

**STUDY TO DETERMINE THE IMPACT OF ACCELERATING THE ASEAN
ECONOMIC COMMUNITY FROM 2020 TO 2015 ON CAMBODIA,
LAO PDR, MYANMAR AND VIETNAM (CLMV)¹**

FINAL REPORT²

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² The final report is prepared on the basis of our preliminary report presented at the 36th IAI Task Force Meeting held at the ASEAN Secretariat, Jakarta on 15 March 2010, by making some changes in Abstract, Executive Summary, Summary of recommendations, including format of presentation. In addition, the detailed programs and projects for HRD and industrial capacity building requirements are also prepared extensively in the context of the action plan to contribute the IAI work plan.

Abstract

The Report is intended to provide a broad overview of the study to measure the impact of accelerating the ASEAN Economic Community (AEC) from 2020 to 2015 and to provide specific policy recommendations on strategy approach, institutional, human and industrial capacity building requirements for CLMV to meet their commitments under the AEC Blueprint. It is presented in two parts. The first part covers structural and policy issues facing CLMV economies as compressed timetable requiring more effective domestic structural adjustments to meet. The study has identified the status, problems and prospects of promoting the 14 priority sectors that can be developed as part of the production networking. After studying the AEC Blueprint and surveying the theoretical and empirical literature, the first part identifies a broad strategy approach and policy requirement for achieving the four objective elements of AEC. The second part of the study involves the quantitative analysis, the construction of dimension of AEC Scores/indices for CLMV and assessment of impact of acceleration of integration process using a global simulation model. The quantitative analysis, field works and surveys invariably confirmed the broad overview and outline of Part I. Accelerating AEC process would entail more opportunities and challenges to CLMV economies. With a view to take advantage of emerging opportunities of deeper regional integration in trade and investment and emerging production networking of agglomeration and fragmentation, policy environment and capacity building must be strengthened and enhanced. There has been some positive progress in CLMV economies and in certain sectors of their industries and in the level and scope of their human and infrastructure facilities. However, trade and investment liberalization must be accompanied with comprehensive and sustainable development assistance extended by more developed ASEAN members to CLMV. Otherwise, accelerating AEC process would tend to increase economic competitiveness but widen economic gap among ASEAN member countries.

The simulation results indicate that the decline in the producers' surplus under liberalization shows 4676 million U.S. dollar, 2434 million U.S. dollar, 4567 million U.S. dollar, and 6755 million U.S. dollar, in Cambodia, Lao PDR, Myanmar and Viet Nam, respectively. In contrast, the increase in consumer surplus in CLMV indicates 277.2 million U.S. dollar, 270.5 million U.S. dollar, 616.4 million U.S. dollar and 2987.4 million U.S. dollar due to the decline in the domestic prices under liberalization. The rates of decline in overall consumer prices in CLMV are estimated as 2.81%, 5.04%, 1.61% and 1.04% respectively.

The AEC scores in the study represent the delivery gap which indicates the needs of local industries for improving competitiveness and the current status of provision in CLMV. Thus, these AEC scores can be used to formulate actions plan identified by the AEC scores to enhance competitiveness of the business environment and CLMV economies. Towards this objective, this study has identified specific, institutional, human and industrial capacity requirements for each CLMV country under the AEC parameters. The details of these capacity building requirements are contained in the respective country study. Capacity building and institutional changes are critical as theoretical simulation

exercise and empirical results indicate clearly that the critical requirement is not of the absence of policies and institutions but deficiencies in policy coordination and implementation because of the inadequacies of capacity in the public and private sectors.

The policy approach and recommendations submitted by this study are based on quantitative estimates of AEC parameters which are provided in details in the country study of Cambodia, Lao PDR, Myanmar and Viet Nam. The implications for implementing those policy recommendations would be beneficial for CLMV and ASEAN as a whole as accelerating ASEAN Economic Community would increase productivity and economic growth in CLMV and at the same time tend to narrow development gap within AEC.

Executive Summary

The primary objectives of the study are to measure the impact of accelerating the ASEAN Economic Community (AEC) from 2020 to 2015 on CLMV, and to provide policy recommendations on strategy approach and capacity building requirements for CLMV to meet their commitments under the AEC blueprint. To achieve these objectives, the study uses the methodology of a regional cluster analysis on the identified priority 14 sectors with a view of assessing the possibility of participation of some sectors in regional production and distribution network. The quantitative analysis on selected 14 sectors/industries comprising 12 priority sectors/industries was performed on the basis of regional cluster analysis. In particular, the areas of industries of the CLMV countries that have potential to become part of the regional production and distribution network were analyzed using quantitative and qualitative methods. The empirical results indicate that some industries in Cambodia, Lao PDR, Myanmar and Viet Nam have the potential to become regional production and distribution network. At the same time, CLMV countries critically need to improve their human resource development capacity and the study has identified which areas and sectors require priority in capacity building. In this context, CLMV countries should continue their specialization patterns based on their current comparative advantage principle by extending existing production patterns and searching for potential export markets in both intra-ASEAN and extra ASEAN markets in the short and medium term.

The impact assessment under trade policy simulation analysis would initially result in revenue losses in CLMV countries. On the other hand, consumers can enjoy gains in terms of consumer surpluses. However, the elimination of tariffs, the domestic industries in CLMV cannot make gains under infant industry argument that had been enjoyed by the early members of ASEAN. It would result in the negative effects on domestic producers and thus producer surpluses become negative under the tariff elimination scheme.

The quantitative analysis of industrial development in CLMV is conducted in focusing on ASEAN 12 priority sectors in the context of regional competitiveness incorporating the parameters under AEC strategies. Methodology includes constructing AEC score indexes

and modeling the impact of accelerating the AEC from 2020 to 2015 on CLMV using the global simulation model (GSIM) that enables us to provide policy recommendations on strategy approaches and capacity building requirements for CLMV under the AEC blueprint.

With the aim of assessing the possibility of participation of selected sectors in ASEAN regional integration in production and distribution networks, the quantitative analysis on selected sectors/industries comprising 12 priority sectors/industries was performed on the basis of regional cluster analysis. To evaluate the “elements of AEC Scores/indexes for CLMV within the framework of AEC blueprint, the Executive opinion surveys were undertaken. The dimensions of AEC Scores in terms of indexes are calculated for individual CLMV countries. These indices enable policy makers to assess the status of implementation of selected sectors focusing on the parameters of strategies under the AEC blueprint.

The study concentrates primarily on the regional cluster analysis of competitiveness of industries, incorporating not only policy initiatives, factors affecting production condition, related supporting industries, industrial strategy and government plans but also the AEC strategies. The surveys were conducted in CLMV using three types of questionnaires to capture the AEC performance, status of competitive business environment and both HRD and industrial capacity requirements outlined under the AEC blueprints. The underlying assumptions using the weighted scores are that the evaluation scores rated in each country will have similar knowledge on the same scales regarding weaknesses, strengths and problems faced by the same business environment in each country. The weighted scores for each AEC element may reveal closely the current status of country competitiveness and performance in line with AEC strategies. Thus the scores in this study can be regarded as the “delivery gaps” between local business needs and the current status of the country. However, the estimated AEC scores cannot be interpreted as the “delivery gap” between the performance in each country compared with the AEC objectives under the AEC blueprints. In other words, the AEC scores in this study represent the delivery gap that indicates the needs of local business for improving competitiveness and the current status of provisions in CLMV. In this regard, the study represents the first study of its kind in measuring the parameters of AEC strategy to assess policies and reforms under the AEC blueprint

The methodology used for assessing the impacts of accelerating the AEC from 2020 to 2015 on CLMV are investigated by applying a Global Simulation (GSIM) model that is designed especially for industrial analysis in response to policy shocks in economic systems. The effects of the formation of AEC comprise not only full liberalization but also integration of production and distribution networks including the free movement of skilled labour, encouraging increase in productivity and wages. The development of strategies and policies to mitigate adverse effects such as revenue loss due to removal of tariffs can be taken into account in the simulation exercise under the Global Simulation Model. The welfare implications of freer trade policy in the CLMV with specific focus on the effects of trade liberalization, in particular, tariff reform on prices, incomes, production and consumption levels are also examined.

In trade analysis, the methods for trade policy welfare analyses are divided into two broad categories of partial and general equilibrium approaches. Results from the simulation indicated increases in expected producer and consumer surplus changes and hence increases in “net welfare gain”. It will bring benefits at least at the consumer/household level in the form of better wages or at farm level with improved technology. Results indicate that tariff revenue generated from the trade sector account for a small proportion of tariff revenues, generally smaller when compared with the productivity gain under the AEC strategies. However, the improvements in productivity may be achieved substantially higher when the firms in ASEAN accommodate industrial and human resource capacity building strategies in CLMV.

Trade can affect the structure of manufacturing industry by allocating resources across industries according to comparative advantages. In addition, the trade-induced specialization enable the movements of workers from low technology to high technology, the economy would experience a higher growth. Thus increases in the trade openness, with significant differences across industries, as well as the changing production structures, may suggest that the influence of trade can vary from industry to industry, pointing towards a possible effect on the trade structure of CLMV countries differently.

In analyzing the AEC performance with aggregate bilateral trade data, Cambodia receives a higher score in ‘free flow of services’ because public sector contracts can be freely negotiated internationally and foreign investment is allowed in banking, telecommunications, and the business services sector. Lower scores can be found under the enhanced participation in supply change, taxation policy and SME development. In Lao PDR, all elements, except intellectual property rights (IPR), taxation policy, and level of use of IT, E-commerce in business are well-performing. The largest deficiencies are found with regard to taxation policy, level of use of IT and E-commerce in business and SME development. The best-performing areas of Myanmar indicate ‘free flow of trade, free flow of services and investment, while the moderate development areas comprise competition and regulations, SME development, taxation policy and enhanced participation in supply change. In comparison, the weakest characteristics of the AEC scores in Myanmar show utilities and infrastructures, level of use of IT, E-commerce in business, and IPR. Viet Nam performs well in ate area of free flow of services and investments, free flow of skilled labor, labor market conditions and regulations, competitiveness in food, agriculture and forestry, consumer protection and enhanced participation in supply change. The relatively weak elements show free flow of trade, free flow of capital, level of use of IT, E-commerce in business, and competition and regulations, which can be supplemented by the deliberate initiatives to achieve the AEC objectives. The implications of the results are that the impact of the proposed strategy is associated closely with the other strategies under the AEC and the proposed strategy would be more effective if it were supplemented by initiatives to address some of the unattended structural weakness.

Through simulation exercise, field survey and executive interviews, the study has identified capacity building requirements of local industries for improving

competitiveness and the current status of provision in Cambodia, Lao PDR, Myanmar and Viet Nam. Based on these quantitative and qualitative results, the study has specifically suggested human, institutional and industrial capacity building requirements of CLMV and their implications resulting from accelerating the ASEAN Economic Community from 2020 to 2015. Such country-specific and industry-specific capacity-building requirements would facilitate and assist IAI Task Force to implement action plans as envisaged in the AEC blueprint.

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1. Background of AEC

The ASEAN Economic Community Blueprint for realising the ASEAN Economic Community by 2015 was adopted and signed by the ASEAN Leaders in November 2007 in Singapore during their annual Summit Meeting and is one of the three pillars to achieve (ASEAN Community, political / security and social cultural pillars). Its Blueprint is a single comprehensive document which identifies the characteristics and elements of the AEC with clear implementation targets and timelines for the various economic integration measures within ASEAN. The main objectives of AEC are building:

- a single market and production base(promoting free flow of goods; free flow of services; free flow of investment; freer flow of capital; and free flow of skilled labour.;
- a highly competitive economic region (Enhancing cooperation in new areas for instance competition policy, consumer protection, intellectual property rights, infrastructure development, taxation and e-commerce);
- a region of equitable economic development (enhancing and strengthening SME competitiveness; and narrowing development gap within ASEAN);
- and a region fully integrated into the global economy (making ASEAN a more dynamic region to compete in the global supply chain, an attractive base for foreign direct investment and maintaining “ ASEAN Centrality ” in its external economic relations, especially in its negotiations for free trade areas (FTAs) and comprehensive economic partnership (CEPs) agreements)

The AEC remains vaguely defined and has been conceptualized as a FTA-Plus arrangement that covers a zero-tariff ASEAN free trade area and some elements of a

common market. ASEAN officials opted for a pragmatic approach, essentially moving on a sectoral basis where eleven priority sectors have been selected for fast-track integration: wood-based products, automotives, rubber-based products, textiles and apparels, agro-based products, fisheries, electronics, e-ASEAN, healthcare, air travel, and tourism.³ A roadmap is being drawn for each sector and what remains missing is the overall roadmap towards achieving AEC, although ASEAN has produced an internal document, *Roadmap for ASEAN Integration*, prior to the decision to move towards an AEC.⁴

The ASEAN Framework Agreement for the Integration of Priority Sectors was endorsed by ASEAN Leaders in November 2004, and roadmaps for the integration of these sectors have been drawn up covering a broad range of issues; such as, tariff elimination, non-tariff measures (NTMs), rules of origin, customs procedures, standards and conformance, logistics services, investments, trade and investment promotion, intellectual property rights, movement of business persons, skilled labor and professionals, human resource development and research and development.⁵

While the opportunities and challenges for ASEAN arising from East Asian integration are considerable, those for CLMV countries are of much greater magnitudes.⁶ But for the CLMV the single market and competitive region is meaningless unless they have equitable economic development. Developed countries in ASEAN benefit more. As the least developed countries in the ASEAN+3 group and also countries still undergoing

³ Soesastro, Hadi, "Realizing the East Asia Vision" dated Feb 2005 in CSIS Working Paper Series WPE 090 (Indonesia: CSIS), 2005, p. 13.

⁴ Soesastro, Hadi, "Realizing the East Asia Vision" dated Feb 2005 in CSIS Working Paper Series WPE 090 (Indonesia: CSIS), 2005, p. 13.

⁵ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, pp. 6-7

⁶ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

fundamental market oriented reforms, CLMV countries have to deal simultaneously with integration issues.⁷

Studies of full liberalization made the Asia and Africa demonstrate the welfare gains in terms of increases in GDP growth, increases in foreign direct investment, and trade creation effect associated with allocative efficiency. The effects of the formation of AEC comprise not only full liberalization but also integration of production and distribution networks through liberalization in service sectors, including free movement of skilled labour. Thus it would encourage increases in productivity and wage effects.

The less developed CLMV members will be provided with support to: improve their customs departments (eg automation, capacity building) and in the process facilitate and streamline the customs procedures, work towards the standardisation of their products; harmonization of procedures and processes to speed the processing of imports and exports and when markets integrate, increased economies of scale and scope, competition and productivity at the company level all lead, at the regional level, to higher investment flows, increased intraregional trade and prosperity.⁸

The newer members will also share in the benefits of the larger cake and experience larger foreign direct investments (FDI) while closer and deeper economic integration will play a critical role in rebuilding ASEAN's competitiveness and pave the way for higher rates of growth and wealth creation so it is clear that ASEAN economic integration includes not only removing of trade barriers but also binding economies

⁷ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

⁸ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website <http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

closer through infrastructure linkages such as highway networks, rail networks, power grids and gas pipelines just to name a few.⁹

Integrating the CLMV countries will create a synergy between the economies of Thailand, Vietnam and Southern China and benefit Lao PDR and Cambodia as crucial economic links between Thailand, China and Vietnam; on this, many transport infrastructure projects have already been proposed (the various corridors) and some have already been implemented.¹⁰ In addition, a number of related agreements already exist, such as the GMS Cross-border Transport Agreement and the ASEAN Framework Agreement on Multimodal Transport; over the next five years or so, an intensified effort to develop an integrated network of efficient transport linkages in the GMS area should be pursued.¹¹

Currently the development gaps in East Asia are still very large: in 2007, the average per capita GDP for CLMV was about US\$596.6 compared to US\$31 076 for Brunei or US\$35 206 for Singapore; to close these development gaps, the CLV countries need to be growing much faster than the other countries.¹² Within ASEAN, recent data suggest that growth rates of real per capita GDP in the CLV countries have been edging up above the older ASEAN member countries. In the period (2000-2004), Cambodia and

⁹ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

¹⁰ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 14.

¹¹ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 14.

¹² Lopez, Gregore, "ASEAN Economic Community - From Vision to Reality (Part 2)" dated 14 November 2008 in the East Asian Economic Integration Igloo website [downloaded on 31 December 2008], available at <http://www.igloo.org/eastasiaintegration/aseanecono~2>. and Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 12.

Vietnam performed better than the ASEAN5 countries and Lao PDR was only outperformed by Thailand among the ASEAN5 countries.¹³

Because closing the development gaps is considered to be very important for successful economic integration in the region, there is a common interest for countries in East Asia to provide development assistances to CLMV countries, whether financial or technical, e.g. various initiatives such as the Initiative for ASEAN Integration (IAI), Greater Mekong Sub-Region (GMS), and Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) can provide financial and other technical resources to assist CLMV countries.¹⁴

1.1 Objectives

The end-goal of an AEC by 2015 is unlikely to be a customs union where trade barriers among member countries are removed and a common external tariff policy is established with non-member countries. Given the different stages of economic development among ASEAN countries, forming a customs union would be very difficult to achieve by this deadline. Instead, it would be more realistic to envisage the AEC as an “FTA-plus” arrangement that covers a free trade area and some elements of a common market (viz. free movement of capital and labour).

Although forming a customs union may not be realistic by 2015, ASEAN should nevertheless consider establishing a fully integrated common market as part of a longer-

¹³ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 12.

¹⁴ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 13.

term objective. One possibility is to apply the “ASEAN-X” principle to the economic integration process -- member countries that are ready to remove barriers on good and services, investments, capital and labour should be allowed to do so while the remaining member countries can join in as and when they are ready. This would mean that a common market could initially be established by the ASEAN-6 (based on a realistic target deadline after 2020) with a time frame for the remaining CLMV countries to join in later. Even in Europe, it took almost forty years for a fully integrated common market to be fully realized.”¹⁵

A number of opportunities exist for the coming years that should not be missed, for e.g. in the context of the envisaged ASEAN economic Community 2015, logistics was identified as one of the 12 priority areas for accelerated economic integration, in fact, the ASEAN road map for logistics foresees integration by 2013 and furthermore, major gains are expected from the envisaged liberalization of freight logistics services as well as of certain transport services.¹⁶ Such actions could also contribute to reducing logistics costs, which would greatly increased trade, particularly in CLMV countries, for e.g. a 20% reduction in logistics is expected to increase the trade to GDP ratio by more than 10% in the case of Cambodia, and the Lao People’s Democratic Republic.¹⁷

Institutionalized process is required to change the policy environment, capacity building in order to implement those that CLMV have agreed upon as embodied in the ASEAN economic blueprint. The development objective in regional economic integration

¹⁵ Hew, Denis, "Towards an ASEAN Economic Community by 2020: Vision or Reality?" dated 16 June 2003 in Viewpoints (Singapore: ISEAS), 2003.

¹⁶ UNESCAP, “Ten as One Challenges and Opportunities for ASEAN Integration, ESCAP series in Inclusive and Sustainable Development, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, 2007, p. 54.

¹⁷ UNESCAP, “Ten as One Challenges and Opportunities for ASEAN Integration, ESCAP series in Inclusive and Sustainable Development, United Nations Economic and Social Commission for Asia and the Pacific, Bangkok, 2007, p. 54.

is to build institutional capacity and HRD in the CLMV countries to expedite their regional economic integration into ASEAN especially in the areas of the ASEAN Free Trade Area including customs and standards, the ASEAN Investment Area and liberalization of trade in services and the regional economic integration projects collectively will reinforce the development of a single market and production base.¹⁸

Integrating the CLMV countries will create a synergy between the economies of Thailand, Vietnam and Southern China and benefit Lao PDR and Cambodia as crucial economic links between Thailand, China and Vietnam; on this, many transport infrastructure projects have already been proposed (the various corridors) and some have already been implemented.¹⁹ In addition, a number of related agreements already exist, such as the GMS Cross-border Transport Agreement and the ASEAN Framework Agreement on Multimodal Transport; over the next five years or so, an intensified effort to develop an integrated network of efficient transport linkages in the GMS area should be pursued.²⁰

The newer members will also share in the benefits of the larger cake and experience larger foreign direct investments (FDI) while closer and deeper economic integration will play a critical role in rebuilding ASEAN's competitiveness and pave the way for higher rates of growth and wealth creation so it is clear that ASEAN economic integration includes not only removing of trade barriers but also binding economies

¹⁸ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

¹⁹ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 14.

²⁰ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 14.

closer through infrastructure linkages such as highway networks, rail networks, power grids and gas pipelines just to name a few.²¹

According to the AEC blueprint, in light of the acceleration of AEC, the realisation of ASEAN Customs Vision 2020 is brought forward to 2015. The AEC will address the development divide and accelerate integration of Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) through the Initiative for ASEAN Integration and other regional initiatives. In particular, the 2005-2010 Strategic Plan of Customs Development aims to: (a) integrate customs structures; (b) modernise tariff classification, customs valuation and origin determination and establish ASEAN e-Customs; (c) smoothen customs clearance; (d) strengthen human resources development; (e) promote partnership with relevant international organisations; (f) narrow the development gaps in customs; and (g) adopt risk management techniques and audit-based control (PCA) for trade facilitation.

The AEC will address the development divide and accelerate integration of Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) through the Initiative for ASEAN Integration and other regional initiatives. Other areas of cooperation are also to be incorporated such as human resources development and capacity building; recognition of professional qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integrating

²¹ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website
<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

industries across the region to promote regional sourcing; and enhancing private sector involvement for the building of the AEC.²²

2. Economic impacts of liberalization of trade in goods, services and investment on CLMV economies, particularly the acceleration of the AEC to 2015

2.1 Economic Impact - Implication to CLMV on the acceleration of AEC.

While the opportunities and challenges for ASEAN arising from East Asian integration are considerable, those for CLMV countries are of much greater magnitudes.²³ But for the CLMV the single market and competitive region is meaningless unless they have equitable economic development. As the least developed countries in the ASEAN+3 group and also countries still undergoing fundamental market oriented reforms, CLMV countries have to deal simultaneously with integration issues.²⁴

There are concerns that this process would make the CLMV countries more vulnerable since time is compressed. Basically, as ASEAN accelerates the time table of ASEAN free trade area, the AEC from 2020-2015, the CLMV countries will have less time to adapt and adjust to industrial policies, restructuring, capacity building. While AEC pillars emphasize competitiveness in the region, a single market base and integration into the global economy, it also places premium on equitable economic development. For the CLMV countries, the thrust of accelerating is to hope for equitable

²² 39th AEM, "ASEAN ECONOMIC COMMUNITY BLUEPRINT" dated 24 August 2007, [downloaded on 26 April 2008], available at www.dtn.moc.go.th/.../1188534294937/AEM39-17_AEC_Blueprint.doc

²³ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

²⁴ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

development because, for them, the existence of a single market is meaningless. They also need more development assistance and for them, regional integration and cooperation must involve to great extent economic development.

Successful development of the CLMV countries is not simply in the interest of the CLMV countries themselves, but also a critical factor for the overall successful integration of the region, whether one is talking about ASEAN integration or East Asian integration as an integrated market oriented region, which is the direction ASEAN and East Asia are moving toward, should not exhibit large development disparities among members within the region.²⁵

An integrated market oriented region, which is the direction ASEAN and East Asia are moving toward, should not exhibit large development disparities among members within the region - if disparities become too large, negative side effects can show up in many areas, for example, development disparities between Thailand and neighboring countries with long land borders have already led to a big problem of undocumented labor migration.²⁶ It is estimated that there are about 1.5 million undocumented labor migrants in Thailand, with most coming from Myanmar. In addition, development disparities also bring about other cross border problems, such as illicit activities such as smuggling and human trafficking.

