sector.

In particular, the Consultant suggests that Viet Nam includes services commitments in the next package of commitments under AFAS in the following sectors:

- Rental/leasing relating to other transport equipment
- Services incidental to agriculture, hunting & forestry
- Bank lending services
- Financial leasing services
- Road: Rental of commercial vehicles with operator
- Road: Maintenance & repair of road transport equipment

These commitments should follow the negotiating objective adopted by AMS in recent services negotiations. That is, there should be no limitations on cross-border supply (mode 1) and consumption abroad (mode 2), and foreign equity participation of at least 51 per cent should be allowed for foreigners providing services through commercial presence (mode 3).

Another suggested action is that Viet Nam could also prioritise efforts to reduce barriers to foreign commercial presence. This would involve amending investment laws and revising Viet Nam's AFAS schedule to allow foreign equity participation of 51 per cent or more in several industries where the current schedule (eighth package) limits foreign commercial presence to a minority holding, including:

- Maritime freight transportation (except cabotage)
- Road freight transportation.