There is concern that economic integration will cause the CLMV countries to fall further behind the other ASEAN economies as manufacturing production may be drawn

²⁵ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 12.

²⁶ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 11

away from the CLMV to the more advanced economies in ASEAN and a further concern is that services liberalization under AFAS would touch on politically sensitive and strategic sectors such as telecommunications, financial services, transportation and utilities, many of which are monopolised by inefficient SOEs and governments are under tremendous pressure to protect them.²⁷

Additionally, as skilled labour is crucial to comparative advantages in the services sectors, there is concern that services trade liberalisation would marginalize the CLMV countries and widen the income gap between them and ASEAN-6 and there is also concern that preferential access for ASEAN service providers would later preclude the entry of more efficient global service providers.²⁸

Liberalization of goods and services and regional integration will make the CLMV countries more vulnerable. This may result in possible revenue loss, lowered revenue/customs duties/exercise tax. The CLMV domestic markets are also perceived to become more vulnerable for ASEAN more developed countries. But if the volume of trade in goods increases due to liberalization, it can offset the loss in revenue.

Theoretically, the acceleration of ASEAN Economic Community from 2020 to 2015 would require more intensified policy and institutional adjustments for CLMV countries as compressed timetable requiring more effective domestic structural adjustment to meet their commitment under the AEC blueprint.

²⁷ Chia, Siow Yue, "Integration the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, p. 7

²⁸ Chia, Siow Yue, "Integration the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, pp. 7-8.

The CLMV countries not only lack hard physical infrastructure also the 'soft' infrastructure that would serve as prerequisites for next stage of the actual construction of the physical infrastructure projects (roads, rail, etc) and installing hardware for the ICT systems; in short, the first stage will focus on addressing the 'soft' issues such as conducting training to build up to capacity, assisting in developing policy, institutional, legal and regulatory frameworks, conducting feasibility studies etc before the hard physical infrastructure can be constructed/installed in the next phase.²⁹ Soft projects do not mean that they are less important than hard projects; if successfully implemented, they will facilitate the development of legal, institutional and regulatory frameworks and will increase the technical capabilities and capacities of CLMV countries and it will also lay the groundwork or foundation for deeper ASEAN integration.³⁰

With regards to CLMV countries implementing their commitments and obligations as signatories of the ASEAN Free Trade Agreement (AFTA), there is a real concern that, as they reduce their tariffs in accordance with their AFTA guidelines, they will suffer significant revenue losses with adverse economic and social implications; CLMV governments require substantial resources to finance their activities and use a number of tax as well as nontax measures to raise the required funds.³¹ Revenue from indirect taxes are more important and most of these countries depend on indirect taxes. Direct taxes which come from income tax and corporate tax form only a small component of the tax revenue.

²⁹ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

³⁰ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

³¹ ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 8.

In a recent study, it was shown that all CLMV countries, with notable exception of Myanmar, stand to lose substantial amounts of customs revenue from ASEAN imports due to implementation of Common Effective Preferential Tariff (CEPT) scheme and the losses are quite substantial given the overall size of total government revenue.³² For Lao PDR, the results, quite ironically, convey the negative revenue outcome of CEPT and Lao PDR is likely to lose up to US\$41 million which is equivalent to nearly 18 percent of her total government revenue but for Myanmar, results were positive for the predicted outcome of CEPT; it stands to gain from US\$67 million (more than 93 percent of total ASEAN customs revenue) to US\$99 million (nearly 174 percent of total ASEAN customs revenue) despite CEPT rate reductions.³³

These gains are however quite small with respect to the size of Myanmar's overall revenue and accounts for only 0.4 percent to 0.5 percent of total government revenue; Vietnam's loss of revenue from CEPT rate reductions could go as high as US\$320 million which is equivalent to roughly 75 percent of her total customs revenue from ASEAN imports.³⁴ The revenue earned from non-ASEAN imports seems to provide a strong cushion against any fall in overall customs revenue and if the economies can maintain healthy economic growth (say 5-7 percent per annum) as they experienced in the recent past, the overall government revenue (tax as well as non-tax) is likely to rise

³² ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 8.

³³ ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 8.

³⁴ ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 9.

substantially over the years despite CEPT rate reductions - this observation is found to be consistently true for all CLMV countries.³⁵

For example, Cambodia's total revenue can rise by up to US\$470 million (more than 107 percent), though it faces short-run decline in its customs revenue while Lao PDR which stands to suffer badly in terms of short-term decline in customs revenue will also see substantial increase in the overall revenue amounting to US\$30 to US\$70 million (accounts for 12.9 percent to 30 percent change in total revenue).³⁶ Myanmar's total revenue is predicted to increase by almost 67 percent due to CEPT implementation and Vietnam is also likely to see big rise in its total revenue (up to US\$ 4.7 billion accounting for nearly 86 percent increase in total revenue) due to the implementation of CEPT scheme.³⁷

To narrow development gap, it is a pre-requisite condition that the CLMV countries critically need adequate external development assistance to undertake domestic structural reforms, capacity building and adjustment. Without adequate development assistance and domestic reform, it is not possible for these transition economies to make adjustment and benefit from regional integration as envisaged in the ASEAN Economic Community. In fact, development assistance should take precedence to opening and integrating their economies with more developed ASEAN as they would not be able to take advantage of increased trade and investment flows. Therefore, it is essential to review and assess the effectiveness of development assistance extended to CLMV.

³⁵ ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 8.

³⁶ ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 8.

³⁷ ASEAN Secretariat, "CLMV countries under AFTA: coping with revenue losses" dated April 2005 in ASEANone [downloaded on 1 Oct 2008], available at <http://www.aseansec.org/article33.pdf>, p. 8.

The process of economic integration would naturally have different impact to different economies, depending on its stage of development, institutional and human resource capacity to adopt and adapt to emerging changes. Basically, the more developed economies would be able to cope better and take advantage of regional economic integration while the less developed would gain less. There is concern that economic integration will cause the CLMV countries to fall further behind as manufacturing production may be drawn away from CLMV to the more developed ASEAN economies. In the same context, services liberalization under the ASEAN Framework Agreement on Services would touch on politically sensitive and strategic sectors such as telecommunications, financial services, transportation and utilities, many of which are monopolized by state-owned enterprises and therefore governments are under tremendous pressure to protect them.

2.2 Intra-regional trade/services in ASEAN₂

Within East Asia, Cambodia's import shares from China, Thailand, other CLMV and ASEAN countries all increased significantly from 1998 onwards, showing Cambodia's integration into ASEAN and with China. In 2007, 3 out of Cambodia's top ten import sources were ASEAN countries and the rest were from Northeast Asia: Thailand 23.1%, Vietnam 16.9%, China 15%, Hong Kong 10.4%, Singapore 7.5%, Taiwan 7.2%, South Korea 4.8% (2007).³⁸ Lao PDR's imports come mainly from Thailand (more than 60%): Thailand 68.5%, China 9.3%, Vietnam 5.5% (2007) while exports also went mainly to East Asian countries: Thailand 32.7%, Vietnam 14.3%,

³⁸ CIA, "Cambodia" in the CIA Factbook website [downloaded on 31 December 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>

China 5.9%, South Korea 4.8% (2007).³⁹ In the case of Vietnam, China's share of imports also increased significantly between 1998-2004 from 9.5% to 17.8%⁴⁰ and in 2007, it has grown to 19.9%: [China 19.9%, Singapore 12.1%, Taiwan 11%, Japan 9.9%, South Korea 8.5%, Thailand 6% (2007)].⁴¹

These trade patterns suggest that the CLV countries have been able to link to the supply chain within the region, particularly to China, Thailand and some other ASEAN countries, for eventual export outside East Asia (particularly to the US and Europe).⁴² In spite of a great deal of competition from both within the region and from elsewhere, the CLV countries have been able to take advantage of the various trade privileges available to newer developing countries and the still relatively low labor costs; one can also see a pattern of greater integration into the regional economic system, particularly to neighboring countries such as China and Thailand.⁴³

2.3 The impact of liberalization in trade in (free flow of) goods and services.

The AEC envisions a region in which consumers have full freedom to select from amongst the range of products and services that are produced from within the region as if they were produced in their home country, i.e. there should be no barriers that would

³⁹ CIA, "Laos" in the CIA Factbook website [downloaded on 31 December 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/la.html>

⁴⁰ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 10.

⁴¹ CIA, "Vietnam" in the CIA Factbook website [downloaded on 31 December 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>

⁴² Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p.11.

⁴³ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p.

hamper the free flow of goods and services which is the essence of integration.⁴⁴ This effort had begun modestly and selectively in ASEAN with the introduction of the PTA (preferential trading arrangement) in 1977 and followed more ambitiously with the decision to form an AFTA in 1992 and the AEC is a logical extension of the above efforts covering all goods, including agriculture, and services.⁴⁵

Liberalization of goods and services and regional integration will make the CLMV countries more vulnerable. This may result in possible revenue loss, lowered revenue/customs duties/exercise tax. The CLMV domestic markets are also perceived to become more vulnerable for ASEAN more developed countries. But if the volume of trade in goods increases due to liberalization, it can offset the loss in revenue.

A major part of promoting the AEC is what ASEAN countries gain. Now that everyone has agreed to accelerate the process during the ASEAN summit in Manila in 2007, the economic growth of respective ASEAN countries should increase. They should be more efficient and productive and their restructuring and allocation of resources more efficient. Their institutions and capacity-building, and tax receipts and revenue generating capacity should increase with production networking and clustering taking advantage of division of labor and production networking in the region with China and other ASEAN countries.

⁴⁴ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, pp. 5-6.

⁴⁵ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, pp. 5-6.

3. Regulatory and policy changes that CLMV countries need to implement to ensure full benefits of economic integration. (e.g. education, legal systems)

The current inherent weak human resource capabilities in the CLMV countries together with weak or absent policy, institutional and legal frameworks make it difficult for these countries to raise their productive capacities; it also constraints the effective absorptive capacity of making optimum use of foreign aid and so IAI Work Plan will strengthen the productive capacities of the CLMV countries with an improved enabling environment and strengthened support capacities and information and communications technology offering the CLMV countries a vital opportunity and means to leapfrog the historical stages of development.⁴⁶

In line with the e-ASEAN initiative, the CLMV countries will have in place the policy, institutional, legal and regulatory frameworks and this IAI Work Plan will assist them in this process as the information age poses the danger that those who are already well advanced will go faster and even further ahead which means that ASEAN has to deliberately intensify efforts to assist the CLMV countries in ICT so that the ICT gap is not widened further.⁴⁷ In terms of policy implementation support, the less developed CLMV members will be provided with support to: improve their customs departments (e.g. automation, capacity building) and in the process facilitate and streamline the customs procedures, work towards the standardisation of their products; harmonization of procedures and processes to speed the processing of imports and exports and when markets integrate, increased economies of scale and scope, competition and productivity

⁴⁶ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website <http://www.aseansec.org/14684.htm>

⁴⁷ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website <http://www.aseansec.org/14684.htm>

at the company level all lead, at the regional level, to higher investment flows, increased intraregional trade and prosperity.⁴⁸

3.1 ASEAN-4.

Even within the CLMV countries, there is differential impact in regional and international integration. Myanmar has hardly opened up to the outside world at all. Cambodia and Vietnam have rapidly increased their participation in world trade, and trade openness ratios have increased from about 65-75% to about 140% over the past decade; Lao PDR is in between with an openness ration of about 70%, but this ratio has been fairly stable over the past decade.⁴⁹ These trade patterns suggest that the CLMV countries have been able to link to the supply chain within the region, particularly to China, Thailand and some other ASEAN countries, for eventual export outside East Asia (particularly to the US and Europe).⁵⁰ In spite of a great deal of competition from both within the region and from elsewhere, the CLMV countries have been able to take advantage of the various trade privileges available to newer developing countries and the still relatively low labor costs; one can also see a pattern of greater integration in regional economic system, particularly to neighboring countries such as China and Thailand.⁵¹

⁴⁸ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

⁴⁹ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

⁵⁰ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p.11.

⁵¹ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p.

The development objective in regional economic integration is to build institutional capacity and HRD in the CLMV countries to expedite their regional economic integration into ASEAN especially in the areas of the ASEAN Free Trade Area including customs and standards, the ASEAN Investment Area and liberalization of trade in services and the regional economic integration projects collectively will reinforce the development of a single market and production base.⁵²

The following are some measures in terms of regulatory and policy changes that CLMV countries need to implement to ensure full benefits of economic integration and minimize any adverse impacts:

3.2 Legal regulatory and policy changes:

3.2.1 Legal framework and the judiciary.

In Laos, it is well known that a "fluid" legal framework and a weak judiciary clearly hamper industrial development and success in the Government's efforts to improve the "rule of law" is fundamental for sustained industrial development, but is unfortunately a very slow process; so the publication and wide dissemination of a National Gazette with laws, decrees, instructions, circulars, etc. would yield benefits in the short-term perspective.⁵³ Although commercial courts were recently introduced, Lao PDR has not established administrative tribunals to date; a certain number of cases concerning the civil responsibility of the State are dealt with by the courts and arbitration

⁵² ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

⁵³ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. x.

was recently institutionalized under the Ministry of Justice, with two sub-centers in Luang Prabang and Savannakhet.⁵⁴ At present, Lao PDR still does not have legislation which provides specific rights of appeal against actions by government bodies in the trade area and rights of appeal generally are implemented through administrative procedure by lodging complaints with the Prime Minister's Office, and in a number of areas, procedures establish officially-recognized rights but it is still doubtful whether such a complaint procedure meets the requirements of objectivity and impartiality.⁵⁵

3.2.2 Business registration and licensing.

Despite gradual improvements, business registration and licensing procedures are still cumbersome and discretionary and further improvements need to be based on an attitude of "promotion and facilitation" towards registration and licensing matters rather than "control and micromanagement".⁵⁶ For example, there are more or less 10 procedures to start a business in CLV compared with 2 to 20 procedures in other countries but in terms of time to start a business, more than five months are needed in Laos, nearly three months in Cambodia and more than one and a half months in Vietnam; the time needed to start a business in Cambodia and Laos is many times longer than the world average (47.7 days); Vietnam is close to achieving the world average, better than

⁵⁴ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 9.

⁵⁵ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 9.

⁵⁶ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. x.

Indonesia's 97 days, almost the same as Philippines, 48 days but 20 days longer than Malaysia's and Thailand's 33 days and far behind Singapore's six days and Australia's best practice of 2 days.⁵⁷

3.3 Regulatory and policy changes regarding human resource:

3.3.1 Vocational training.

To find semi-skilled and skilled labour in Laos and other CLMV countries is a particular problem to the industry that forces enterprises to carry out most of the training of workers themselves; vocational and technical training institutes suffer from inadequate recurrent budgets, lack of training materials and equipment, under-qualified teachers and curricula that are not geared towards the needs of the industry.⁵⁸

CLMV government officials very often have to Thailand, Malaysia and Singapore to attend training. The pool of qualified people is limited. In the universities, many study social sciences and not management science and do not produce the technicians needed for the economy. This may be the result of no proper coordination between market and educational institution. Vocational training is needed to train the necessary manpower to operate the machines in the industries and those imported by the government into the country. Many gravitate towards business, management and social courses instead of natural sciences. Many yearn to be white collar workers after graduation and see vocational training as antithesis to this.

⁵⁷ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 156.

⁵⁸ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

There seems to be more benefits to establishing institutions for vocation training, especially for practical technical education rather than academic oriented university, thus the training of public administrators which are critically in short supply is important and public administrators are the key to the success of domestic reforms and institution building in CLMV countries and the severe shortage of trained and capable civil servants and public administrators to implement policy and institutional reform can create critical bottlenecks in the implementation process despite the plethora of trade and investment liberalization measures.⁵⁹

Education at university level costs a lot of money to set up. Their courses are often abstract and detached from ground requirements. For the CLMV countries, there is a need for more technical education which costs less and is more effective in training large sections of the population for industrialization. One disadvantage of having too many university graduates is that they cannot find jobs, including those trained in humanities and social sciences and even in the engineering due to the fact that their education tends to be theoretical with less technical components and this is not so relevant for the CLMV countries at their stage of development. Training technicians to operate the machines to operate the economy can help to reduce excess unemployment.

3.3.2 Agreements and measure to narrow development gap, on HRD (industrial capacity building, infrastructure and institutions).

As capital importers, the CLMV would gain greater benefits from the ASEAN common market, but only if they can accelerate domestic economic and institutional

⁵⁹ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 12.

reforms, the idea of establishment of greater mobility for skilled labour in the region is a good one and the meaning of “skills” (the harmonization of the labour skill standards), however, may not be in favour of the CLMV.⁶⁰ A formal framework for export/import of less skilled labor should be also considered and the concern for the CLMV is that if capital and skilled labor move predominantly in only one direction, then some of their areas may become depressed and regional imbalance problem could be aggravated.⁶¹

3.3.3 Free flow of skilled labor.

The ASEAN Vision 2020 proposes to accelerate the free flow of professional services. Regularized flows can be a means to creating a progressively liberal environment in this area – a common policy approach to regularize these flows should be brought under the umbrella of the integration project and give priority to the free flow of skilled professionals.⁶² The ASEAN Vision 2020 proposes to accelerate the free flow of professional services but it should be noted that significant flows of unskilled labour are already happening in the region. Regularized flows can be a means to creating a progressively liberal environment in this area – a common policy approach to regularize these flows should be brought under the umbrella of the integration project and give priority to the free flow of skilled professionals.⁶³ ASEAN members agreed to start to develop standards of quality for professionals as rather than developing a common

⁶⁰ Vo, Tri Thanh, "The ASEAN Economic Community" Perspective from ASEAN's Transitional Economies, Paper to be presented at the ASEAN Roundtable 2003 Roadmap to an ASEAN Economic Community 20-21 August 2003, Institute of Southeast Asian Studies, Singapore, p. 9.

⁶¹ Vo, Tri Thanh, "The ASEAN Economic Community" Perspective from ASEAN's Transitional Economies, Paper to be presented at the ASEAN Roundtable 2003 Roadmap to an ASEAN Economic Community 20-21 August 2003, Institute of Southeast Asian Studies, Singapore, p. 9.

⁶² Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 25.

⁶³ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 25.

standard, it seems that ASEAN members will develop national standards and alternatively adopt some kind of mutual recognition agreement (MRA). The free flow of professionals and skilled labour is an important element of investment liberalization in the region.⁶⁴

3.4 Regulatory and policy changes with regards to the bureaucracy.

Greater coordination between government agencies for managing incoming investments and speed up the paperwork is needed. For example, Lao PDR domestic line agencies are not well-coordinated with the Ministry of Industry and Commerce (MOIC) of Lao PDR. Some line agencies were unable to provide appropriate replies to the questions on economic issues and so what the Lao government needed was a coordination system to prepare responses to the questions and then to forward them to the relevant line agencies for feedback (this coordination system has in fact been subsequently established).

Also in Laos for example, despite recent improvements in the implementing regulations, the laws on domestic and foreign investment themselves need to be amended and harmonized with each other. Incentives provided for investments are much decided on a case by case basis and consist mainly of import duty reductions and profit tax reductions or exemptions; the latter types of incentives are costly and "blunt" instruments and often not effective.⁶⁵ The incentive system needs to be made more "automatic" and designed so as to target specific objectives such as exports, employment creation and

⁶⁴ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 25.

⁶⁵ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

skills development. Incentives should be discussed in an ASEAN context to avoid a regional “price war”.⁶⁶

In addition, all ASEAN countries rank amongst the bottom half of all countries of the world on the ability of their citizens to select their government and to engage in freedom of expression and association. Cambodia and the Lao People’s Democratic Republic rank amongst the bottom quintile of all countries on the effectiveness of their governments, rule of law and the control of corruption; the Lao People’s Democratic Republic also does so on the quality of its policies and regulations.

One of the main challenges to ASEAN regional integration is the overall low performance in terms of good governance, including the availability of, access to and the free flow of information across border, is a serious obstacle to the political and economic integration of the sub-region.⁶⁷ Good governance includes accountability, political stability, lack of violence, government effectiveness, regulatory quality, rule of law, control of corruption, as summarized in the World Bank’s Worldwide Governance Indicators.⁶⁸

In accordance with these indicators, in the aspect of voice and accountability, the lowest rankings were for the Lao People’s Democratic Republic, Vietnam and Myanmar and the least effective governments in 2006 were those of the Lao’s Democratic Republic, Cambodia and Myanmar and, for regulatory quality, the Lao people’s Democratic

⁶⁶ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

⁶⁷ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 25.

⁶⁸ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 26.

Republic and Myanmar ranked very low.⁶⁹ In the criteria of the rule of law, the Lao People's Democratic Republic, Cambodia and Myanmar had very low percentile ranks and the same three countries ranked quite low on control of corruption.⁷⁰

3.5 Lack of data.

Myanmar and the Lao People's Democratic Republic also have the lowest capacity among ASEAN member countries to produce reliable and timely data even for the most basic statistics.⁷¹ The statistical system in these countries is rather weak and policymakers make little use of statistical information this creates a vicious circle that generates poor policy decisions and poor development outcomes.⁷² In Laos, access to information is a problem; firstly, the Government needs to apply the concept of "management by information" and pay increasing attention to the dissemination of information; secondly, the Government needs to strongly promote information and communication technologies (ICT) to avoid that Lao PDR becomes a victim of the "digital divide" (being left behind when the rest of the world is reaping enormous benefits from the development of ICT).⁷³

⁶⁹ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 27.

⁷⁰ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 28.

⁷¹ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 22.

⁷² United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 22.

⁷³ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

In the case of Myanmar, another concern is that the Government might not be producing, or making publicly available, some key statistics (e.g. \$1/day poverty).⁷⁴ As a result, these countries are often absent from the international data series and the assessment of their performance can therefore only be partial.⁷⁵

The data gaps in the poorest countries have a significant negative impact on development outcomes and good statistics, in fact, are extremely important both to influence the design of development policies and to monitor their outcomes.⁷⁶ They enable Governments to identify the best course of action in addressing complex social, environmental or economic problems, and to implement appropriate policy interventions and are needed to ensure that scarce resources are used efficiently by improving the allocation of available funds to meet identified needs.; in addition, they are also essential for managing the effective delivery of basic services.⁷⁷

An example is Myanmar which has all the potential to take advantage of the accelerating process of AEC as it is strategically located of having border with the rapidly rising economic powers of China and India, has diversified and enormous natural endowment and Myanmar people have good administrative tradition in the past while under the British rule. However, Myanmar's domestic political reconciliation issue has greatly impeded to achieve its enormous economic potential.

⁷⁴ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 22.

⁷⁵ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 22.

⁷⁶ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 23.

⁷⁷ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 23.

Myanmar stands out as the country with the lowest capacity for data collection activities compared with other ASEAN countries.⁷⁸ Recognizing the challenges that national statistical systems in developing countries experience in meeting users' needs, a National Statistical Development Strategy (NSDS) which is a strategic approach to planning statistical capacity-building across the entire national statistical system, encompassing data production, analysis and use, and all actors in the system, including line ministries.⁷⁹

At the end of 2006 almost all ASEAN low-income countries had completed an NSDS, or they were well on the way to completing one. Only in Myanmar has the strategy design process not yet started.⁸⁰ This situation might have long-term consequences for the capacity of the NSS of Myanmar to produce data that meet the needs of both current and future users, considering the low score obtained in statistical capacity, the absence in this country of a long-term strategy to address data limitations may cause major constraints in development progress.⁸¹

Many countries in the world voluntarily subscribe to the General Data Dissemination System (GDDS), a structured process through which countries evaluate needs for data improvements in the macroeconomic financial and socio-demographic

⁷⁸ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 23.

⁷⁹ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 24.

⁸⁰ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 24.

⁸¹ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 24.

field and develop long-term plans to improve the overall quality of the statistics compiled and disseminated by their NSS.⁸²

Alternatively, they can subscribe to the Special Data Dissemination Standards (SDDS) which has more stringent subscription requirements than GDDS; SDDS, in particular, requires its members to follow best practices in the dissemination of high frequency economic and financial data, thereby promoting transparency and confidence in the quality and integrity of statistical products and their producers.⁸³ Two countries, namely the Lao People's Democratic Republic and Myanmar are not participating in either, thus documentation on methodologies and sources and data dissemination practices is not readily available to national and international users.⁸⁴

There is also a large discrepancy between official and unofficial foreign exchange rates and the weakness of the country's statistical system makes a true assessment of Myanmar's growth performance difficult.⁸⁵ This is reflected in the wide variation in estimates of the country's GDP growth rate in recent years; the 2005 estimate, for example, of IMF was 13.2 percent, of ADB 12.2 percent and of the Economist Intelligence Unit 5.2 percent.⁸⁶

⁸² United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 24.

⁸³ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 24.

⁸⁴ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 25.

⁸⁵ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 10.

⁸⁶ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 10.

3.6 Trade regulatory and policy changes:

3.6.1 Preferential tariffs.

ASEAN has adopted the ASEAN Integration System of Preferences (AISP) scheme whereby preferential tariffs are offered to the newer members by the older members on voluntary and bilateral basis starting on 1 January 2002. AISP is implemented based on products proposed by the CLMV Countries. Indonesia, Malaysia, the Philippines and Thailand have issued their legal enactments to implement the AISP.⁸⁷ Brunei Darussalam agreed to grant duty free treatment on products as requested by Cambodia, Lao PDR, Myanmar and Viet Nam on 8, 14, 79 and 1 items respectively.⁸⁸ The legal enactment covering these 102 items is still in the process of being enacted and shall be implemented retroactive to 1 January 2002.⁸⁹ Indonesia has granted preferential tariff between 0-5% on 25 items for Cambodia, 228 items for Myanmar and 50 items for Vietnam, and has not received any request from Lao PDR yet.⁹⁰

As of September 2007, Malaysia 's tariff lines (AHTN 2002) totalled 12,581. Of these: 10,135 tariff lines at 0%; duty on 2,291 tariff lines (currently at 5%) will be eliminated by 1 January 2010; duty on 66 sensitive and highly sensitive tariff lines (tobacco, tropical fruits and rice) will be reduced to 5% in 2010 , except rice at 20%; and 89 tariff lines on alcoholic beverages and weapons are excluded from tariff liberalisation

⁸⁷ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

⁸⁸ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

⁸⁹ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

⁹⁰ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

under the CEPT Scheme.⁹¹ Malaysia has also granted zero tariffs on 89 products for Cambodia, 12 products for Lao PDR, 282 products for Myanmar, and 170 products for Viet Nam, which took effect on 1 January 2002.⁹² Philippines has granted zero tariffs on 67 products for Myanmar, 10 products for Viet Nam, and 2 products for all CLMV countries; Thailand has granted preferential tariffs to 309 products for Cambodia, 187 products for Lao PDR, 460 products for Myanmar and 34 products for Viet Nam.⁹³ The legal enactment for these new products will take effect retroactively from 1 January 2004.⁹⁴

The adjustments in the structure of the economy largely focus on the sectoral composition of GDP, concentrating on the rate of industrialization; they do not take into account adequately the goals in structural adjustment in line with the direction of industrialization and modernization, with strong technological and technical developments. And therefore the development of domestic industries is characterized by obsolete technologies, high costs, and low efficiencies, requiring protection/subsidies, thus reducing the competitiveness of the economic sectors in the long run in the process of international integration.⁹⁵

⁹¹ MITI Malaysia, "ASEAN Economic Community (AEC)" in the MITI website [downloaded on 31 December 2008], available at http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_b5e22087-c0a81573-aba0aba0-ab12873b.

⁹² ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

⁹³ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

⁹⁴ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

⁹⁵ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, 420.

3.7 Customs.

There are problems concerning the uniform application of administration of trade policy in Laos' customs administration which is decentralized, and customs procedures which are not applied uniformly across provinces and this lack of inter-agency coordination detrimentally impacts on the efficiency of revenue mobilization, the quality of budgetary and financial management as well as on overall public administration.⁹⁶ Lao PDR should further strengthen the unification and coordination of its trade administrative system – amongst line agencies as well as between central and local government departments, especially as regards customs and accession negotiations.⁹⁷

In terms of customs law, Laos is making good progress. Laos' customs procedures for clearing imports and exports have already been significantly improved and simplified in recent years with the commodity classification converted to the Harmonized System and a single administrative document similar but not identical to the UN Layout Key format was introduced in 2000.⁹⁸ This document is used for imports, exports, and transit goods, and replaced 16 documents and direct clearance of goods at the factory is permitted in certain situations; consequently, the average time to clear cargo has been substantially reduced both in Laos and at the transit facilities in Klong Toey.⁹⁹

⁹⁶ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 9.

⁹⁷ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 34.

⁹⁸ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 31.

⁹⁹ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working

3.8 Trade regime.

Amongst the CLMV, Lao PDR for example has made significant progress towards trade liberalization and is pursuing its WTO and AFTA agendas in accordance with plans but some recent "slippages" (the introduction of a differentiated turnover tax that discriminates against imports) and the existence of extensive quantitative restrictions on imports and other non-tariff measures may raise some concerns in the international community regarding future sustained adherence to liberalization commitments.¹⁰⁰ Formally, import duties are moderate for a developing country with an import weighted average tariff of 14.7%.; in reality, however, import duties are on average only 3% due to widespread, but non-transparent, import duty exemptions, only 20% of the import duties are actually collected.¹⁰¹

Furthermore, non-recorded cross-border trade that, by definition, doesn't carry any import duties is rampant. In order to pursue a coherent trade policy coordinated with, and not negated by, other tax and non-tax measures, there is a need for a cross-ministerial Trade Policy and Taxation Committee; the fact that Lao PDR (together with a couple of other countries in the world only) hasn't got normal trade relations (NTR) with USA is damaging to Lao exports.¹⁰²

Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 31.

¹⁰⁰ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. x.

¹⁰¹ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. x.

¹⁰² UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. x.

3.9 Regulatory and policy changes in the finance/banking sectors:

3.9.1 Finance and banking.

In CLMV the effectiveness of monetary policy is still limited due to the lack of indirect monetary instruments and /or an effective money market, and the existence of a high degree of dollarization; the central banks are still forced to create money to finance budget deficits (as in the case of Laos, Cambodia, and Myanmar); the financial systems are shallow as indicated by a rather low M2/GDP ratio compared to other ASEAN countries (Cambodia 15% , Myanmar less than 40% and Vietnam 45%).¹⁰³

In general, the banking systems are characterized by weakness in prudential supervision, inefficiency in financial intermediation, the dominant role of state owned commercial banks, and heavy government intervention in bank lending; in Cambodia public confidence in the banking system is very low, a monetary survey has revealed that the net domestic credit is largely negative and the Cambodian savings placed outside the country (about US\$800 million) is almost twice the amount of loans which multilateral institutions provided to Cambodia between 1994 and 2000.¹⁰⁴

In Laos and Vietnam (and perhaps in Myanmar as well) the non-performing loans (NPLs) reach a high level, bad debts have also been associated with the inefficient SOE sector and state owned commercial bank restructuring will be a key component of banking reforms and should be undertaken simultaneously with SOE reforms.¹⁰⁵ In Cambodia, the banking sector is dominated by the big four and five if you include the Cambodia public bank. Amongst them, the Canadiana bank and Acelida tops in terms of asset. Their interest rates have come down for the last 2-3 years.

¹⁰³ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005, p 115.

¹⁰⁴ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005. p. 115.

¹⁰⁵ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005., p. 115.

But this remains out of reach to most normal average Cambodians and thus many have to turn to some kind of traditional lending in the countryside. The rural wealthy lend out some money to the poor but the interest rate is very high (typically about 10% per month). It is a traditional form of lending without collateral. The interest rate is lower in the commercial banks but loans there need collateral. The interest rate now is about 1% , or 10-12% per year. All in all, there is no much money going around for the rural majority. There are people in their 30s trying to start their own business, big or small, SME that employ 5 or 10 people but capital is tight in these countries as banks do not lend money without collateral and thus capital has to borrowed from relatives or family.

In Laos, access to finance, in particular term lending, is a major problem for the industry as the banking sector in Lao PDR is in a weak position to serve the manufacturing sector; four major institutions holding two thirds of the banking assets and almost 80% of total deposits are insolvent.¹⁰⁶ Difficulties in enforcement of the Bankruptcy Law and the Secured Transaction Law through the court system as well as the lack of a system for centralized registration of mortgages hamper banks' willingness to provide credits to the industry, even when collateral is available.¹⁰⁷ An overall financial sector reform programme is ongoing and should yield some positive results over time; as part of this programme, the Government may also study the viability of new

¹⁰⁶ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

¹⁰⁷ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

instruments such as a credit guarantee scheme, an export credit guarantee scheme, leasing, venture capital funds, etc.¹⁰⁸

CLMV could also face difficulties in having a consistency between monetary policy (including interest rate policy) and exchange rate policy while liberalizing the financial sector and gradually opening the capital account in the balance of payments, therefore the roadmap of financial liberalization to be followed by CLMV is very different from that of the older ASEAN members.¹⁰⁹ For example, in Laos, access to finance, in particular term lending, is a major problem for the industry as the banking sector in Lao PDR is in a weak position to serve the manufacturing sector; four major institutions holding two thirds of the banking assets and almost 80% of total deposits are insolvent.¹¹⁰

Difficulties in enforcement of the Bankruptcy Law and the Secured Transaction Law through the court system as well as the lack of a system for centralized registration of mortgages hamper banks' willingness to provide credits to the industry, even when collateral is available.¹¹¹ An overall financial sector reform programme is ongoing and should yield some positive results over time; as part of this programme, the Government

¹⁰⁸ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

¹⁰⁹ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005., p. 115.

¹¹⁰ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

¹¹¹ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

may also study the viability of new instruments such as a credit guarantee scheme, an export credit guarantee scheme, leasing, venture capital funds, etc.¹¹²

In the CLMV countries, there is still less use of the financial instruments as most of the business transactions are paid for by cash (M1). This situation is also associated with the financial crisis in 1997. since 1997, people are saving the money at home. Direct payment rather than the banking system. Interest rates are high for banking without collateral. For the SMEs, they have problem borrowing from financial institutions. The government policies should be clear to support the public use of the financial system. Especially to the SMEs. In Myanmar they are using the cheque system. The government try to encourage the Myanmar enterprises to use cheques.

The other impediment to loaning is the reserve ratio is also high. That means the banking system, only limited number of loans can be offered to the public sector. A dedicated banking system, a bank for SMEs, if you are not within the category you cannot borrow. This makes it more affordable for those outside the purview of the banking sector. To address the fact that there is no collateral and no habit of using cheques so Myanmar encourage use of cheques.

In Myanmar, there is also a problem of trust with the customer. If customers want to borrow the money, they have to sign away their lands or homes. In Myanmar, micro finance is available but they have to give mortgage contract. You are effectively selling the land to the bank. If you lose the money, you cannot get the land bank. You can only borrow the value or less than value of land, way below asset value, restricting the amount of money that an individual can borrow. In Vietnam, people are also reluctant to put

¹¹² UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

money in the bank and, as a result, banking deposit base is reduced. They put money in real estate instead. This reduces the banking ability to loan to businesses.

3.9.2 Free mobility of capital.

Free mobility of capital is another important element of investment liberalization in the region and financial sector liberalization should be focused on strengthening the regulatory environment and institutional capacity although with a few exceptions the region already has liberal exchange regimes.¹¹³ The key advantage of stock market integration is that an integrated regional stock market is more efficient than segmented national capital markets unlike an integrated stock market where investors from all member states are able to allocate and distribute their capital to the region where it is most useful and additional cross border funds and individual securities can also improve the liquidity of the stock markets which will lower costs of capital for firms seeking capital and lower transaction costs for investors themselves – in other words, a more overall efficient allocation of capital for all in the region.¹¹⁴

3.9.3 Policy to change the tax system.

To manage negative revenue effect after reduction of tariffs, policy can be used to change the tax system, for e.g. imposing value added tax rather than import duties. As the economy grows in value addedness, the expected the producer surplus and the second round consumer surplus exceed the tariff loss. Economy as a whole will benefit. We have

¹¹³ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 25.

¹¹⁴ Plummer, Michael, "Creating an ASEAN Economic Community: Lessons from EU and reflections on the Roadmap" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 54.

two types of productive forces: the consumer and the producer. Both the producer and consumer surpluses could be one mechanism for state-owned enterprises surplus to collect more revenue for the state, compelling them to be more competitive.

In Laos for example, Taxation is considered as a major problem by industry representatives; part of the problem is imbedded in the system, e.g. foreign enterprises paying 20% profit tax, while domestic enterprises pay up to 35%.¹¹⁵ The main problem is, however, the discretionary way in which the Tax Law is applied, whereby the actual tax to be paid is frequently subject to negotiations with an individual tax officer; these problems are being addressed under the ongoing tax reform programme.¹¹⁶

In Laos' 2005 Tax Law, problems still exist. Article 14 set the taxable basis for turnover tax on imported goods as including import duty and excise tax, if applicable, while domestically-produced goods circulated within Lao PDR are taxed on the basis of actual value of the sales contract, actual sales price, and total services income for services providers, etc so it appears that imported goods have a more burdensome taxable basis, which includes import duty and excise tax, compared with domestically-produced goods.¹¹⁷

More obviously, Article 17 sets a table of rates of business turnover tax which differentiate domestic production from importation and sale of goods and, as per that table, as for most listed goods, domestic production bears 5%-10% less business turnover

¹¹⁵ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

¹¹⁶ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

¹¹⁷ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 28.

tax burden than importation, for e.g., Article 13, Section 24 expressly states that domestic manufacture of bio fertilizer is exempted from business turnover tax while imported bio fertilizer is subject to that tax with a tax rate of 5%.¹¹⁸

4. Current status of industrial development in the CLMV countries

4.1 Manufacturing sector.

The cautious approach adopted by CLMV in implementing their AFTA commitments if motivated by the growing concern that as their economies are fully liberalized in accordance with the AFTA guidelines their respective industries will not be sufficiently prepared to face the forces of regional competition and unable to take advantage of the economic opportunities provided by AFTA; much of this concern is related to their infant industries, including agricultural products and other processed foods, which they think will face greater competition from their ASEAN neighbours particularly from Thailand and Vietnam.¹¹⁹

There is also a lack of confidence in their growing garments sector, which will face greater foreign competition upon the abolition of the Multi Fiber Agreement in 2005; another source of concern for CLMV in the process of tariff liberalization is the anticipated reduction in their tariff revenues as they are particularly highly dependent on international trade as their source of government revenue.¹²⁰ This concern has so far resulted in some degree of ambivalence in their policy initiatives or slow implementation

¹¹⁸ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 28.

¹¹⁹ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005. 138.

¹²⁰ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005. p. 138.

of their AFTA commitments which could lead to the bunching of tariff rates; the AFTA council has required all members to avoid this in the process of tariff reduction.¹²¹

In addition, to enhance industrial development as a result of the acceleration of AEC, CLMV countries have to develop local enterprises to take advantage of emerging production network to be part of the global value chain. A strategic regional approach should promote industries that have comparative advantages and local firms and SMEs that have potential to be part of the production networking. This must be coupled with the right policy environment and receiving help for the prerequisite capacity building. Development assistance must come from more developed countries, international institutions or internal ASEAN sources. Without these funding, the funding is far more difficult to build up the industrial structures and meet the commitments as embodied in the ASEAN economic blueprint.

At present, Cambodia, Myanmar, Laos and Vietnam are considered as transitional economies that are gradually shifting to market-based allocation of resources and distribution of income and from agriculture to manufacturing-based economies. Among the four economies, there are varying differences with respect to the stage of economic development, economic endowment, institutions and organisation capabilities to adapt and adopt internal and external changes and the inherent existence of the private sector.

Except for foreign investment firms, Cambodian enterprises especially small and medium sized (SMEs) experience many difficulties in entering export markets and in expanding exports as familiarity with modern data and information sources is low and sometimes non-existent; as a result SMEs are not aware of the design and quality requirements of foreign markets and the private sector also has little or no idea about the

¹²¹ Hew, Denis, Roadmap to an ASEAN Economic Community (Singapore: ISEAS), 2005. pp. 138-9

benefits of economic integration.¹²² There is also limited support from the Cambodia government to keep the private sector informed on commodity prices and market access – this lack of knowledge results in missed opportunities for Cambodia to exploit the export market under the AFTA and other free trade agreements.¹²³

Due to comparative advantage in geographical location, domestic market size, the prevalent of entrepreneurial private sector and relatively more developed administrative and physical infrastructure, Vietnam is in a better economic position to meet opportunities and challenges of ASEAN Economic Community blueprint by 2015. Myanmar has all the potential to take advantage of the accelerating process of AEC as it is strategically located of having border with the rapidly rising economic powers of China and India, has diversified and enormous natural endowment and Myanmar people have good administrative tradition in the past while under the British rule.

However, Myanmar's domestic political reconciliation issue has greatly impeded to achieve its enormous economic potential. Cambodia, after decades of war and internal disruption, has started economic recovery and has been experiencing rapid economic development in the last 3 years after it became a WTO member in 2005. There remain a number of structural economic, financial and industrial imbalances that need to be addressed before Cambodia can be on a sustainable development tract. Accelerating AEC would present added challenges to diversify its industrial structure and financial revenue. At the same time, Cambodia can take advantage and benefit from added opportunities as a result of acceleration of economic integration and the emerging regional production

¹²² Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 382.

¹²³ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 382.

networking and cross-border trade with Thailand and Vietnam. Judging from recent economic and political optimism arising in Cambodia, and with the right mixture of economic strategy for domestic economic reforms buttressed with human resource and institutional development, Cambodia has a fair chance to gain from the acceleration of ASEAN economic integration

4.2 Case study of Myanmar

The private sector is made up of many small scale industries, but constitutes the largest number of the factories and plants as well as the largest volume of output of the items. The private-run factories and mills make up more than 90 per cent in the nation, therefore the Myanmar government is upgrading small and medium private industries with extended application of modern technologies and helping them to manufacture quality items through the Industrial Development Committee (IDC) with the goal of changing the production of power-tillers, small farm-used vehicles, motorcycles, buses and trucks into a firm import-substitute industry.¹²⁴

The Ministry of Cooperatives is to take measures for improvement of small industries based on the private industrial zones and give encouragement to all the industrial zones depending on the financial power and standard for ensuring simultaneous development of the zones.¹²⁵ Modern foundry plants, forging shops, and forging machines were constructed in Mandalay, Monywa and Taunggyi Ayethaya industrial

¹²⁴ Ministry of Foreign Affairs Myanmar, "Industrial Development Committee holds Meeting No 1/2005" dated 1 Feb 2005 [downloaded on 1 Jan 2009], available at http://www.mofa.gov.mm/news/feb1_tue05_1.html.

¹²⁵ Ministry of Foreign Affairs Myanmar, "Industrial Development Committee holds Meeting No 1/2005" dated 1 Feb 2005 [downloaded on 1 Jan 2009], available at http://www.mofa.gov.mm/news/feb1_tue05_1.html.

zones with the assistance of the government and a private mould & die workshop is being built in connection with production processes of the factories.¹²⁶

The workforce in Myanmar has reached 34.7 million which accounts for over 60 percent of the present total population of over 56 million, this expansion of the workforce was attributed to the extensive setting up of industrial zones and state-owned factories, creating more job opportunities between 1997 to 2007 and there are now 792 state-owned factories in Myanmar and about 80,000 factories in 18 local industrial zones with about 4.8 million in industry. Myanmar is planning to develop the country's central part through extensively setting up more industrial zones in cities along the Ayeyawaddy River, according to an earlier report of the Yangon Times which said on establishment of these zones, the application of the Ayeyawaddy River by vessels will become more and cities along the river could be developed as port cities and Myanmar has also designated a 210,060-square-meter land plot in Nay Pyi Taw to make way for establishing similar industrial zone.¹²⁷

Myanmar will enact a special economic zone (SEZ) law in 2007, aiming to absorb inflow of more foreign investment into the country to promote its economic development with the aim of creating 200,000 job opportunities will be created through establishment of three other Thai-proposed special industrial zones, located in Myawaddy and Hpa-an in southeastern Kayin state and Mawlamyine in southern Mon state is also underway.¹²⁸

¹²⁶ Ministry of Foreign Affairs Myanmar, "Industrial Development Committee holds Meeting No 1/2005" dated 1 Feb 2005 [downloaded on 1 Jan 2009], available at http://www.mofa.gov.mm/news/feb1_tue05_1.html.

¹²⁷ Xinhua, "Development doubles Myanmar's working force in nearly two decades" dated 13 Feb 2007 in the People's Daily website [downloaded on 1 Jan 2009], available at http://english.peopledaily.com.cn/200702/13/eng20070213_349695.html

¹²⁸ Xinhua, "Development doubles Myanmar's working force in nearly two decades" dated 13 Feb 2007 in the People's Daily website [downloaded on 1 Jan 2009], available at http://english.peopledaily.com.cn/200702/13/eng20070213_349695.html

The project, which constitutes part of the Ayeyawaddy-Chao Phraya- Mekong Economic Cooperation Strategy (ACMECS) agreed by the four countries of Cambodia, Laos, Myanmar and Thailand in November 2003, the three Thai-proposed industrial zone projects started in late 2007.¹²⁹

According to official statistics, Myanmar's industrial sector contributed 17.5 percent to the gross domestic product of the nation in the fiscal year 2005-06 which ended in March and a 19- percent contribution is targeted for 2006-07; private sector's contribution to the industrial sector stands 92.36 percent, statistics also show; other official statistics indicate that contracted foreign investment in Myanmar has reached 13.917 billion U.S. dollars in 402 projects up to now since the country opened to such investment in late 1988.¹³⁰

4.3 Case study of Laos.

Laos is considered as the least developed among CLMV countries. It is a land-locked country and only recently started its domestic economic reform and structural policy changes. With a small domestic market of 6 millions (estimated mid-2007) people and with no access to seaport and most of the country is in mountainous region, it is not feasible to develop large-scale manufacturing capabilities. Notwithstanding of its physical and economic limitation, Laos can benefit from economic openness and regional integration through selected manufacturing production networking.

¹²⁹ Xinhua, "Development doubles Myanmar's working force in nearly two decades" dated 13 Feb 2007 in the People's Daily website [downloaded on 1 Jan 2009], available at http://english.peopledaily.com.cn/200702/13/eng20070213_349695.html

¹³⁰ Xinhua, "Development doubles Myanmar's working force in nearly two decades" dated 13 Feb 2007 in the People's Daily website [downloaded on 1 Jan 2009], available at http://english.peopledaily.com.cn/200702/13/eng20070213_349695.html

Increasingly Laos is being projected as a land-bridge country that connects the rapidly developing China's bordering southern provinces with Vietnam, Cambodia and Thailand. In addition, Laos has a good endowment of mineral deposits, scenic landscape and rich cultural and eco-tourism potential. With sound and consistent policy, structural domestic reforms and increased human resource capabilities, Laos can reap the benefit of increased investment and economic prosperity in Greater Mekong Sub-region (GMS) as a result of acceleration of ASEAN economic integration. The task ahead of Laos is not easy but with adequate external assistance and leveraging on rising regional economic momentum and activity, Laos has a fair chance to meet its commitment as spelled out in the ASEAN Economic blueprint.

In addition, Laos has a good endowment of mineral deposits, scenic landscape and rich cultural and eco-tourism potential. With sound and consistent policy, structural domestic reforms and increased human resource capabilities, Laos can reap the benefit of increased investment and economic prosperity in Greater Mekong Sub-region (GMS) as a result of acceleration of ASEAN economic integration. The task ahead of Laos is not easy but with adequate external assistance and leveraging on rising regional economic momentum and activity, Laos has a fair chance to meet its commitment as spelled out in the ASEAN Economic blueprint.

Laos' reform and integration should be mutually supported by broad-based participation of different international organizations and other agencies; such an organizational approach has been a proven success in the implementation of the Almaty Programme of Action (APA) where different UN agencies (such as the General Assembly, Secretary-General, UNCTAD, UNESCAP), World Bank, the regional

commissions and other relevant international and regional/subregional organizations have positively cooperated in the implementation process.¹³¹

The APA experience could be replicated with respect to other programmes and measures designed to facilitate Laos' domestic and trade policy reforms; currently, there are various plans, projects, etc, in TA/CB or in other areas covering Laos' public sector governance, reform of state-owned enterprises and the financial sector, trade reforms, private sector initiatives, etc and these are supported by the ADB, EC, ITC, UNDP, World Bank, Australia, France, Singapore, and the US, among others.¹³² Such TA measures should be expanded and coordinated in the future and such cooperating agencies and donor governments should pay particular attention to the need to arouse awareness of the private sector and improve communications with the private sector in order to better implement such TA measures and programmes.¹³³

Physical infrastructure. Access to land in Laos is not really a problem, but the Government may promote the development of serviced industrial land to assist, in particular, SMEs; away from the major industrial concentration areas, the lack of all-

¹³¹ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 38.

¹³² Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 38.

¹³³ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, p. 38.

weather roads, inadequate road maintenance and lack of, or unreliable, access to electricity hamper industrial development.¹³⁴

4.4 Case Study of Cambodia.

From 2001 to 2004, the economy grew at an average rate of 6.4%, driven largely by an expansion in the garment sector and tourism and the US and Cambodia signed a Bilateral Textile Agreement, which gave Cambodia a guaranteed quota of US textile imports and established a bonus for improving working conditions and enforcing Cambodian labor laws and international labor standards in the industry.¹³⁵

With the January 2005 expiration of a WTO Agreement on Textiles and Clothing, Cambodia-based textile producers were forced to compete directly with lower-priced producing countries such as China and India but better-than-expected garment sector performance led to more than 9% growth in 2007 and its vibrant garment industry employs more than 350,000 people and contributes more than 70% of Cambodia's export while the Cambodian government has committed itself to a policy supporting high labor standards in an attempt to maintain buyer interest.¹³⁶

In 2005, exploitable oil and natural gas deposits were found beneath Cambodia's territorial waters, representing a new revenue stream for the government if commercial extraction begins and mining also is attracting significant investor interest, particularly in

¹³⁴ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

¹³⁵ CIA Factbook, "Cambodia" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

¹³⁶ CIA Factbook, "Cambodia" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

the northeastern parts of the country, and the government has said opportunities exist for mining bauxite, gold, iron and gems.¹³⁷

In 2006, a US-Cambodia bilateral Trade and Investment Framework Agreement (TIFA) was signed and the first round of discussions took place in early 2007; the tourism industry continues to grow rapidly, with foreign arrivals reaching 2 million in 2007 and, in 2007 the government signed a joint venture agreement with two companies to form a new national airline.¹³⁸

But, the long-term development of the economy remains a daunting challenge and the Cambodian government is working with bilateral and multilateral donors, including the World Bank and IMF, to address the country's many pressing needs although the major economic challenge for Cambodia over the next decade will be fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance.¹³⁹ More than 50% of the population is less than 21 years old and the population lacks education and productive skills, particularly in the poverty-ridden countryside, which suffers from an almost total lack of basic infrastructure.¹⁴⁰

Cambodia, after decades of war and internal disruption, has started economic recovery and has been experiencing rapid economic development in the last 3 years after it became a WTO member in 2005. Cambodia's import shares from China, Thailand, other CLMV and ASEAN countries all increased significantly between 1998-2004,

¹³⁷ CIA Factbook, "Cambodia" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

¹³⁸ CIA Factbook, "Cambodia" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

¹³⁹ CIA Factbook, "Cambodia" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

¹⁴⁰ CIA Factbook, "Cambodia" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/cb.html>.

showing Cambodia's integration into ASEAN and with China. Lao PDR's imports come mainly from Thailand (more than 60%). In recent years, China's share in Lao PDR's imports has increased significantly, from 4.5% to 11.1% between 1998-2004.

There remain a number of structural economic, financial and industrial imbalances that need to be addressed before Cambodia can be on a sustainable development tract. Accelerating AEC would present added challenges to diversify its industrial structure and financial revenue. At the same time, Cambodia can take advantage and benefit from added opportunities as a result of acceleration of economic integration and the emerging regional production networking and cross-border trade with Thailand and Vietnam. Judging from recent economic and political optimism arising in Cambodia, and with the right mixture of economic strategy for domestic economic reforms buttressed with human resource and institutional development, Cambodia has a fair chance to gain from the acceleration of ASEAN economic integration.

4.5 Case study of Vietnam.

Due to comparative advantage in geographical location, domestic market size, the prevalent of entrepreneurial private sector and relatively more developed administrative and physical infrastructure, Vietnam is in a better economic position to meet opportunities and challenges of ASEAN Economic Community blueprint by 2015. GDP growth averaged 6.8% per year from 1997 to 2004 even against the background of the Asian financial crisis and a global recession and, since 2001, Vietnamese authorities have reaffirmed their commitment to economic liberalization and international integration and have moved to implement the structural reforms needed to modernize the economy and to

produce more competitive, export-driven industries with the economy growing 8.5% in 2007.¹⁴¹

Vietnam's membership in the ASEAN Free Trade Area (AFTA) and entry into force of the US-Vietnam Bilateral Trade Agreement in December 2001 have led to even more rapid changes in Vietnam's trade and economic regime with exports to the US increasing 900% from 2001 to 2007 and, as Vietnam joined the WTO in January 2007 following over a decade long negotiation process, WTO membership has provided Vietnam an anchor to the global market and reinforced the domestic economic reform process.¹⁴²

Among other benefits, accession allows Vietnam to take advantage of the phase-out of the Agreement on Textiles and Clothing, which eliminated quotas on textiles and clothing for WTO partners on 1 January 2005; agriculture's share of economic output has continued to shrink, from about 25% in 2000 to less than 20% in 2007 and deep poverty, defined as a percent of the population living under \$1 per day, has declined significantly and is now smaller than that of China, India, and the Philippines.¹⁴³ Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one-and-a-half million people every year and, in an effort to stem high inflation which took off in 2007, early in 2008 Vietnamese authorities began to raise benchmark interest rates

¹⁴¹ CIA Factbook, "Vietnam" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>

¹⁴² CIA Factbook, "Vietnam" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>

¹⁴³ CIA Factbook, "Vietnam" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>

and reserve requirements while targeting an economic growth rate of 7.5-8% during the next four years.¹⁴⁴

5. Regional production and distribution networks.

Multinational corporations have expanded their production, material and resource sourcing and markets beyond their domestic economies. Because of the pressure of integration, competition and Just-in-Time (JIT) production system, the region is fully connected into the Global Value Chain (GVC) system in which it produces output for the global marketplace. As a result, globalisation and regional economic integration provide new opportunities for developing countries, including CLMV countries, to enter international trade through production sharing and outsourcing.

As many countries have cheap labour, the international buyer-driven network production are becoming more and more competitive and hence exert continuous pressures to dampen wages and secondly CLMV countries like Vietnam also has difficulties increasing exports with high value added content due to inadequate attention to the role of services in value chain.¹⁴⁵ The capacity to design, distribution of CLMV companies like Vietnamese firms is still very limited and high costs and low efficiency of many services such as transports, storages, hinder competitiveness of such firms relative to other countries in the region.¹⁴⁶

¹⁴⁴ CIA Factbook, "Vietnam" in the CIA World Factbook website [downloaded on 17 August 2008], available at <https://www.cia.gov/library/publications/the-world-factbook/geos/vm.html>

¹⁴⁵ ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 300.

¹⁴⁶ ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 300.

While the opportunities and challenges for ASEAN arising from East Asian integration are considerable, those for CLMV countries are of much greater magnitudes.¹⁴⁷ As the least developed countries in the ASEAN+3 group and also countries still undergoing fundamental market oriented reforms, CLMV countries have to deal simultaneously with integration issues.¹⁴⁸ Even within the CLMV countries, there is differential impact in regional and international integration. Myanmar has hardly opened up to the outside world at all. Cambodia and Vietnam have rapidly increased their participation in world trade, and trade openness ratios have increased from about 65-75% to about 140% over the past decade; Lao PDR is in between with an openness ration of about 70%, but this ratio has been fairly stable over the past decade.¹⁴⁹

5.1 To become a production base.

On the production side, the AEC envisions a region in which there are increased backward and forward linkages amongst various production facilities and networks that are dispersed throughout the entire region and because ASEAN members exhibit different endowments, levels of development and capacity, a dynamic division of labour can be developed amongst them if a smooth and efficient exchange of inputs to production can be assured.¹⁵⁰

¹⁴⁷ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

¹⁴⁸ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

¹⁴⁹ Sussangkarn, Chalongphob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf

¹⁵⁰ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

Like other CLMV countries, Vietnam usually uses tariff and preferential measure to promote localization but these measures are not effective in promoting the development of supporting industries; in buyer driven chains, such as labor intensive industries like textiles and garment, the international retailers and trading companies usually establish a production network, particularly in countries with cheap labor. CLMV countries like Vietnam has to face two issues.¹⁵¹

Firstly, as many countries have cheap labor, the international buyer-driven network production are becoming more and more competitive and hence exert continuous pressures to dampen wages and secondly CLMV countries like Vietnam also has difficulties increasing exports with high value added content due to inadequate attention to the role of services in value chain.¹⁵² The capacity to design, distribution of CLMV companies like Vietnamese firms is still very limited and high costs and low efficiency of many services such as transports, storages, hinder competitiveness of such firms relative to other countries in the region.¹⁵³

The elimination of barriers to trade thus plays an important role in facilitating this exchange but the dynamic division of labour amongst the ASEAN members will result primarily from sustained flows of investment, including the trans-migration of industries from the more developed to less developed members, and the continuous expansion and upgrading of regional production networks and efforts need to be made to ensure that these regional production networks can become more dynamic and stronger segments of

¹⁵¹ ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 300.

¹⁵² ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 300.

¹⁵³ ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 300.

the global supply chain.¹⁵⁴ Investment, in particular foreign direct investment (FDI), plays a critical role here as a single production base in the region implies that production activities in each of the ASEAN members will become regionalised and internationalised.¹⁵⁵

For ASEAN to become a production base, it also needs to minimize business transaction costs by having similar rules and schedules of tariff reduction to ensure use of most efficient supplier and the most important in this regard is the Rules of Origin (ROO), which constitute one of the elements of a common framework. Restrictive ROO constrains sourcing of inputs (new ROO can also change sourcing decisions away from use of inputs from existing partners); in essence, a common ROO can facilitate the spread of full accumulation and the development of regional production networks.¹⁵⁶

Opening up and expansion of the consumption side should go hand in hand with the opening up and expansion of the production side. For the less developed members of ASEAN (CLMV) the opening up of the consumption side will be facilitated by an expansion of the consumption side. In turn, the expansion of the consumption side will result mainly from an expansion of the production side. The latter can be facilitated by its opening up, by hooking up to the regional production networks. This has been the experience of the other ASEAN members and China, and before them of the other East Asian countries (Japan and Korea).

¹⁵⁴ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

¹⁵⁵ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

¹⁵⁶ Soesastro, Hadi, "Realizing the East Asia Vision" dated Feb 2005 in CSIS Working Paper Series WPE 090 (Indonesia: CSIS), 2005, p. 14.

The formation of regional/international production and distribution networks in East Asia resulted from drastic changes in development strategies of and the adoption of a set of policies by countries in the region. In one way or another they have applied a kind of dual track approach, namely to foster both import-substitution (IS) industries and export oriented (EO) industries at the same time. The latecomers in Southeast Asia and China have actively utilised FDI. This was not the case with the forerunners, Japan and Korea. However, what all these countries did was to change, over time, the weights between IS and EO.

This approach requires a complicated policy package. In today's world, industrial capacity and strength can no longer be built through IS policies. The challenge today is to get hooked up to international production and distribution networks. The CLMV countries should exploit this opportunity.¹⁵⁷

¹⁵⁷ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005.

6. Abstract: Empirical and statistical study carried out by Mae Fah Luang

University

In order to further empirically and statistically understand the current status of CLMV industrial development and integration, the report carried out a study to analyse the industrial developments in CLMV focusing on ASEAN's priority integration sector (PIS) strategies. Considerable achievements can be obtained in CLMV in accordance with each country's national industrial plan or industrial master plan, and ASEAN's priority integration sector (PIS) strategies. The annual growth rates of industry sector in CLMV for the period: 2006-2007 indicate 7.5%, 5%, 5.4% and 4.5 % respectively. The top ten sectors in terms of importance for each CLMV are also reported on the basis of the executive opinion survey.

Summary of industrial capacity building needs in CLMV indicates the laboratory testing equipments for certification requirements at various testing centres, ICT equipments for trade facilitations and container-inspection facilities, logistic service facilitations such as cold-storage facilities, warehouse and folk-clip trucks; weaving machinery, dying machine, printing machine, computer aided machinery, power plant/power generating machinery, agro-process machinery and oil refinery, telephone lines, data network, updating hotel infrastructure and logistics sector.

HRD capacity building needs in CLMV comprises trainings in networking distribution, dying machinery, fashion design training, food science, agro-food science, computer aided designs, IT, mechanical and electrical engineering, hotel management and tour, post-harvest technology, logistics training for business owner and marketing and negotiation skills.

This impact assessment is performed under three trade policy simulations. Accelerating AEC by year 2015, which involves primarily the complete tariff elimination under ASEAN free trade area would initially result in revenue losses in CLMV countries. The results of simulation exercises support technology spill-over effects encourage productivity growth in CLMV countries.

6.1 The Scope and Method of Study

The quantitative analysis of industrial development in CLMV is conducted in section 2 focusing on ASEAN twelve priority sectors in the context of regional competitiveness incorporating the parameters under AEC strategies. These priority integration sectors (PIS) include 1. electronics, 2. e-ASEAN sector including information and communication technology (ICT) equipments, 3. healthcare, 4. wood-based products, 5. automotives, 6. rubber-based products, 7. textiles and apparel, 8. agro-based products, 9. fisheries, 10. banking, 11. insurance and 12. tourism. This section attempts to examine the macroeconomic performance focusing on trade and investment among ASEAN countries and the share of priority integrating sectors and structural changes in manufacturing sector, integration in trade and foreign direct investment as well as the role of trade in good and services from the PIS. Moreover, recent developments in ICT, health care and tourism sectors are also examined.

Methodology includes constructing AEC score indexes and modelling the impact of accelerating the AEC from 2020 to 2015 on CLMV using the global simulation model (GSIM) which enables us to provide policy recommendations on strategy approaches and capacity building requirements for Cambodia, Lao PDR, Myanmar and Viet Nam to meet

their commitments under the AEC blueprint. The methodology for GSIM model is summarized in Appendix Table 1.

6.1.1 Constructing AEC Scores in the Framework of AEC Blueprint

With the aim of assessing the possibility of participation of selected sectors in ASEAN regional integration in production and distribution networks, the quantitative analysis on selected sectors/industries comprising 12 priority sector/industries will be performed on the basis of regional cluster analysis. The analysis is based primarily on “microeconomic foundations for business development” known as the Diamond Model comprising the followings factors: (i) Government policy initiatives; (ii) Factor/input conditions; (employment, investment, raw materials); (iii) Demand conditions (prices, regulatory systems, domestic and foreign demand); (iv). Related supporting industries (the role of government); 5. The diamond model has been extended in terms of parameters as well as methodology for calculating AEC indexes to capture AEC strategies under AEC blueprints Industrial strategy. In addition, the areas or industries of the CLMV countries that have potential to become part of regional production and distribution networks will be analysed using quantitative and qualitative methods.

To evaluate the “elements of AEC Scores/indexes for CLMV” within the framework of “AEC Blueprints” the Executive opinion surveys were undertaken through our team members in CLMV. The process of quantification of AEC scores consists of three main steps.

First, the elements or strategies of the AEC blueprints are summarized, with qualitative information set out under the parameters of strategies under the AEC blueprint.

These AEC strategies are translated into quantitative information. Accordingly the survey Questionnaire Part 1 has been designed to capture the parameters of the AEC strategies. These parameters will be evaluated by means of 10 likert scales in the survey questionnaires with the aim of capturing more details of reforms and achievements.

Second, the survey was sent out to senior executives of companies chosen to represent the business sector of each country. Most questions are answerable on a scale ranging from one to ten. Country average scores are computed for each question and form the basis for our subsequent analysis on AEC performance scores.

Third, the average scores for each element are calculated for each country. Next the weighted AEC scores are estimated basing on raw scores by multiplying the weights derived from scores provided by the industry experts comprising industry analysts, academics, and the executives from public sectors dealing with one of the priority integrating sectors. In setting the weights, Questionnaire Part 2 was used, which includes almost 120 questions, most of them to be answered on a 1–7 scale. In total, around 10-15 surveys were received from the above mentioned expert group. The survey was carried out in cooperation with team members comprising local researchers from institutes and universities, in order to ensure sufficiently representative data of each economy. These weighted average scores provide valuable information for an assessment of AEC strategies. Moreover, the inter-linkages among the selected factors and their effects on the competitiveness of firms can also be examined¹⁵⁸.

¹⁵⁸ The scaling and weighting systems of the questionnaire are based on the study of Tim Padmore, and Hervey Gibson, “Modelling Systems of Innovation: II. A Framework for Industrial Cluster Analysis in Regions”, *Research Policy*, vol. 26, Elsevier, 1998.

The AEC strategy listed under category D1 focuses on ‘ASEAN centrality’ in its external economic relations, including its negotiations for free trade agreements (FTAs) and comprehensive partnership agreements. In translating this qualitative information into quantitative one, this study attempts to use the CLMV’s engagements in trade and investment activities with ASEAN’s dialogue partners, namely ASEAN plus three: Japan, China, Korea and other partners with Closer Economic Relations (CER): Australia and New Zealand.

Finally, the dimensions of AEC Scores are calculated for individual CLMV countries. These scores enable us to assess the status of implementation in the selected sectors focusing on the parameters of strategies under the AEC Blueprint.

Elements of ASEAN Economic Community Blueprint (Summary)

A. Single Market and Production Base

The ASEAN single market and production base will comprise seven core elements, A1 to A7, as listed below. In particular, the parameters of strategies which will be included under survey can be summarized as follows:

A1. Free flow of goods

Removal of tariffs, non-tariff barriers
 trade facilitation measures: customs procedures
 Single window system
 Enhancement of the Common Effective Preferential Tariffs (CEPT)
 Rules of Origin (ROO)
 Non-tariff barriers (NTBs)

A2. Free flow of services

ASEAN Equity participation of 51%
 Liberalization in Banking; Insurance; Telecommunications; Business services
 Market access
 MRA

A3. Free flow of investment

Intra-ASEAN investment
Protection of investment under Investment Guarantee Agreement (IGA)
Predictable investment regulations
Regional clusters in production and distribution

A4. Free flow of capital

Availability of capital through capital market
Safeguards for risks

A5. Free flow of skilled labour

Labour regulations

A6. Priority integration sectors

Effects of liberalization on 5 sectors (manufacturing, agriculture, fisheries, forestry, mining and quarrying)

A7. Food, agriculture, forestry

Intra-extra ASEAN trade
Food Safety
Sanitary standards

B. Competitive economic regions

B1. Competition policy

National competition policy
Best practice

B2. Consumer protection

Safety and sanitary standards
Product standards

B3. Intellectual Property Rights (IPR)

Effect of IP on investment

B4. Infrastructure Development

quality and efficiency of public utilities and services

B5. Taxation

Effect of taxation on business
Double taxation on business

B6. E-Commerce

Types and usage of ICT

C. Equitable Economic Development

C1. SME development

Access to information, market, HRD, finance and technology
 Trading environments
 Enterprise networking
 Best practices

C2. Initiative for ASEAN Integration (IAI) to narrow development gap

Activities for equal partners
 Capacity building programs

D. Integration into the Global Economy

D1. Coherent Approach towards external economic relations
 D2. Enhanced participation in global supply networks
 D3. Upgrading industrial capability and productivity

This study concentrates primarily on the regional cluster analysis of competitiveness of industries, incorporating not only policy initiatives, factors affecting production conditions, related supporting industries, industrial strategy and Government plans but also the AEC strategies. The surveys were conducted in CLMV using three types of questionnaires to capture the AEC performance, status of competitive business environment and both HRD and industrial capacity requirements outlined under the AEC blueprints. The questionnaires used in CLMV under this study are provided in Appendixes 3 to 5.

It is worth noting that the AEC scores in this study are for indicative rather than representative purposes. In addition, they cannot be used for international comparison for various reasons. First, sample sizes vary according to the country under study, depending on the survey responses during the survey period: October – December 2008. The scores for each factor under AEC strategies are rated subjectively and independently by local businesses in each country. To overcome the problem of biasness in rating scores among

counties, weighted AEC scores are constructed using the scores obtained by Questionnaire Part 2, distributed to experts from the private sector and trade and industry analysts from academic and research institutions. The underlying assumptions using the weighted scores are that the evaluation scores rated by above mentioned expert group in each country will have similar knowledge on the same scales regarding weaknesses, strengths and problems faced by the business environment in each country. Thus the weighted scores for each AEC element may reveal closely the current status of country competitiveness and performance in line with AEC strategies. Thus the scores in this study can be regarded as the 'delivery gaps' between local business needs and the current status of the country. However, the analyses reflect an interior assessment since each CLMV has made its liberalization commitments of in line with the respective time frame until year 2013 for service trade liberalization, etc.; thus, the estimated AEC scores can not be interpreted as the 'delivery gap' between performance in each country compared with the AEC objectives under the AEC blueprints.

Therefore, this analysis will allow us to provide recommendations based on the AEC scores for CLMV obtained under the study for the effective regional strategic approaches, integration of enterprises and capacity building at the national, and regional or bilateral levels. The report is presented in eight sections, one for each country with detailed analysis.

The AEC scores in this study represent the delivery gap which indicates the needs of local business for improving competitiveness and the current status of provisions in CLMV. Thus these AEC scores can be used to formulate action plan in the weak areas pinpointed by the AEC scores, to enhance the competitiveness of the business

environment. Moreover such provisions will also enable them to attract FDI in these countries. In particular, the significant factors determining the group scores, for example, the scores for ‘single market’ can be examined in the most detailed manner possible thus, efficient management practices can be established for a particular set of strategies to meet the AEC objectives. In constructing the element of AEC scores and indices for CLMV, a related study can be found in “The Lisbon Strategy of Competitiveness”¹⁵⁹. However, there are major differences in our study when compared with the “Dimensions of Lisbon Scores” which was constructed in an ad hoc manner using available data gathered under the World Economic Forum’s “Global Competitiveness Report: Executive Opinion Survey”. Since the questionnaire used in the above mentioned World Economic Forum’s Global Competitiveness Survey was not designed particularly to capture the Lisbon strategy, the calculated scores did not cover these parameters and unweighted scores were used.. In contrast, our proposed research attempts to overcome such pitfalls by preparing questionnaires designed to capture parameters of the strategies under the AEC Blueprint. Moreover, the analysis also enables us to examine the inter-linkages between two sets of AEC elements and their effects on the competitiveness of enterprises. In this regard, this study will be the first study of its kind in measuring the parameters of AEC strategy to assess policies and reforms under the AEC Blueprint.

6.1.2 Trade Policy Analysis Using the Global Simulation Model

In this section, the methodology for assessing the impacts of accelerating the AEC from 2020 to 2015 on CLMV are investigated by applying a Global Simulation (GSIM)

¹⁵⁹ It can be found in *The Lisbon Review: 2002-2003: An Assessment of Policies and Reforms in Europe*, the World Economic Forum, Switzerland.

model which is designed especially for industrial analysis in response to policy shocks in economic systems.

Studies of full liberalization made in Asia demonstrate the welfare gains in terms of increases in GDP growth, increases in foreign direct investment, and the trade creation effect associated with allocative efficiency. The effects of the formation of AEC comprise not only full liberalization but also integration of production and distribution networks including free movement of skilled labour, encouraging increases in productivity and wages. The development of strategies and policies to solve adverse effects such as revenue loss due to removal of tariffs which contribute a large share of the budget of CLMV can be taken into account in the simulation exercises under the Global Simulation Model (GSIM). In addition, other development policies to mitigate adverse effects, such as the decline in producer surpluses will also be observed. Finally, recommendations towards national and regional strategies to minimize adverse effects, and enhance positives effects, will be proposed.

This section will examine the welfare implications of freer trade policies in the CLMV with specific focus on the effects of trade liberalization, in particular, tariff reform on prices, incomes, and production levels and consumption levels¹⁶⁰. The specific objectives are to (1) compute the expected price responses to tariff elimination in ASEAN, (2) assess the potential welfare implications for consumers and producers in each country, (3) establish the potential cross-price effect on trade flow among countries under studies and (4) investigate the effects of productivity growth, i.e. 20 per cent increases in the production in ASEAN countries in the presence of tariff reform.

¹⁶⁰ Hoekman and Scheiff (2002) assert that the welfare impact of FTA is ambiguous a priori, and depends largely on the extent to which trade diversion effects exceed trade creation effects.

In trade analysis, the methods for trade policy welfare analyses could be divided into two broad categories: partial and general equilibrium approaches. Partial equilibrium is thus viewed as a sector-specific condition, in which impacts on endogenous variables related to the sector or industry under study are explicitly or implicitly focused. The evidence also suggests that partial equilibrium analyses possess the merit of simplicity and transparency in welfare analysis, ranging from applications of the basic mode, to its more sophisticated extensions such as the multi-market, multi-region, global, partial equilibrium models. The other related studies can be found in the studies of the World Policy Simulation (SWOPSIM) modeling framework by Roningen et al 1991, the World Bank and UNCTAD Software on Market Analysis and Restrictions on Trade (SMART) model; the Agricultural Trade Policy Simulation Model (ATPSM) by UNCTAD and FAO 2002; and the GSIM model by Francois and Hall (2003, 2007).

The GSIM model of Francois and Hall is applied in this study using Excel Solver software for this analysis since GSIM shares the same objectives of SMART. This static, partial equilibrium model allows for multi-country modeling to capture welfare effects of policies implemented at regional and global levels. The partial equilibrium nature implies that analyses can be as focused at tariff-line level (the source of tariff changes), and by aggregating trade for all. GSIM has already been applied recently in several welfare analyses undertaken by Worz et al (2007), Luo et al (2004), Holzner (2007) and Mutambatsere (2006). The GSIM model is based upon the assumption of national product differentiation and the elasticity of both aggregate demand and of export supply are held to be constant. Import demand and export supply take a log-linear form.

The data required for this analysis include (1) bilateral trade volumes by source and destination of 19 countries, (2) domestic production and absorption, (3) tariff rates, and (4) elasticities of composite demand, supply and substitution. Data sources for this study include the World Integrated Trade Solution (WITS) database, ASEAN Secretariat, GTAP Database, US International Trade Commission (USITC); the Trade Analysis Information System (TRAINS); and Central Statistical Offices (CSO) of the countries under study.

Trade Policy Simulation Scenarios

The following trade policy simulations were performed in this study:

- 1 Current intra-regional tariff reforms in CLMV will take place under the assumption that ASEAN tariffs are applied to imports from all ASEAN countries while the level of tariff protection in ASEAN's major trading partners and the rest of world (ROW) is maintained at most-favored nation (MFN) tariff rates. This simulation assesses, using aggregate bilateral trade flow, the potential impacts of tariff reforms in the trade of ASEAN and other countries under study.
2. Productivity will increase by 20% in CLMV in the presence of trade liberalization.
3. Impact of elimination of tariff varies across commodities and the welfare analysis is performed using disaggregated data: bilateral transport and machinery trade flows. The analysis and findings are reported in Section 7.

6.2 Macroeconomic Performance and Integration of Trade and Foreign Direct Investment in CLMV

Cambodia's economy enjoys relatively higher rate of growth of GDP, 7.7 per cent in 2001 and 10.2 per cent in 2007; in contrast, the industrial growth rates constituted 8.4% in 2007. Cambodia's industry sector contributed about 52.1 per cent of GDP in 2001 to 58.4 per cent of GDP in 2007. In terms of employment this sector employed 686,600 people (26.8 %) of total workforce in 2007.

Since joining ASEAN in 1997 and the WTO in 1991, trade reforms have produced remarkable results. Cambodia's export to GDP ratios have increased from 39.5 per cent in 2001 to 47.3 per cent of GDP in 2007. Her total imports/GDP increased from 52.6% in 2001 to 62.8 per cent in 2007. The economy is one of the fastest growing in ASEAN. Cambodia's intra-ASEAN trade reached at 19.1 per cent of her total exports in 2006. Principle export commodities were rubber and textiles. Cambodia's top ten export partners in 2007 were the U.S (59.5% of total exports) followed by Germany (7.5%), UK(4.7%), Canada (4.7%), Hong Kong (2.9%), Japan (2.9%) Viet Nam (2.3%) and Spain (2.9%). In contrast, her top ten major import partners in 2007 constituted Thailand (27.5% of total imports), followed by China (16.9), Hong Kong (12%), Singapore (8.9%), Korea (3.2%) Malaysia (2.7%) Indonesia (1.8%) and France (1.5%).

Lao PDR's industry sector contributed about 23.7 per cent of GDP in 2001 to 31.8 per cent of GDP in 2005. Lao PDR's export to GDP ratio increased from 18.2 per cent in 2001 to 22.6 per cent in 2007 while her total imports to GDP ratio declined from 29.1 per cent in 2001 to 26 per cent in 2007. Lao PDR's exports in intra-ASEAN trade accounted for 18.2 per cent of her total exports in 2001 and increased to 35 per cent in 2007. Major

export commodities were wood products, garments, electricity and coffee. Lao PDR's top ten export partners in 2007 indicate Thailand (36.4% of total exports), Viet Nam (11%), France (2.2%), China(6.3%), Germany(3.6%), Malaysia(2.5%), Belgium (0.9%) and the Netherlands (0.9%), UK (0.5%) and Italy (0.6%).

In contrast, her top ten major import partners in 2007 were Thailand (70.6%), China (3.6%), Viet Nam (5.5%), Singapore (2.1%), Japan (1.6%), Germany (1.3%), Australia (1.2%), Korea (1.3%), France (0.6%), Hong Kong (0.7%). In 2006, Lao PDR total exports were \$902 million, a 1.9 per cent decrease compared to 2001 while her total imports increased from \$510 million in 2001 to \$1065 million in 2007, a 1.08 per cent increase. Lao PDR's intra-ASEAN trade showed 790.5 million U.S dollars (6.4 per cent of total her exports) while Laos' imports from intra-ASEAN trade were 7.6 per cent of total imports in 2006. Major export markets of Lao PDR are the US, EU, Thailand and Malaysia and Singapore. About 55 per cent of trade were directed towards ASEAN countries.

Myanmar's enjoys relatively higher rate of growth of GDP comprising GDP growth rates of 11.1 per cent in 2001 and 12.7 per cent in 2006, in contrast, the industry sector growth rates constituted 21.8 per cent in 21.9 per cent in 2001 and 2007 respectively. Since joining ASEAN in 1997, trade liberalization has produced remarkable results, her export to GDP ratio has increased from 0.5% in 2001 to 0.2 per cent in 2006. Her total imports/GDP ratio decreased from 0.5% in 2001 to 0.1% in 2007.

Myanmar's exports grew at the rate of 7.6 per cent per annum indicating 546 million dollars in 2002 to 654 million dollars in 2007. The existence of multiple

exchange rates in Myanmar hindered substantially her competitiveness in trade and investment potentials.

Myanmar intra-ASEAN trade accounted for 59 per cent of her total exports in 2006. Major export commodities were teak and other hardwood, pulses and beans, rice and rice products, base metals and ores, raw rubber and oilcakes.

Myanmar's top ten export partners in 2007 show Thailand (44.7% of total exports) followed by India (14.1%), China(6.9%), Japan(5.6%), Germany (2.3%), Malaysia (2.6%), UK(1.1%) and Singapore (1.2%), Korea(2.1%). In contrast, her top ten major import partners in 2007 indicated China (35.9), Thailand (20.5%), Singapore (16.8%), Korea (2.7%), India (3.5%), Japan (3.5%), Indonesia (2.4%), Hong Kong (1.2%), Germany (1.1%). Myanmar's import increased from to of her total import. Major imports are food and live animals, beverage and tobacco, crude materials excluding fuels, mineral fuels, etc, animal, vegetable oil, and fats, chemicals basic manufactures, machines, transport equipment, miscellaneous manufactured goods and unclassified goods.

The Viet Nam economy performed well in recent years, owing to stable macroeconomic and double-digit growth rates. The economy enjoys a relatively higher rate of growth of GDP comprising GDP growth rates of 6.9 per cent in 2001 and 8.5 per cent in 2007; in contrast, industrial growth rates rose by 10.4 per cent in 2001 to 10.6 per cent in 2007. Since joining ASEAN in 1997 and WTO in 1991, trade reforms have produced remarkable results. Viet Nam's export to GDP ratio has increased from 46 per cent in 2001 to 68.4 per cent of GDP in 2007. Her total imports/GDP increased from 44.5 per cent in 2001 to 83 per cent in 2007.

Principle export commodities demonstrate textile products, marine products, rice, coffee, wood and wood products, rubber, coal and frozen shrimps. Major trading countries are United States (22.8% of total exports), Japan (11.4%), Australia(7.5%), China(6.3%), Singapore(4.3%), Germany(5.1%), UK(3.4%), Malaysia(3.6%), Thailand (2.2%) and France (2.1%).

Top ten importing countries of Viet Nam indicates: China (20.4% of total imports), Singapore(11.8%), Japan(9.6%), Korea(7.7%), Thailand (6.9%), Malaysia(4.1%), Hong Kong(3.9%), the US(3.4%), Germany(3.4%), and Indonesia(3.1%). Viet Nam's trade with intra-ASEAN accounted for 24.2 per cent of total exports, in contrast, her trade with extra-ASEAN reached to 83.2 per cent of her total imports in 2007. Viet Nam's export to GDP ratio has increased from 39.5 per cent in 2001 47.3 percent of GDP in 2007. Her total imports/GDP ratio increased from 52.6 per cent in 2001 to 62.8 per cent in 2007.

Below are some illustrated basic ASEAN indicators:

Table 1 Selected Basic ASEAN Indicators

Country	Total population	Gross domestic product at current prices	Growth rate of GDP at constant prices	Inflation rate (year-on-year growth of CPI)	Exports	Imports	Ratio of exports to GDP	Ratio of imports to GDP
	thousand	US\$ mil.	Per cent	Per cent	US\$ million	US\$ million	Per cent	Per cent
	2007	2007	2007	2007	2006	2006	2006	2006
Brunei Darussalam	396	12,317.0	0.6	1.3	7,619.4	1,488.9	66.0	12.9
Cambodia	14,475	8,662.3	10.1	-	3,514.4	2,923.0	48.4	40.3
Indonesia	224,905	431,717.7	6.3	6.6	100,798.6	61,065.5	27.7	16.8
Lao PDR	5,608	4,128.1	6.0	-	402.7	587.5	11.4	16.7
Malaysia	27,174	186,960.7	6.3	2.4	157,226.9	128,316.1	100.2	81.8
Myanmar	58,605	12,632.7	5.6	0.0	3,514.8	2,115.5	29.4	17.7
The Philippines	88,875	146,894.8	7.4	3.9	47,410.1	51,773.7	40.2	43.9
Singapore	4,589	161,546.6	9.3	4.4	271,607.9	238,482.0	205.3	180.3
Thailand	65,694	245,701.9	4.8	3.2	121,579.5	127,108.8	58.8	61.5
Viet Nam	85,205	71,292.1	8.5	-	37,033.7	40,236.8	60.8	66.0
ASEAN	575,525	1,281,853.9	6.5	-	750,708.0	654,097.8	69.9	60.9

Source: The ASEAN Secretariat, Jakarta, Indonesia.

Table 2 Intra- and Extra-ASEAN Trade by Commodity Group, 2006

Per cent

Commodity group		Intra-ASEAN			Extra-ASEAN			Total ASEAN		
No.	Description	Exports	Imports	Total trade	Exports	Imports	Total trade	Exports	Imports	Total trade
1	Electronics	27.19	27.84	27.49	27.19	27.84	27.49	27.55	27.62	27.58
2	ITC Products	17.63	17.60	17.62	17.63	17.60	17.62	17.58	16.81	17.22
3	Healthcare	0.78	0.75	0.77	0.78	0.75	0.77	0.65	0.62	0.64
4	Wood-based product	3.88	1.44	2.74	3.88	1.44	2.74	3.39	1.67	2.59
5	Automotives	2.14	2.42	2.27	2.14	2.42	2.27	2.27	2.48	2.37
6	Rubber-based products	3.25	0.62	2.02	3.25	0.62	2.02	2.82	0.78	1.87
7	Textiles and apparels	6.30	2.58	4.57	6.30	2.58	4.57	5.19	2.39	3.89
8	Agro-based product	5.87	3.82	4.91	5.87	3.82	4.91	5.68	4.07	4.93
9	Fisheries	1.14	0.38	0.79	1.14	0.38	0.79	0.94	0.42	0.70
10	Logistics	2.03	0.80	1.46	2.03	0.80	1.46	1.82	0.72	1.31
11	Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12	Other	29.79	41.74	35.36	29.79	41.74	35.36	32.11	42.60	36.90
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Calculations based on Appendix Table 2.

Table 3 Intra- and Extra-ASEAN Trade, 2006

value in US\$ million; share in per cent

Country	Exports				Imports				Total Trade			
	Intra-ASEAN		Extra-ASEAN		Intra-ASEAN		Extra-ASEAN		Intra-ASEAN		Extra-ASEAN	
	Value	Share of country total	Value	Share of country total	Value	Share of country total	Value	Share of country total	Value	Share of country total	Value	Share to country total
Brunei Darussalam	1,887.3	24.8	5,732.0	75.2	745.8	50.1	743.1	49.9	2,633.2	28.9	6,475.1	71.1
Cambodia	235.4	6.7	3,279.1	93.3	991.2	33.9	1,931.8	66.1	1,226.5	19.1	5,210.9	80.9
Indonesia	18,483.1	18.3	82,315.5	81.7	19,379.2	31.7	41,686.3	68.3	37,862.3	23.4	124,001.8	76.6
Lao, PDR	289.8	72.0	112.8	28.0	500.7	85.2	86.8	14.8	790.5	79.8	199.7	20.2
Malaysia	40,979.6	26.1	116,247.3	73.9	32,290.7	25.2	96,025.5	74.8	73,270.2	25.7	212,272.7	74.3
Myanmar	2,149.7	61.2	1,365.0	38.8	1,174.7	55.5	940.8	44.5	3,324.4	59.0	2,305.9	41.0
The Philippines	8,192.2	17.3	39,217.9	82.7	10,218.3	19.7	41,555.3	80.3	18,410.5	18.6	80,773.3	81.4
Singapore	83,801.6	30.9	187,806.3	69.1	62,300.4	26.1	176,181.6	73.9	146,102.0	28.6	363,987.9	71.4
Thailand	26,944.2	22.2	94,635.3	77.8	23,539.8	18.5	103,569.0	81.5	50,484.0	20.3	198,204.3	79.7
Viet Nam	6,214.0	16.8	30,819.7	83.2	12,453.7	31.0	27,783.1	69.0	18,667.7	24.2	58,602.8	75.8
ASEAN	189,176.8	25.2	561,531.0	74.8	163,594.5	25.0	490,503.3	75.0	352,771.4	25.1	1,052,034.3	74.9

Source: The ASEAN Secretariat, Jakarta, Indonesia

Table 4 Foreign Direct Investments net Inflow in ASEAN, 2004-2006

Country	2004			2005			2006		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	19.7	192.4	212.0	19.4	269.1	288.5	9.7	423.8	433.5
Cambodia	31.9	99.5	131.4	129.2	252.0	381.2	155.5	327.7	483.2
Indonesia	204.2	1,690.3	1,894.5	883.3	7,452.7	8,336.0	1,524.5	4,031.7	5,556.2
Lao, PDR	7.8	9.2	16.9	6.7	21.0	27.7	10.6	176.8	187.4
Malaysia	980.2	3,643.7	4,623.9	572.9	3,391.9	3,964.8	467.8	5,591.9	6,059.7
Myanmar	9.3	241.8	251.1	38.4	197.5	235.9	27.8	115.2	143.0
The Philippines	71.1	616.7	687.8	12.7	1,841.3	1,854.0	(95.6)	2,440.6	2,345.0
Singapore	548.0	19,279.5	19,827.5	1,175.6	13,826.3	15,001.9	1,137.7	22,917.7	24,055.4
Thailand	688.7	5,173.3	5,862.0	762.2	8,194.8	8,957.0	2,822.1	7,933.9	10,756.1
Viet Nam	242.9	1,367.2	1,610.1	164.7	1,856.1	2,020.8	181.9	2,178.1	2,360.0
ASEAN	2,803.7	32,313.5	35,117.2	3,765.1	37,302.7	41,067.8	6,242.1	46,137.4	52,379.5
ASEAN 5	2,492.2	30,403.4	32,895.7	3,406.8	34,706.9	38,113.7	5,856.6	42,915.8	48,772.4
BLCMV	311.5	1,910.0	2,221.5	358.4	2,595.8	2,954.2	385.5	3,221.6	3,607.1

Source: The ASEAN Secretariat, Jakarta, Indonesia.

7. Assessment of Industrial Development in Cambodia

7.1 Main Features of the Manufacturing Sector and Structure of Production

The breakdown of manufactured products in Cambodia is provided in Table 5. Production is mainly for the domestic market, except textiles. In Cambodia spinning and weaving accounted for 44.78 per cent and finishing of textiles accounted for 34.23 per cent of total industrial output and processed meat, fish, fruit, vegetables and fat 1 per cent. Tobacco, paper and paper products, basic chemicals, rubber products, glass and glass

products, basic iron and steel, structured metal, tanks; steam generators, general purpose machinery, electric motors, generators and transformers, motor vehicles and furniture constitute about altogether 15 per cent of total manufacturing outputs.

7.2 Developments in ICT, Health and Tourism Sectors

The current status of ICT development in Cambodia is reported in Table 7. The independent regulatory institution was established in 2001 and liberalization of telecommunication services is being undertaken persistently in Cambodia. The number of telephone mainlines indicated 0.2 per 100 people while the number of mobile phone subscribers indicated 0.8 per 100 person in 2006. The number of personal computer used in country also exhibited 0.8 per 100 people in 2006.

Health industry

The Health industry is analysed in terms of quantity as well as quality of service providers. The total number of hospitals in Cambodia was 1112 units in 2003 and declined to 1080 units in 2006. Similarly, the number of beds reduced from 7747 units in 2003 to 7599 units in 2006. The number of qualified practitioners also declined from 17140 person in 2003 to 17125 persons in 2006 in comparison, number of nurses was 7968 and 7901 persons in 2003 and 2006 respectively. Details can be seen in Table 6.

Table 5 Structure of Manufacturing Production: Cambodia

DESCRIPTION	ISIC	Share in manufacturing industry (in%)		Value (in million US\$)		Output per employee (in US\$)	
		2000	2006	2000	2006	1995	2000
Processed meat, fish, fruit, vegetables, fats	151	5.77	5.79	81	95.82	5,980	4,016
Tobacco products	1600	0.79	0.79	11	13.01	3,347	4,136
Spinning, weaving and finishing of textiles	171	34.24	34.26	479	566.66	2,263	2,143
Wearing apparel, except fur apparel	1810	44.78	44.78	626	740.56	2,952	3,707
Sawmilling and planing of wood	2010	0.33	0.36	5	5.92	5,616	1,065
Paper and paper products	210	0.02	0.00		0.00		2,311
Publishing	221	0.02	0.00		0.00	2,254	1,158
Basic chemicals	241	0.13	0.14	2	2.37	2,498	4,065
Rubber products	251	4.73	4.72	66	78.08	14,059	1,024
Glass and glass products	2610	0.34	0.36	5	5.92	3,494	678
Basic iron and steel	2710		0.00		0.00	15,779	1,275
Structured metal products; tanks; steam generators	281	0.95	0.93	13	15.38	1,764	4,781
General purpose machinery	291	0.01	0.00		0.00		627
Electric motors, generators and transformers	3110		0.00		0.00		941
Motor vehicles	3410	0.12	0.14	2	2.37		4,816
Furniture	3610	0.24	0.21	3	3.55	443	1,101
Total manufacturing		100	100.00	1398	1,653.83	4,357	2,623

Source 1. <http://www.unido.org/index.php> and (2) *Statistical Year Book 2007*, Cambodia

Table 6 Health Infrastructures: Cambodia

Public Health Facilities	Number		
	2003	2004	2005
Total number of hospitals	1,112	1,187	1,086
Total number of beds	7,747	7,747	7,599
Total number of Practitioners	17,140	17,137	17,125
Number of doctors	2,146	2,092	2,079
Number of dentists	131	139	137
Number of pharmacists	389	388	377
Number of nurses	7,968	7,854	7,901
Other	6,506	23,969	20,268

Source: *Statistical Yearbook 2006*, Cambodia.

Tourism industry

The tourism industry has been a major foreign-exchange-earning sector since 2000. The number of tourists arrival from ASEAN countries constituted 2070 in 2001 and it rose to 3090 in 2006, in comparison, the number of tourist from non-ASEAN members showed 3050 in 2001 and 300 in 2006.

Table 7 Telecommunication Infrastructures: Cambodia

Sector performance	2005	2006
Access		
Telephone mainlines (per 100 people)	0.2	0.2
International voice traffic (minutes per person) ^a	3	10
Mobile telephone subscribers (per 100 people)	1.0	0.8
Population covered by mobile telephony (%)	80	88
Internet users (per 100 people)	0.0	0.3
Personal computers (per 100 people)	0.1	0.3
Households with a television set (%)	33	43
Quality		
Telephone faults (per 100 mainlines)	7.2	..
Broadband subscribers (per 100 people)	0.001	0.01
International Internet bandwidth (bits per person)	0	1
Affordability		
Price basket for residential fixed line (\$ a month)	16.7	5.2
Price basket for mobile telephone service (\$ a month)	..	5.1
Price basket for Internet service (\$ a month)	..	9.9
Price of call to United States (\$ for 3 minutes)	6.00	2.94
Institutional efficiency and sustainability		
Telecommunications revenue (% of GDP)	0.6	0.4
Telephone subscribers per employee	241 534	534
Telecommunications investment (% of revenue)	..	..
Applications		
Sector expenditure (% of GDP)	..	..
E-government readiness index (01, 1=most ready)	..	0.30
Secure Internet servers (per million people, Dec. 2007)	0.2	0.5

Source: World Bank ICT at a Glance

<http://www.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS>

Table 8 Tourist Arrivals in ASEAN

Country	2004			2005			2006			2007 ^{1/}		
	Total	Intra-ASEAN	Extra-ASEAN	Total	Intra-ASEAN	Extra-ASEAN	Total	Intra-ASEAN	Extra-ASEAN	Total	Intra-ASEAN	Extra-ASEAN
Brunei Darussalam	118.9	77.7	41.2	127.1	76.2	51.0	158.1	68.7	89.4	178.5	84.6	93.9
Cambodia	1,055.2	183.4	871.8	1,421.6	219.6	1,202.0	1,700.0	328.5	1,371.6	1,762.0	363.3	1,398.7
Indonesia	5,294.4	2,548.2	2,746.2	5,002.1	2,038.3	2,963.8	4,871.4	2,307.1	2,564.2	4,110.5	1,320.7	2,789.7
Lao PDR	894.8	638.7	256.1	1,095.3	794.0	301.3	1,215.1	891.8	323.3	1,321.8	1,054.5	267.3
Malaysia	15,703.4	12,282.3	3,421.1	16,431.1	12,984.6	3,446.4	18,471.7	13,856.6	4,615.1	18,381.4	14,164.3	4,217.1
Myanmar	656.9	61.9	595.0	660.2	51.7	608.5	652.9	56.8	596.1	248.3	53.0	195.3
The Philippines	2,291.4	149.0	2,142.3	2,623.1	179.4	2,443.7	2,688.0	202.9	2,485.1	3,092.0	235.6	2,856.4
Singapore	8,375.1	3,099.2	5,275.9	8,942.4	3,341.4	5,601.0	9,751.7	3,555.9	6,195.7	10,176.8	3,692.1	6,484.6
Thailand	11,737.4	2,936.7	8,800.7	11,516.9	3,099.6	8,417.4	13,822.1	3,556.4	10,265.7	10,405.5	2,471.7	7,933.9
Viet Nam	2,927.9	330.4	2,597.5	3,467.8	469.5	2,998.2	3,583.5	571.9	3,011.6	4,149.5	661.2	3,488.3
ASEAN	49,055.3	22,307.6	26,747.7	51,287.6	23,254.3	28,033.3	56,914.5	25,396.6	31,517.9	53,826.3	24,101.0	29,725.2

Source: The ASEAN Secretariat, Jakarta, Indonesia.

7.3 An Assessment of the Cambodia's Performance in the Framework of AEC

Blueprint

The personal interviews were conducted through both personal interviews and enterprise surveys in Phnom Penh, Cambodia during October- December 2008 in collaboration with the country researcher.

Characteristics of Enterprise

The characteristics of firms and types of business under survey in Cambodia are reported in Tables 9 and 10 indicating that 9 percent of firms exist in the private sector, 3 per cent are joint ventures, 2 per cent are foreign firms, 1 per cent are trade organizations and 1 per cent other firms. In other words, IT firms and banking represent 18.7 percent each of total firms while agro-based firms, insurance and transport firms indicate 12.5 per

cent each of total firms. Others include wood-based production firms, insurance and tourism firms representing 6.2 per cent each of the sample.

As can be seen Table 11, AEC strategies are divided into four main groups (or clusters) comprising AEC strategies from A to D where the sub-elements are also tabulated in detail. The survey results for Cambodia are provided in the light of average scores and 'standard deviation' of the scores of each element.

With respect to 'single market and production' strategies, the strategies or elements are divided into seven components: A1 to A7. 'free flow of trade' category is divided into three main elements, viz. trade facilitation measures, and elimination of tariff and non-tariff barriers in which high scores for 'trade facilitation' indicate higher performance in this area; in contrast, high scores for non-tariff measures exhibit higher degree of completion of removal of trade barriers.

In estimating the AEC scores for some elements, the secondary data are used in some cases. In particular, in assessing the performance on 'elimination of tariffs' the likert scales are based on the level (%) of completion of tariff elimination in each ASEAN member in the CEPT package in 2007. Since Singapore has had a complete elimination of tariff, a score 10 was chosen for this element under Singapore. In other words, score 1 is assigned for 10% completion of elimination of tariff in each ASEAN member.

Moreover, in assessing a 'coherent approach toward external economic relations, rating scores are determined on the basis of two types of secondary data: each CLMV country's trade with ASEAN plus 3 and CER countries (i.e. Japan, Korea, China, Australia and New Zealand) and FDI inflow from these countries to each CLMV country.

A score 1 is assigned if the trade values (exports plus imports) of each country's trade with the five above mentioned countries indicates 10% of the country's total trade.

Similarly, a score of 1 is assigned if a member of ASEAN receives FDI inflow from the five above mentioned countries at 10 per cent of country's total FDI.

In addition, the AEC elements and guidelines remained relatively complex and some objectives and elements such as 'complete the network of bilateral agreement on avoidance of double taxation among all members countries by 2010' cannot be quantified comprehensively at present for implementation and evaluation.

With respect to 'trade facilitation measures', 'trade and customs procedures are publicly available and easily accessible, and an effective ruling system in place' are highly appreciated by the business community. Meanwhile, the area of improvement in this strategy set, the effectiveness of ROO', 'computerization and automation of customs and trade procedure', 'submission of required trade documentation to trade and customs authority' can be regarded as the HRD and industrial capacity building requirements components in line with AEC blueprint.

The 'elimination of tariff' score is lower, as can be seen in Table 11. The reason is partly due to the assumption used in calculation of scores in this element which is an on-going process until year 2010 but the score is calculated based on the current status of each country's tariff elimination. Thus a lower score is obtained in this category because of interior assessment and not performance of the whole process. Similar reasoning also applies to the AEC element, B5: 'taxation policy' in which the score for 'double taxation has not been imposed on enterprises' has given completion date of 2010. The scores for 'enhanced participation in global supply chain networks' indicates below average scores,

because of lack of availability of data on international best practices and standards in production and distribution and the information on the process of upgrading industrial capacities which are currently applied in CLMV.

In analyzing the AEC performance with aggregate bilateral trade data, Cambodia receives a higher score in ‘free flow of services’ because public sector contracts can be freely negotiated internationally and foreign investment is allowed in banking, telecommunications, and the business services sector. Lower scores can be found under the enhanced participation in supply change, taxation policy and SME development. The reason for this is that Cambodia scores very badly in ‘liberalization in financial services’, ‘the enterprise environment’, and ‘social inclusion’. Cambodia consistently receives the lowest scores in almost all elements under ‘level of use of ICT and e-commerce in business’.

Table 12 compares the AEC scores across all AEC strategies under the AEC blueprint. Cambodia receives low marks of close to five or above in the elements of the use of ICT, e-commerce, innovation, network industries, and financial markets.

More surprisingly, the high scores can be found in the elements of free flow of services, investment incentives, transfer and repatriation of capital, banking and financial services, ease of immigration laws and labour relations. Cambodia receives intermediate scores of between five and six in these elements: regional transit systems, computerization and automation in customs and trade procedures, raw material availability, postal, and telephone services. It is interesting to note the relatively low scores of less than four for submission of document for approval, ‘stock market providing adequate capital’, regulatory burdens and modernizing social protection.

Table 12 also exhibits the differences in the AEC scores of Cambodia. The largest differences can be found between A1 and D1, in particular, the areas of the enterprise environment, network industries, innovation and R&D, and financial services. Within the elements of the enterprise environment, the difference regarding R&D in business are particularly severe. Another large difference is in the use ICT in business. In contrast, B2 and B3 are quite similar in their AEC scores.

Table 9 Characteristics of Enterprise under Survey

Ownership patterns	Number of companies	Per cent
Private Sector	9	56.25
Joint Venture	3	18.75
100% Foreign Owned Firm	2	12.50
Trade Organization	1	6.25
Other	1	6.25
Total	16	100.00

Table 10 Type of Enterprise under Survey

Industry structure	Number of companies	Per cent
IT services	3	18.75
Wood-based products	1	6.25
Agro-based products	2	12.50
Banking	3	18.75
Insurance	2	12.50
Business services	1	6.25
Transport services	2	12.50
Tourism	1	6.25
Other	1	6.25
Total	16	100.00

Table 11: AEC Scores of Cambodia

	Elements of AEC	Average scores	Standard Deviation
A1	<p>Single market and production bases</p> <p>Free flow of Trade</p> <p>1. Trade Facilitation Measures(advance ruling, ROO, customs integration, single windows)</p> <p>a) Trade and customs procedures and regulations are publicly available and easily accessible</p> <p>b) An effective advance ruling system in customs is in place</p> <p>c) An effective advance ruling system in ‘rule of origin’(ROO) of products is in place</p> <p>d) A regional transit system is in place</p> <p>e) Computerization and automation of customs and trade procedures have noticeably reduced time of clearance</p> <p>f) Submission of required trade documentation to trade/customs authorities for approval is easy</p> <p>2. Elimination of Tariff</p> <p>a) CEPT tariff reduction –import duty on all products</p> <p>b) Import duty on products under priority sectors</p> <p>c) Import duty on products under Sensibility list</p> <p>3. Non-Tariff Barriers</p> <p>a) Administrative price fixing of import prices and/or export price are prevalent</p> <p>b) Advance payment requirements such as payment for import transactions, import deposits, advance custom duties are prevalent</p> <p>c) Technical regulations for imports, product characteristics requirements, labeling requirements do not deter trade</p> <p>d) Laboratory testing, inspection and quarantine requirements do not deter trade</p> <p>e) Pre-shipment inspection and special customs formalities do not deter trade</p>	<p>6.00</p> <p>6.46</p> <p>5.46</p> <p>5.08</p> <p>5.62</p> <p>4.08</p> <p>2.3</p> <p>2.3</p> <p>2.3</p> <p>5.83</p> <p>5.42</p> <p>6.75</p> <p>5.73</p> <p>5.91</p>	<p>2.85</p> <p>2.69</p> <p>2.17</p> <p>1.83</p> <p>2.98</p> <p>2.39</p> <p>0.0</p> <p>0.0</p> <p>0.0</p> <p>2.94</p> <p>2.57</p> <p>1.86</p> <p>2.32</p> <p>2.66</p>
A2	<p>4. Free Flow of Services</p> <p>a) Capital markets (foreign and domestic) are easily accessible</p> <p>b) Public sector contracts are open to foreign bidders</p> <p>c) International transactions can be freely negotiated with foreign partners</p> <p>d) Foreign investors are allowed in banking, insurance, telecommunications and business service sectors</p>	<p>6.36</p> <p>7.40</p> <p>7.33</p> <p>7.67</p>	<p>2.42</p> <p>2.06</p> <p>1.96</p> <p>2.64</p>

	Elements of AEC	Average scores	S.D.
A3	5. Free flow of investment and Investment Protection a) The investment climate and changes in rules, laws or regulations affecting my firm are consistent and predictable b) Personal security and protection of private property c) Transfer and repatriation of capital, profits and dividends is unobstructed d) Investment incentives are attractive to foreign investors	5.85 6.54 7.46 7.54	2.73 2.25 1.89 1.85
A4	6. Free flow of Capital a) Venture capital is easily available for business development b) Banking and financial services efficiently support business activities c) Risk factors in the financial system are adequately addressed d) Stock markets provide adequate finance for companies in your country e) Cash flow is generally sufficient for companies to self-finance	5.91 7.54 6.75 4.90 6.40	2.87 2.33 2.86 2.80 1.95
A5	7. Free flow of skilled labor, Labor Market Conditions and Regulations a) Labor regulations (hiring/firing practices, minimum wages, etc.) do not hinder business activities b) Immigration laws do not prevent your company from employing foreign labor c) Labor relations are generally productive d) Employee training is a high priority in companies e) Skilled labor in banking, insurance, telecommunications and business services is readily available	6.54 7.08 7.08 7.69 7.18	2.53 1.75 1.51 2.96 3.06
A6	8. Productivity and Efficiency in Priority Sectors a) Foreign direct investment is allowed in the priority sectors b) Enterprises are efficient by international standards c) Raw materials for the priority sectors are available adequately in your country. d) Productivity of your company is supported by global strategies (supplies, off shoring, outsourcing)	7.33 6.35 5.23 7.33	2.1 2.57 2.57 2.99
A7	9. Food, Agriculture and Forestry a) Skilled labor in manufacturing, agriculture, forestry, fishery, and mining and quarrying is readily available b) Health, safety & environmental concerns are adequately addressed by management c) Innovations are supported by legislation d) Firm or organization ratio of R&D expenditure to total expenditure per year e) Level of use of R & D in the enterprise or institution	5.80 - 5.27 4.6 -	2.35 - 2.49 3.65 -

	Elements of AEC	Average scores	S.D.
B1	10. Competition and Regulations		
	a) The legal and regulatory framework encourages your enterprise to compete	5.67	2.60
	b) Competition legislation is efficient in preventing unfair competition	7.75	2.92
	c) Product and service legislation does not deter business activity		
B2	11. Consumer Protection		
	a) Consumer protection is in place and effective	4.0	0.31
	b) Customer satisfaction is primary objective in companies	5.0	0.40
	c) Information sharing and exchange are publicly available and easily accessible	5.0	0.28
B3	12. Intellectual Property Rights (IRP)		
	a) IRP is in place and effective		
	b) The existence of IRP regulation in your country is important for business.	5.66	.48
	c) IRP encourages foreign direct investment	4.64	.51
		-	
B4	13. Utilities and Infrastructure		
	How would you rate the overall quality and efficiency of following public agencies or services		
	a) Roads Department/Public Works	5.85	2.03
	b) Postal Service/Agency	5.31	2.01
	c) The Telephone Service/Agency	6.31	2.72
	d) The Electric Power Company	6.00	2.08
	e) Water/Sewerage Service	5.85	0.987
	f) Water transportation (harbors, canals, etc.)	4.38	1.75
	g) Energy infrastructure is adequate and efficient	4.46	1.50
	h) The quality of health services and hospitals is high	-	-
B5	14. Taxation Policy		
	a) Corporate taxes do not discourage entrepreneurial activity	-	-
	b) Tax evasion does not hamper business activity	4.0	.44
	c) Double taxation has not been imposed on enterprises	5.0	.55
B6	15. Level of Use of IT and E-Commerce in business		
	a) Advertising	1.00	0.000
	b) E-mail for business contacts	1.00	0.000
	c) To submit trade documents to government/trade organizations	1.17	0.389
	d) On-line trade in goods	1.30	0.483
	e) E-learning	1.18	0.405
	f) E-Government	1.75	0.463
	g) IT applications (Website/software development)	1.33	0.492

	Elements of AEC	Average scores	S.D.
C1	16. Small and Medium Enterprise Development		
	Business Licensing	4.90	2.96
	Customs/Foreign Trade Regulations in your country	5.20	2.70
	Labor regulations	5.60	3.23
	Foreign exchange regulations	5.90	2.92
	Fire and safety regulations	5.50	3.02
	Tax regulations/administration	6.00	2.70
	Infrastructure	6.20	2.89
	Environmental regulations	5.80	3.15
	Inflation	4.67	2.06
	Instability/uncertainty	3.90	2.18
	Corruption	3.50	2.22
	Inadequate foreign exchange for imports	5.33	2.69
D1	17. Coherent approach towards external economic relations		
	Country' trade with ASEAN +3 and CER countries	5.40	0.0
	Country' FDI inflow from ASEAN +3 and CER countries	2.00	0.0
D2	18. Enhanced Participation in Supply Change		
	a) Information on the laws and regulations affecting my firm is easy to obtain	5.70	2.89
	b) Interpretation of regulations affecting my firm is consistent and predictable	6.83	1.99
	c) Intellectual Property Rights (IRP) are in place and effective	4.64	2.20
	d) Ethical practices are implemented in company	7.50	2.31

Source: Calculations based on the survey data.

Table 12: Summary of Cambodia's AEC Scores

	Elements of AEC	Average Score
A1	Free flow of Trade	5.85
A2	Free Flow of Services	5.27
A3	Free flow of investment and Investment Protection	5.00
A4	Free flow of Capital	6.14
A5	Free flow of Skilled labor, Labor Market Conditions and Regulations	6.85
A6	Productivity and Efficiency in Priority Sectors	5.00
A7	Competitiveness in Food, Agriculture and Forestry	6.79
B1	Competition and Regulations	5.00
B2	Consumer Protection	5.93
B3	Intellectual Property Rights (IRP)	4.64
B4	Utilities and Infrastructure	5.00
B5	Taxation Policy	1.18
B6	Level of Use of IT, E-Commerce in Business	5.00
C1	Small and Medium Enterprise Development	5.0
D1	Competition and Regulations	6.64
D2	Enhanced Participation in Supply Change	3.60

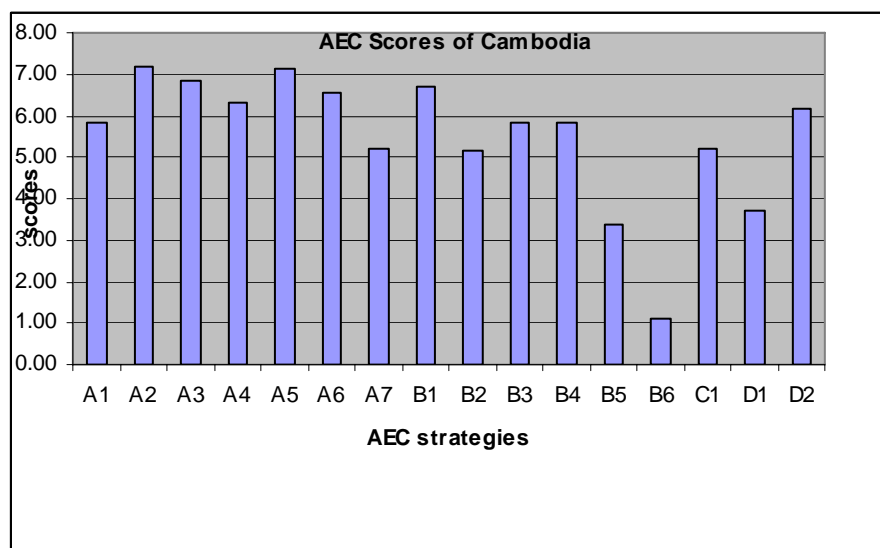
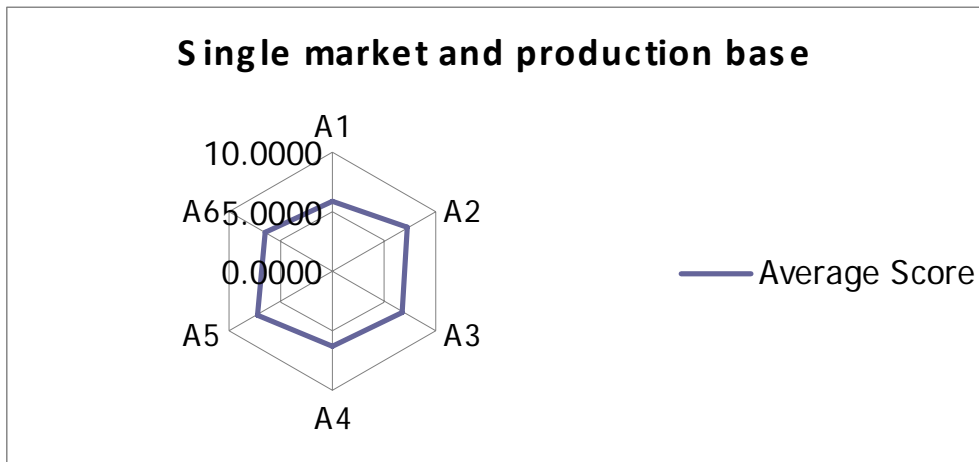
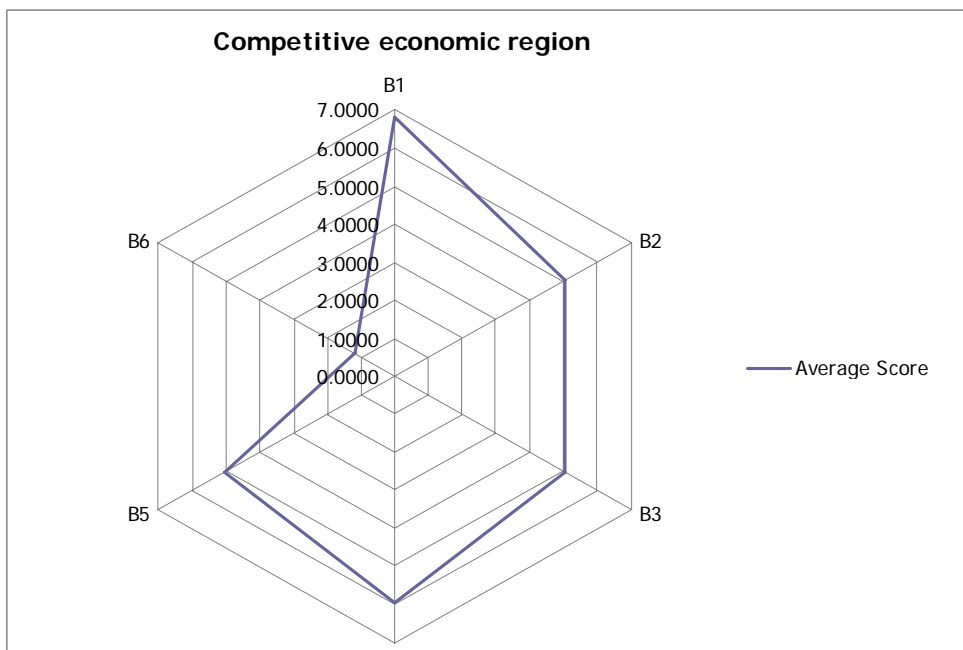
Figure 1 Summary of Cambodia's AEC Scores

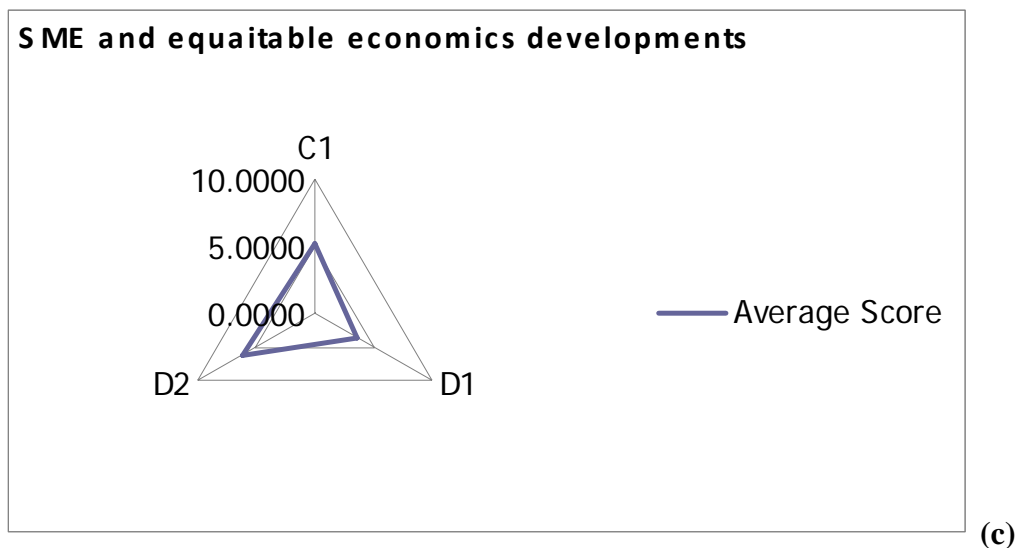
Figure 2 The Elements of AEC, Cambodia



(a)



(b)



The AEC score card depicted in Figure 1 provides the critical information on current performance of AEC from the perspectives of business environment. Figure 2 illustrates individually four groups (clusters) of AEC elements: A to D. Figure 2(a) displays the seven headings (strategies), in comparison, Figure 2(b) contains the six headings. A full diamond has an AEC full-score of ten in each AEC element and represents an ideal status of country.

Figures 4(a) and (b) have the inward cuts that comes from the relative weakness in AEC elements A4 and B6. A3 and B1 to B6 in Figure 4(a) and (b) demonstrate another characteristic in forms which reflects a moderate strength in these elements. As can be seen in Figure 1(c), element C1 shows that these elements perform better than the other elements D1 and D2.

The implications of the results are that the impact of the proposed strategy is based on the other clusters of elements and the proposed strategy would be more effective if it were supplemented by initiatives to address some of the unattended structural weakness.

7.4 List of Potential Industries to Participate in the Regional Production and Distribution Networks

In analysing the potential industries to participate in the development of regional production and distribution networks, personal interviews are conducted and information on the businesses' perception on the importance of priority integration sectors are gathered. Table 13 reports the degree of importance of sector under integration and industrial and HDR capacity requirements in Cambodia. The top ten sectors for Cambodia are textile and apparels, fisheries, agro-based products, banking, tourism, wood-based products, ICT services, transport services, rubber-based products and insurance.

The recommendation on human resources development (HRD) capacity building in requirements can be summarized as follows:

Component	HRD Capacity Building Program/Project: Cambodia
ICT applications	Training in development of ICT for e-business; and e-commerce; Training for trainers in ICT applications for Internet, portal, e-education, e-government; video conferencing;
Textile industry	Training for textile and clothing science and engineering services; Fashion design training; Mechanization of dyeing and printing machines; Computer simulation and modelling;
Wood based industry	Training on professional furniture making for exports; Technical training on wood based panels machines comprising Composite Panel Lines; Training on tree extraction technology;
Agro-based industry	A comprehensive design study on agro-based industries comprising functions, curriculum, infrastructure requirements, education and training program; A comprehensive design study on fishery industry

	comprising functions, curriculum, infrastructure requirement, education and training program;
MRA	<p>Training on certification that demonstrates conformity of electrical and electronic equipment;</p> <p>The HRD program and technical capacity program to enhance technical competence of testing laboratories and certification bodies;</p> <p>Training for IP officials;</p> <p>Training on regional uniformity, coordinated action, equivalent treatment and homogeneity; and to promote excellence to the needs of the region;</p>
Customs administration	<p>Training for enhancing the effectiveness of customs compliance and control and for promoting uniformity and harmonization;</p> <p>Providing technical assistance program to Customs Administration to promote equal levels of development amongst customs administration to enhance regional efficiency, effectiveness and uniformity;</p> <p>Training on Custom inspection and container management;</p>
Tourism	<p>Provide training on ASEAN Common Competency Standards for Tourism Professionals;</p> <p>Training and research study on tourism marketing;</p> <p>Providing technical assistance in relation to using and promoting competency-based vocational education and training systems to strengthen capacity of professionals;</p> <p>Assist in revising country's Tourism Strategic Plan to promoting tourism;</p>
Economics, Banking and Finance	<p>Build and strengthen the institutional and human capacity of Senior officials in public and private sectors¹⁶¹ to gain professional experience and knowledge in the area of economics, banking and finance;</p>

¹⁶¹ Main institutions may include the Ministry of National Economic Planning and Development; the Central Banks; the National Statistics Office; the Office of the Auditor General and Audit Services Corporation; Chambers of Commerce and Industry and the Institute/University of Business and Economic and Research Institutions.

Component **HRD Capacity Building Program/Project**

Table 13 Degree of Importance of Sector under Integration in Cambodia

	Industry/sector	Average scores	S.D.
	Textiles and apparel	7.75	2.70
	Tourism	7.58	2.81
	Agro-based products	7.42	1.88
	Fisheries	6.58	2.61
	Rubber-based products	6.50	2.46
	IT services	6.33	3.17
	Banking	6.00	3.43
	Business services	5.92	2.27
	Insurance	5.58	3.14
	Transport services	5.58	2.87
	Electronics	5.25	3.74
	Wood-based products	5.25	1.91
	Healthcare	5.08	3.55
	Automotives	4.83	2.79

7.5 Recommendation on Industrial Capacity Building Requirements

Industrial networks in AEC

The areas of industrial capacity building requirements are listed below.

Sector	Industrial Capacity Building Requirement : Cambodia
Textile and Clothing Technology	Modern round braiding machines, rope braiding machines, yarn braiding machines; Modern textile mills, spinning machines, knitting machines; Provide textile and clothing science and engineering labs and facility;
Agro-based technology	Support to establish fully functional educational and training institute for offering professional education and training in agro-industries;
Energy	Provide financial and technical assistance for upgrading power plant/power generating machinery;

	Provide technical and financial support to oil refining machinery;
ICT	Provide more telephone line extensions for public and private sectors in urban and rural areas; Develop more data network using wireless broadband in cities;
Tourism	Develop tourism infrastructure; Upgrade hotels under the ministry of hotel and tourism; Hotel Management and Tour facilities
Customs	Provide financial assistance to modernize lab testing equipments for certification; Custom inspection and container inspection equipment;

The survey results reveal that the firms' trade with intra-ASEAN receives low scores; in comparison, CLMV countries' extra-ASEAN trade indicates higher scores indicating the requirements for encouraging trade and investment activities meet relatively AEC objectives. In addition to evaluating the countries' competitiveness and performance in accordance with the AEC strategies, this study also investigates the major problems faced by the business environment and other information for enhancing regional integration activities such as the requirements for regional production and distribution networks, existing firms' trade with other ASEAN countries in the region; environmental costs; the current status of backward and forward linkages in the firms under study and supply chain management practices. These scores are not provided in this report.

8. Assessment of Industrial Development in Lao PDR

8.1 Main Features of the Manufacturing Sector in Lao PDR

Lao PDR's manufacturing sector contributed about 31.8 per cent of GDP in 2001 to 48.4 per cent in 2004. The rate of growth of GDP of Lao PDR increased from 5.8 per

cent in 2001 to 7.5 per cent in 2007. The structure of manufactured products in Lao PDR is provided in Table 14. The industrial production of Lao PRD indicates processed meat, fish, vegetable showed 33.3 per cent, wearing apparel accounted for 21.21 per cent while glasses basin iron and steel and motor vehicle indicate 7.58, finishing of textiles accounted for 34.23 per cent of total industrial outputs and processed meat, fish, fruit, vegetables, fats 1 per cent. Tobacco, paper and paper product, basic chemicals, rubber products, glass and glass products, basic iron and steel, metal structure, tanks; steam generators, General purpose machinery, Electric motors, generators and transformers, Motor vehicles and furniture constitute about 15 per cent of total manufacturing outputs.

The industrial production patterns of Lao PDR in 2006 indicated the processed meat, fish, fruit, vegetables, and fats which depicted about 33.33 per cent of total production. Apparel, except fur constituted the second largest production of about 23 per cent of total production. Others include tobacco products (12.12%), sawmilling and planning of wood (2.15%) and glass and glass products (7.58%), basic chemicals (3.03%) and basic iron and steel(3.03%).

8.2 Development of ICT, Health Care and Tourism

The ICT sector development in Lao PDR is provided in Table 15. Service trade liberalization of telecommunication services is being undertaken gradually in conjunction with ASEAN service trade liberalization framework as well as trade negotiations at WTO. The number of fixed phone users per 1000 person increased from 4330 to 5060 in 2006 while number of mobile phone users per thousand increased from 4320 thousand in 2001 to 4400 in 2006.

Health industry

The total number of hospitals in Lao PDR was 147 in 2007. In contrast, the number of health care centers increased from 728 in 2005 to 770 in 2007 while the number of beds increased from 5025 in 2005 to 5104 in 2007. Total number of practitioners increased from 10527 to 11309 in 2007 while the number of primary health staff declined from 5320 in 2005 to 4883 in 2007. The number of qualified doctors also increase from 124 thousand in 2001 to 2307 thousand in 2006; in comparison, number of nurses increased substantially from 3300 in 2001 to 5400 in 2006.

Table 14 Structure of Manufacturing Production: Lao PDR

Description	ISIC	Sharing in manufacturing industry (%)		Sharing in manufacturing industry (in million US\$)		Output per employee (in US\$)	
		2000	2006	2000	2006	1995	
Processed meat, fish, fruit, vegetables, fats	151	33.33	33.33	23.672	27.4595	10,780	
Tobacco products	1600	12.12	12.12	8.608	9.98528	9,282	
Spinning, weaving and finishing of textiles	171	0.00	0.00	0	0	1,058	
Wearing apparel, except fur apparel	1810	21.21	21.21	15.064	17.4742	932	
Sawmilling and planing of wood	2010	3.03	3.03	2.152	2.49632	360	
Paper and paper products	210	0.00	0.00	0	0	138	
Publishing	221	1.52	1.52	1.076	1.24816	1,704	
Basic chemicals	241	3.03	3.03	2.152	2.49632	2,630	
Rubber products	251	1.52	1.52	1.076	1.24816	1,991	
Glass and glass products	2610	7.58	7.58	5.38	6.2408	2,155	
Basic iron and steel	2710	3.03	3.03	2.152	2.49632	3,036	
Structured metal products; tanks; steam generators	281	3.03	3.03	2.152	2.49632	8,538	
General purpose machinery	291	0.00	0.00	0	0	1,602	
Electric motors, generators and transformers	3110	0.00	0.00	0	0	951	
Motor vehicles	3410	4.55	4.55	3.228	3.74448	3,827	
Building and repairing of ships and boats	351	3.03	3.03	2.152	2.49632	10,570	
Total manufacturing	D	100.00	100.00	71.016	82.3786	2,064	

Source 1.<http://www.unido.org/index.php> and 2.*Statistical Year Book 2007*. Lao PRD.

Table 15 Télécommunications Infrastructures: Lao PDR

	2000	2006
Sector performance		
Access		
Telephone mainlines (per 100 people)	0.8	1.3
International voice traffic (minutes per person) ^a	5	7
Mobile telephone subscribers (per 100 people)	0.2	11.3
Population covered by mobile telephony (%)	..	55
Internet users (per 100 people)	0.1	0.4
Personal computers (per 100 people)	0.3	1.8
Households with a television set (%)	30	30
Quality		
Telephone faults (per 100 mainlines)	..	..
Broadband subscribers (per 100 people)	..	0.00
International Internet bandwidth (bits per person)	0	4
Affordability		
Price basket for residential fixed line (\$ a month)	..	5.6
Price basket for mobile telephone service (\$ a month)	..	3.8
Price basket for Internet service (\$ a month)	..	25.0
Price of call to United States (\$ for 3 minutes)	9.20	1.11
Institutional efficiency and sustainability		
Telecommunications revenue (% of GDP)	1.5	1.7
Telephone subscribers per employee	47	496
Telecommunications investment (% of revenue)	31.3	63.0

Source: World Bank ICT at a Glance

<http://www.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS>

Table 16 Health Infrastructures: Lao PDR

Public Health Facilities	Number		
	2005	2006	2007
Number of hospital	147	150	147
Number of health care center	728	739	770
Number of revolving funds	5,060	5,226	5,226
Number of private clinic	254	254	275
Number of patient beds	5,028	5,028	5,104
Number of village drugs kits	5,060	5,226	5,348
Total number of practitioner	10,527	10,872	11,309
Number of postgraduate health staff	331	373	393
Number of graduate health staff	1,177	1,818	1,896
Number of middle-level health staff	3,699	3,765	4,137
Number of primary health staff	5,320	4,916	4,883

Source: National Socio-Economic Development Plan 2007-2008, Lao PDR.

8.3 An assessment of Lao PDR's Performance in the Framework of AEC Blueprint

The characteristics of firms and types of business under survey in Lao PDR are reported in Tables 17 and 18 indicating that 76 percent of firms exist in the private sector, 6 percent are joint ventures, 2 percent are foreign firms, 12 % are public sector. In other words, textiles, wood-based production and business firms represent about 10 percent each of total firms. Others include some tourism industry at 10 per cent, agro-based firms 8%, rubber-based 5% and automotives at 5 per cent. The survey results for Lao PDR are provided in the light of average scores and 'standard deviation' of the scores of each element.

In pursuing AEC strategies, Lao PDR achieves higher scores in the areas of free flow of trade, free flow of services, free flow of investment and investment protection , free flow of capital, free flow of skilled labor, labor market conditions and regulations and competition law. Low scores are also obtained in the areas of use of ICT, E-commerce in business, productivity and efficiency in priority integration sectors and IRP.

Table 17 Characteristics of Enterprises under Survey in Lao PDR

	Number of companies	Per cent
Government or State Owned	12	11.01
Private Sector	83	76.15
Joint Venture	7	6.42
Cooperative	2	1.83
International Organization	3	2.75
100% Foreign Owned Firm	2	1.83
Total	109	100.00

Table 18 Type of Business under Survey

	Number of companies	Per cent
Electronics	8	7.34
IT services	7	6.42
Healthcare	10	9.17
Wood-based products	11	10.09
Automotives	5	4.59
Rubber-based products	6	5.50
Textiles and apparels	12	11.01
Agro-based products	9	8.26
Fisheries	3	2.75
Banking	5	4.59
Insurance	1	0.92
Business services	11	10.09
Transport services	9	8.26
Tourism	10	9.17
Other	2	1.83
Total	109	100.00

Table 19: Elements of AEC, Lao PDR

	Elements of AEC	Average scores	S.D.
A1	Single market and production bases		
	Free flow of Trade		
	1. Trade Facilitation Measures (advance ruling, ROO, customs integration, single windows)		
	a) Trade and customs procedures and regulations are publicly available and easily accessible	6.27	2.57
	b) An effective advance ruling system in customs is in place	7.05	2.54
	c) An effective advance ruling system in ‘rule of origin’(ROO) of products is in place	6.74	2.43
	d) A regional transit system is in place	6.33	2.68
	e) Computerization and automation of customs and trade procedures have noticeably reduced time of clearance	5.87	2.67
	f) Submission of required trade documentation to trade/customs authorities for approval is easy	6.12	2.79
	2. Elimination of Tariff		
	d) CEPT tariff reduction –import duty on all products	7.0	0.0
	e) Import duty on products under priority sectors	7.0	0.0
	f) Import duty on products under Sensibility list	7.0	0.0
	3. Non-Tariff Barriers		
a) Administrative price fixing of import prices and/or export price are prevalent	6.37	2.51	
b) Advance payment requirements such as payment for import transactions, import deposits, advance custom duties are prevalent	6.19	2.69	
c) Technical regulations for imports, product characteristics requirements, labeling requirements do not deter trade	6.17	2.62	
d) Laboratory testing, inspection and quarantine requirements do not deter trade	6.46	2.56	
e) Pre-shipment inspection and special customs formalities do not deter trade	9.27	3.07	
A2	4. Free Flow of Services		
	a) Capital markets (foreign and domestic) are easily accessible	5.92	2.57
	b) Public sector contracts are open to foreign bidders	5.89	2.64
	c) International transactions can be freely negotiated with foreign partners	6.09	2.62
	d) Foreign investors are allowed in banking, insurance, telecommunications and business service sectors	6.37	2.71

	Elements of AEC	Average scores	S.D.
A3	5. Free flow of investment and Investment Protection a) The investment climate and changes in rules, laws or regulations affecting my firm are consistent and predictable b) Personal security and protection of private property c) Transfer and repatriation of capital, profits and dividends is unobstructed d) Investment incentives are attractive to foreign investors	5.31 6.65 7.82 6.25	2.60 2.89 8.14 2.48
A4	6. Free flow of Capital a) Venture capital is easily available for business development b) Banking and financial services efficiently support business activities c) Risk factors in the financial system are adequately addressed d) Stock markets provide adequate finance for companies in your country e) Cash flow is generally sufficient for companies to self-finance	6.76 6.37 5.86 6.01 6.36	2.78 2.89 2.59 2.69 2.72
A5	7. Free flow of skilled labor, Labor Market Conditions and Regulations a) Labor regulations (hiring/firing practices, minimum wages, etc.) do not hinder business activities b) Immigration laws do not prevent your company from employing foreign labor c) Labor relations are generally productive d) Employee training is a high priority in companies e) Skilled labor in banking, insurance, telecommunications and business services is readily available	6.47 5.98 6.79 5.75 -	2.74 3.13 2.96 2.70 -
A6	8. Productivity and Efficiency in Priority Sectors a) Foreign direct investment is allowed in the priority sectors b) Enterprises are efficient by international standards c) Raw materials for the priority sectors are available adequately in your country. d) Productivity of your company is supported by global strategies (supplies, off shoring, outsourcing)	- 5.88 - 5.75	- 2.58 - 2.43
A7	9. Food, Agriculture and Forestry a) Skilled labor in manufacturing, agriculture, forestry, fishery, and mining and quarrying is readily available b) Health, safety & environmental concerns are adequately addressed by management c) Innovations are supported by legislation d) Firm or organization ratio of R&D expenditure to total expenditure per year e) Level of use of R & D in the enterprise or institution	7.19 - 6.51 5.41 -	2.79 - 2.61 2.60 -

	Elements of AEC	Average scores	S.D.
B1	10. Competition and Regulations a) The legal and regulatory framework encourages your enterprise to compete b) Competition legislation is efficient in preventing unfair competition c) Product and service legislation does not deter business activity	6.85 7.14 -	2.732 2.695 -
B2	11. Consumer Protection a) Consumer protection is in place and effective b) Customer satisfaction is primary objective in companies c) Information sharing and exchange are publicly available and easily accessible	5.80 7.77 - -	- - - -
B3	12. Intellectual Property Rights (IRP) a) IRP is in place and effective b) The existence of IRP regulation in your country is important for business. c) IRP encourages foreign direct investment	4.00 5.00 5.00	- - -
B4	13. Utilities and Infrastructure How would you rate the overall quality and efficiency of following public agencies or services a) Roads Department/Public Works b) Postal Service/Agency c) The Telephone Service/Agency d) The Electric Power Company e) Water/Sewerage Service f) Water transportation (harbors, canals, etc.) g) Energy infrastructure is adequate and efficient h) The quality of health services and hospitals is high	5.94 6.34 7.17 7.17 6.13 5.70 6.37	2.23 2.49 2.57 2.66 2.47 2.47 2.76
B5	14. Taxation Policy a) Corporate taxes do not discourage entrepreneurial activity b) Tax evasion does not hamper business activity c) Double taxation has not been imposed on enterprises	- 1.77 2.77	- - -
B6	15. Level of Use of IT, E-Commerce in Business a) Advertising b) E-mail for business contacts c) To submit trade documents to government/trade organizations d) On-line trade in goods e) E-learning f) E-Government g) IT applications (Website/software development)	1.14 1.31 1.16 1.60 1.57 1.68 1.47	.669 1.06 .532 .693 .501 .474 .504

	Elements of AEC	Average scores	S.D.
C1	16. Small and medium Enterprise Development Evaluate the trading environment in your country. a) Business Licensing b) Customs/Foreign Trade Regulations c) Labor regulations d) Foreign exchange regulations e) fire and safety regulation f) Tax g) Infrastructure (e.g. telephone, electricity, roads, land) h) Environmental regulation i) Inflation j) Instability/uncertainty k) Corruption (crime/theft/disorder) l) inadequate foreign exchange for imports	5.66 5.52 5.83 5.74 6.12 5.56 6.18 5.55 5.79 5.56 5.53 5.83	2.93 2.92 2.84 2.67 2.81 2.75 2.99 2.91 2.74 2.77 3.09 2.79
D1	17. Coherent approach towards external economic relations Country' trade with ASEAN +3 and CER countries Country' FDI inflow from ASEAN +3 and CER countries	8 1	0.0 0.0
D2	Enhanced Participation in Supply Change a) Information on the laws and regulations affecting my firm is easy to obtain b) Interpretation of regulations affecting my firm is consistent and predictable c) Intellectual Property Rights (IRP) are in place and effective d) Ethical practices are implemented in company	6.89 5.99 7.09 6.43	2.49 2.44 2.66 2.71

Source: Calculations based on the survey data.

Table 20: Summary of AEC Scores of Lao PDR

	Elements of AEC	Average scores
A1	Free flow of Trade	6.45
A2	Free Flow of Services	6.12
A3	Free flow of investment and Investment Protection	6.89
A4	Free flow of Capital	6.27
A5	Free flow of skilled labor, Labor Market Conditions and Regulations	6.16
A6	Productivity and Efficiency in Priority Sectors	5.82
A7	Competitiveness in Food, Agriculture and Forestry	3.79
B1	Competition and Regulations	4.95
B2	Consumer Protection	4.69
B3	Intellectual Property Rights (IRP)	5.0
B4	Utilities and Infrastructure	4.77
B5	Taxation Policy	4.5
B6	Level of Use of IT, E-Commerce in Business	1.42
C1	Small and Medium Enterprises	3.2
D1	Competition and Regulations	7.2
D2	Enhanced Participation in Supply Change	6.60

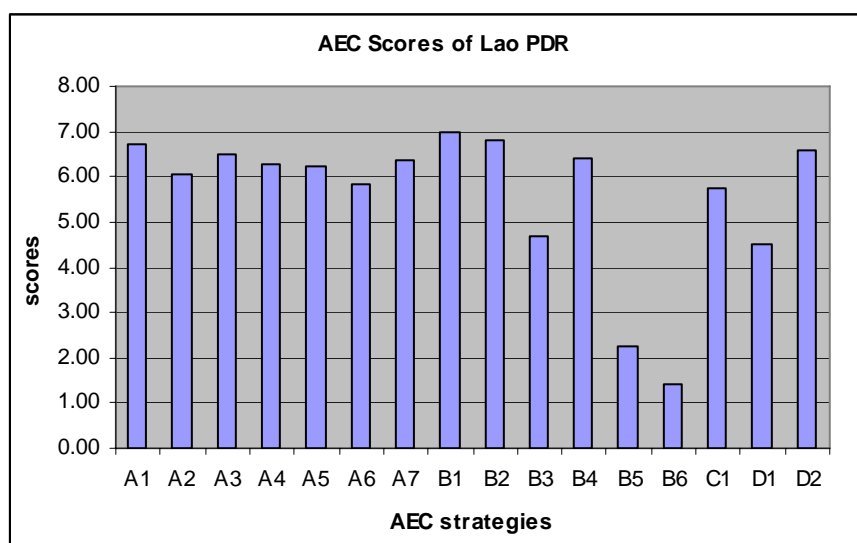
Figure 3 Summary of AEC Scores of Lao PDR

Figure 4 The Elements of AEC, Lao PDR

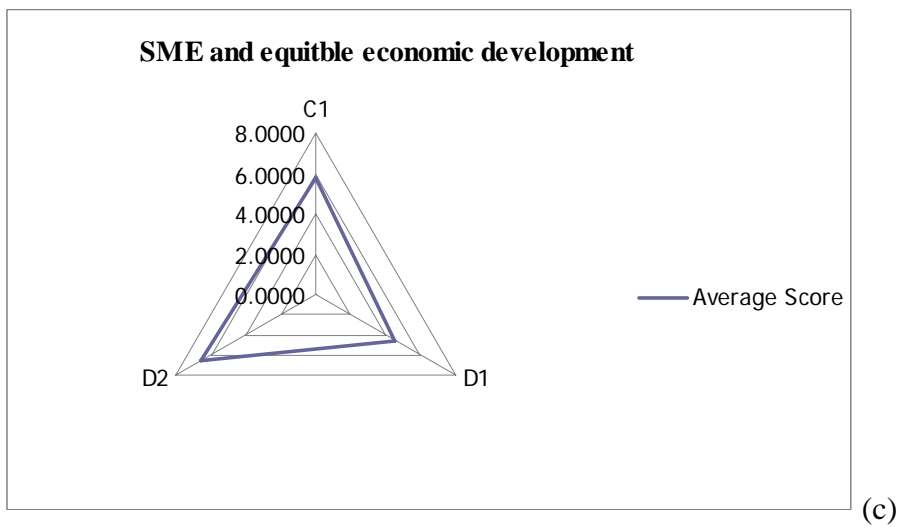
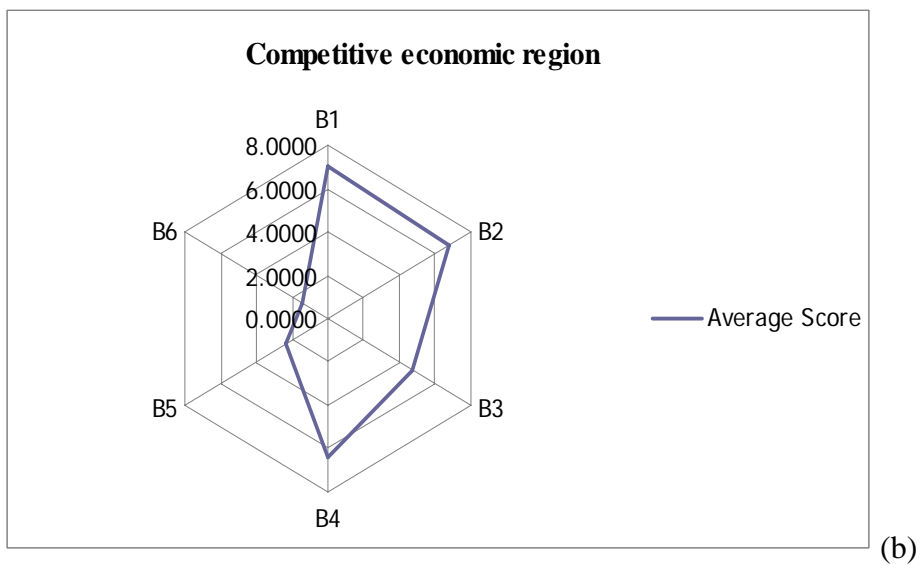
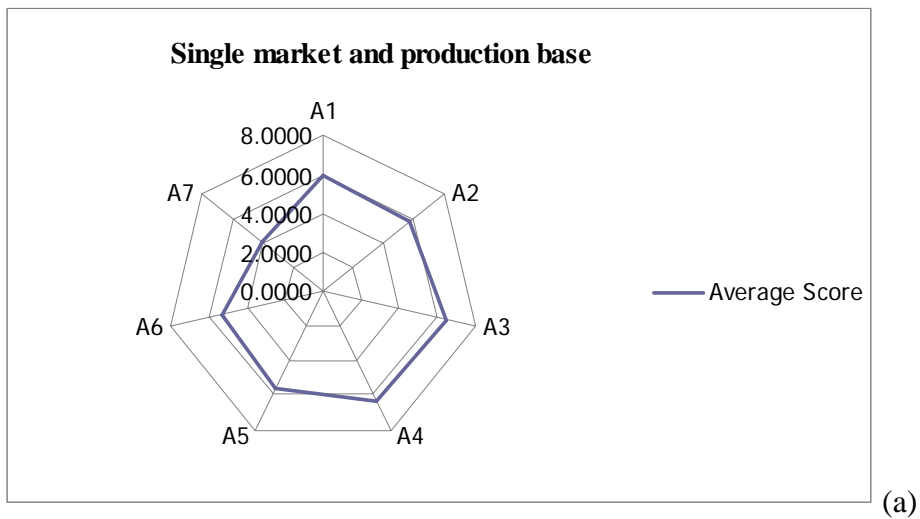


Figure 4(a) and (b) show that in Lao PDR, all elements, except intellectual property rights (IPR), taxation policy, and level of use of IT, E-commerce in business are the well-performing. The largest deficiencies are found with regard to taxation policy, level of use of IT and E-commerce in business and SME development.

8.4 List of Potential Industries to Participate in Regional Production and Distribution Networks

As can be seen in Table 21, the top ten sectors of the Lao PDR are tourism, textiles and apparel, wood-based products, electronics, banking, agro-based products, transport services, ICT services, healthcare and business services.

Table 21 List of Potential Industries to Participate in Regional Production and Distribution Networks

Degree of Importance of sector under integration	Average scores	S.D
electronics	6.61	2.74
IT services	6.18	2.66
healthcare	6.08	2.69
wood-based products	6.77	2.70
automotives	5.31	2.64
rubber-based products	5.16	2.65
textiles and apparel	6.82	3.24
agro-based products	6.55	2.72
Fisheries	4.65	2.89
Banking	6.61	2.93
insurance	5.56	2.85
business services	5.86	2.78
transport services	6.19	2.19
Tourism	7.14	2.45

8.5 Recommendation on industrial capacity requirement

The training needs of enterprises for integration are provided in Table 21 and some particular need programs are listed below. The recommendation on industrial Capacity Building Requirements in Lao PDR can be summarized as follows:

Component	HRD Capacity Building Program/Project: Lao PDR
ICT applications	Training for trainers in ICT applications for Internet, portal, e-education, e-government; video conferencing;
Textile industry	Textile and clothing science and engineering; Computer simulation and modelling; Fashion design training; Technical training on advanced functional CAD technology; Computer-Based Training and Computer-Aided Instruction for upgrading workers' skills;
Agro-based industry	A comprehensive design study on agro-based industries comprising functions, curriculum, infrastructure requirements, education and training program; Upgrade fully functional educational and training institute with modern technology for offering professional education and training in forestry industry;
Wood based industry	Technical training on wood based panels machines: comprising Composite Panel Lines; Technical training on Particleboard Lines, Engineered Lumber Lines, and Veneer & Plywood Lines; Technical training on Laminated Veneer Lumber Lines; Technical training Veneer Panel Related Machinery; Technical training Laminating & Surfacing; Technical training Panel Finishing & Handling;
MRA	Training on certification that demonstrates conformity of electrical and electronic equipment; MRA (Mutual Recognition Arrangement) in electrical and electro-technical; HRD program and technical capacity program to enhance Technical Competence of Testing Laboratories and Certification Bodies;
Customs	Training on regional uniformity, coordinated action,

administration	equivalent treatment and homogeneity; and to promote excellence to the needs of the region; Provide technical assistance to enhance the effectiveness of customs compliance and control, and to promote uniformity and harmonization;
Tourism	Training on ASEAN Common Competency Standards for Tourism Professionals; Training and research study on tourism marketing; Strengthen national capacity to using and promoting competency-based vocational education and training systems; Provide assistance for developing ASEAN Labour Exchange for Tourism; Training on Tourism Strategic Plan to promoting tourism in ASEAN;
Logistic	Training of trainers on logistics management; Logistic training for business owner; Logistic training for technical staff; Logistic course at National University of Laos;
Handicraft and others	Technical training for improving quality of textile; Training on writing project proposals;

The areas of industrial capacity building requirements are listed below.

Sector	Industrial Capacity Building Requirement: Lao PDR
Textile and Clothing Technology	Modern round braiding machines, rope braiding machines, yarn braiding machines; Modern textile mills, spinning machines, knitting machines; Provide textile and clothing science and engineering labs and facility; Mechanization of dyeing and printing machines; Automatic Computer Aided Design; Computer Aided Manufacturing;
Agro-based technology	A fully operational laboratory in food processing technology; manufacturing of different panel products; Financial assistance for establishing Institute of Wood Science and Technology and machines; Rubber processing technology; Post-harvest technology;

	Research and consultancy program for agro-based products;
Wood based industry	Wood Based Panels machines: comprising Composite Panel Lines; Parquet Flooring Lines machine; Particleboard Lines, Engineered Lumber Lines, Veneer & Plywood Lines; Laminating & Surfacing; Panel Finishing & Handling; Modern leather processing technology;
Energy	Upgrade power plant/power generating machinery Agro Process Machinery and technology; Oil Refine ring Machinery;
ICT	More telephone lines extensions for public and private sectors in urban and rural areas; Establish more data network using wireless broadband in cities; Provide satellite TV stations in major public access points such as post office, library at town hall and community centers; Support web-based work/learning workstations in cities; Supply equipments for video conferencing;
Tourism	Develop tourism infrastructure; upgrade hotels under ministry of hotel and tourism; Hotel Management and Tour facilities;
Customs	Lab testing equipments for certification; Custom inspection and container inspection equipment;

9 Assessment of Industry Development in Myanmar

9.1 Main Features of the Manufacturing Sector and Structure of Production

Myanmar's manufacturing sector contributed 7.8 per cent of GDP in 2001 to 11.5 per cent of GDP in 2004. Industrial production patterns of Myanmar comprise spinning and weaving accounting for 44.78 per cent and finishing of textiles accounted for 34.23 per cent of total industrial output and processed meat, fish, fruit, vegetables, fats at 1 per cent per cent. Tobacco, paper and paper product, basic chemicals, rubber products, glass

and glass products, basic iron and steel, structured metal, tanks; steam generators, general purpose machinery, electric motors, generators and transformers, Motor vehicles and furniture constitute about altogether 15 per cent of total manufacturing. The structure of manufacturing products of Myanmar are reported in Table 22.

9.2 Developments in ICT, Health and Tourism Sectors

The current status of ICT development is reported in Table 22. The Ministry of Post, Telegraph and Communication acts as a regulatory institution and liberalization of telecommunication services is being undertaken in Myanmar.

Table 22 Structure of Manufacturing Production: Myanmar

DESCRIPTION	ISIC	Share in manufacturing industry (in%)		Value (in million US\$)		Output per employee (in US\$)	
		2000	2006	2000	2006	1995	2000
Wearing apparel, except footwear	322	0.29	0.29	6	7.15		16,326
Leather products	323	0.34	0.34	7	8.34	6,489	19,578
Footwear, except rubber or plastic	324	1.38	1.38	28	33.35	3,761	22,650
Wood products, except furniture	331	6.58	6.58	134	159.59	10,495	16,430
Furniture, except metal	332	0.10	0.10	2	2.38	422	1,737
Other chemicals	352	0.00	0.00		0.00	29,919	
Rubber products	355	4.96	4.96	101	120.29	24,285	78,546
Plastic products	356	0.10	0.10	2	2.38	23,590	3,621
Pottery, china, earthenware	361	0.88	0.88	18	21.44	6,905	14,248
Glass and products	362	0.00	0.00		0.00	24,247	
Other non-metallic mineral prod.	369	0.00	0.00		0.00	21,460	
Iron and steel	371	2.65	2.65	54	64.31	44,904	70,664
Non-ferrous metals	372	4.27	4.27	87	103.62		15,010
Fabricated metal products	381	12.48	12.48	254	302.51	1,412	421,087
Machinery, except electrical	382	35.76	35.76	728	867.05		181,791
Machinery electric	383	6.48	6.48	132	157.21		96,365
Transport equipment	384	23.72	23.72	483	575.25		211,223
Other manufactured products	390	0.00	0.00		0.00	9,774	
Total		100.00	100.00	2,036	2,424.88	207,663	1,169,276

Source (i) <http://www.unido.org/index.php> and (ii) CSO, *Statistical Year Book 2007*, Myanmar.

Health industry

The total number of government hospitals in Myanmar constituted 3024 and 3077 in 2005 and 2007 respectively while numbers of beds increased from 34920 in 2005

to 36121 in 2007. In addition, the number of practitioners also increased from 64202 in 2005 to 71801 in 2007. The number of nurses was about 24248 in 2005 and 26182 in 2007.

The telecommunication sector performance in Myanmar is presented in Table 25. The number of telephone mainlines indicated 1.1 per 100 people while the number of mobile telephone subscribers was 0.4 per 100 person in 2006. The number of personal computer also exhibited 0.8 per 100 people in 2006.

Table 23 Telecommunication Infrastructures: Myanmar

	2000	2006
Sector performance		
Access		
Telephone mainlines (per 100 people)	0.6	1.1
International voice traffic (minutes person) ^a	1	3
Mobile telephone subscribers (per 100 people)	0.0	0.4
Population covered by mobile telephony (%)	..	..
Internet users (per 100 people)	0.0	0.2
Personal computers (per 100 people)	0.2	0.8
Households with a television set (%)	3	3
Quality		
Telephone faults (per 100 mainlines)	172.0	125.0
Broadband subscribers (per 100 people)	..	0.00
International Internet bandwidth (bits per person)	0	2
Affordability		
Price basket for residential fixed line (\$ month)	0.6	1.3
Price basket for mobile telephone service (\$ a month)	..	..
Price basket for Internet service (\$ a month)	..	1.5
Price of call to United States (for \$ minutes)	0.44	0.17
Institutional efficiency and sustainability		

Source: World Bank ICT at a Glance

<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS>

Table 24 Health Infrastructures; Myanmar

Public Health Facilities	Number		
	2005	2006	2007
Total number	3,047	3,060	3,077
Number of government hospital	826	832	839
Number of primary and secondary health centers	86	86	86
Number of maternal and child health centers	348	348	348
Number of rural health centers	1,456	1,463	1,473
Number of school health teams	80	80	80
Number of traditional medicine hospitals	14	14	14
Number of traditional medicine clinics	237	237	237
Number of bed s	34,920	35,544	36,121
Total number of practitioners	64,202	68,903	71,801
Number of doctors	18,584	20,501	21,725
Number of dentists	1,594	1,732	1,867
Number of nurses	19,776	21,075	22,027
Others	24,248	25,595	26,182

Source: CSO, *Statistical Yearbook 2007 Myanmar*.

9.3 An assessment of Myanmar's Performance in the Framework of AEC Blueprint

The characteristics of firms and types of business under survey in Myanmar Nam are reported in Tables 27 and 28. The sample size indicates 47 and the survey response rate is 23.4 per cent. Tables 21 and 22 indicate that 45 percent of firms exist in the private sector, 16 percent are joint ventures, 2 per cent are foreign firms, 12 per cent are public sector. In terms of type of business, textile, wood-based production and business firms represent about 10 per cent each of total firms. Others include the tourism industry at 5 per cent , agro-based firms at 10 per cent, rubber-based products and automotives at 5 per cent.

Table 25 Characteristics of Enterprise under Survey; Myanmar

	Number of company	Percent
Private Sector	45	95.74
Cooperative	1	2.13
Other	1	2.13
Total	47	100.00

Table 26 Type of Enterprise under Survey

	Number of company	Percent
Electricity	4	13.3
IT services	2	6.7
healthcare	2	6.7
rubber-based products	2	6.7
textiles and apparels	1	3.3
agro-based products	5	16.7
fisheries	1	3.3
banking	1	3.3
business services	5	16.7
Insurance	1	3.3
Tourism	4	13.3
other	11	36.6
Total	30	100.0

The survey results for Myanmar are presented in Table 27 and 28 as average scores and ‘standard deviation’ of scores for each element.

In pursuing AEC strategies, Myanmar receives higher scores in the areas of free flow of trade, free flow of services, free flow of investment and investment protection, free flow of skilled labor, labor market conditions and regulations, and competition law. Low scores are also obtained in the areas of free flow of capital, level of use of ICT, e-commerce in business and productivity and efficiency in priority integration sectors.

Industries with potential to participate in regional production and distribution networks from Myanmar can be found in the area of rubber-based products, fisheries, wood-based products, agro-based products, transport services, electronics, automotives, ICT services, healthcare and business services while the top-ten for Viet Nam are textiles and apparel, fisheries, agro-based products, banking, tourism, wood-based products, ICT services, transport services, rubber-based products and insurance.

Table 27 AEC Scores of Myanmar

	Elements of AEC	Average scores	S.D.
A1	Single market and production bases		
	Free flow of Trade		
	1. Trade Facilitation Measures (advance ruling, ROO, customs integration, single windows)		
	a) Trade and customs procedures and regulations are publicly available and easily accessible	4.20	2.117
	b) An effective advance ruling system in customs is in place	3.69	2.494
	c) An effective advance ruling system in ‘rule of origin’(ROO) of products is in place	5.23	2.810
	d) A regional transit system is in place	3.35	2.057
	e) Computerization and automation of customs and trade procedures have noticeably reduced time of clearance	3.44	1.563
	f) Submission of required trade documentation to trade/customs authorities for approval is easy	3.04	1.882
	2. Elimination of Tariff		
	g) CEPT tariff reduction –import duty on all products	7	-
	h) Import duty on products under priority sectors	7	-
	i) Import duty on products under Sensibility list	7	-
	3. Non-Tariff Barriers		
a) Administrative price fixing of import prices and/or export price are prevalent	4.00	2.084	
b) Advance payment requirements such as payment for import transactions, import deposits, advance custom duties are prevalent	3.83	2.060	
c) Technical regulations for imports, product characteristics requirements, labeling requirements do not deter trade	5.13	1.989	
d) Laboratory testing, inspection and quarantine requirements do not deter trade	3.05	2.345	
e) Pre-shipment inspection and special customs formalities do not deter trade	2.70	2.366	
A2	4. Free Flow of Services		
	a) Capital markets (foreign and domestic) are easily accessible	2.70	2.461
	b) Public sector contracts are open to foreign bidders	2.62	1.834
	c) International transactions can be freely negotiated with foreign partners	3.53	2.491
	d) Foreign investors are allowed in banking, insurance, telecommunications and business service sectors	2.89	1.676
	e) High quality health services and hospitals are adequately accessible	2.86	2.182

	Elements of AEC	Average scores	S.D.
A3	5. Free flow of investment and Investment Protection a) The investment climate and changes in rules, laws or regulations affecting my firm are consistent and predictable b) Personal security and protection of private property c) Transfer and repatriation of capital, profits and dividends is unobstructed d) Investment incentives are attractive to foreign investors	2.86 2.56 2.23 1.93	2.182 2.027 2.234 1.905
A4	6. Free flow of Capital a) Venture capital is easily available for business development b) Banking and financial services efficiently support business activities c) Risk factors in the financial system are adequately addressed d) Stock markets provide adequate finance for companies in your country e) Cash flow is generally sufficient for companies to self-finance	1.76 2.28 2.51 2.26 3.91	1.165 1.667 1.993 1.802 2.359
A5	7. Free flow of skilled labor, Labor Market Conditions and Regulations a) Labor regulations (hiring/firing practices, minimum wages, etc.) do not hinder business activities b) Immigration laws do not prevent your company from employing foreign labor c) Labor relations are generally productive d) Employee training is a high priority in companies f) Skilled labor in banking, insurance, telecommunications and business services is readily available	4.52 4.14 5.52 4.95 -	2.521 2.455 2.556 2.282 -
A6	8. Productivity and Efficiency in Priority Sectors a) Foreign direct investment is allowed in the priority sectors b) Enterprises are efficient by international standards c) Raw materials for the priority sectors are available adequately in your country. d) Productivity of your company is supported by global strategies (supplies, off shoring, outsourcing)	4.77 - 3.92	2.467 - 1.992
A7	9. Food, Agriculture and Forestry a) Skilled labor in manufacturing, agriculture, forestry, fishery, and mining and quarrying is readily available b) Health, safety & environmental concerns are adequately addressed by management c) Innovations are supported by legislation d) Firm or organization ratio of R&D expenditure to total expenditure per year is.....% e)	5.42 4.51 2.70	2.206 2.265 2.793

	Elements of AEC	Average scores	S.D.
B1	10. Competition and Regulations a) The legal and regulatory framework encourages your enterprise to compete b) Competition legislation is efficient in preventing unfair competition c) Product and service legislation does not deter business activity	3.60 5.37 5.00	2.555 2.845 -
B2	11. Consumer Protection a) Consumer protection is in place and effective b) Customer satisfaction is primary objective in companies c) Information sharing and exchange are publicly available and easily accessible	2.71 5.0 5.0	2.138 0.22 0.22
B3	12. Intellectual Property Rights (IRP) a) IRP is in place and effective b) The existence of IRP regulation in your country is important for business. c) IRP encourages foreign direct investment	4.75 3.00 3.78	2.964 1.927 2.438
B4	13. Utilities and Infrastructure How would you rate the overall quality and efficiency of following public agencies or services a) Roads Department/Public Works b) Postal Service/Agency c) The Telephone Service/Agency d) The Electric Power Company e) Water/Sewerage Service f) Water transportation (harbors, canals, etc.) g) Energy infrastructure is adequate and efficient h) The quality of health services and hospitals is high	4.22 3.96 3.89 3.56 3.88 4.72 3.95 -	1.954 1.551 1.856 1.532 1.562 2.119 1.870 -
B5	14. Taxation Policy a) Corporate taxes do not discourage entrepreneurial activity b) Tax evasion does not hamper business activity c) Double taxation has not been imposed on enterprises	4.46 6.17	1.503 1.341
B6	15. Level of Use of IT, E-Commerce in Business a) Advertising b) E-mail for business contacts c) To submit trade documents to government/trade organizations d) On-line trade in goods e) E-learning f) E-Government g) IT applications (Website/software development)	1.22 1.05 1.41 1.53 1.64 1.73 1.40	0.428 0.229 0.507 0.516 0.497 0.458 0.507

	Elements of AEC	Average scores	S.D.
C1	16. Equitable Economic Development; Small and Medium Enterprise Development		
	Business Licensing	5.00	1.696
	Customs/Foreign Trade Regulations in your country	4.75	1.867
	Labor regulations	4.30	1.828
	Foreign exchange regulations	3.42	1.640
	Fire and safety regulations	3.79	1.822
	Tax regulations/administration	3.89	1.676
	Infrastructure	4.68	2.522
	Environmental regulations	4.09	2.256
	Inflation	3.78	2.044
	Instability/uncertainty	5.05	1.627
	Corruption	4.29	1.927
	Inadequate foreign exchange for imports	4.71	1.929
	Other	4.47	2.125
D1	17. Coherent approach towards external economic relations		
	Country' trade with ASEAN +3 and CER countries	6.0	0.00
	Country' FDI inflow from ASEAN +3 and CER countries	1.0	0.00
D2	18. Enhanced Participation in Supply Change		
	a) Information on the laws and regulations affecting my firm is easy to obtain	5.70	2.89
	b) Interpretation of regulations affecting my firm is consistent and predictable	6.83	1.99
	c) Intellectual Property Rights (IRP) are in place and effective	4.64	2.20
	d) Ethical practices are implemented in company	7.50	2.31

Table 28 Summary of AEC scores of Myanmar

	Elements of AEC	Average scores
A1	Free flow of Trade	6.6757
A2	Free Flow of Services	7.0000
A3	Free flow of investment and Investment Protection	7.3828
A4	Free flow of Capital	2.6340
A5	Free flow of skilled labor, Labor Market Conditions and Regulations	4.4523
A6	Productivity and Efficiency in Priority Sectors	4.5964
A7	Competitiveness in Food, Agriculture and Forestry	3.6409
B1	Competition and Regulations	5.7537
B2	Consumer Protection	4.3018
B3	Intellectual Property Rights (IRP)	3.4698
B4	Utilities and Infrastructure	3.9751
B5	Taxation Policy	5.0000
B6	Level of Use of ICT, E-Commerce in Business	2.6261
C1	Small and Medium Enterprise Development	5.7008
D1	Competition and Regulations	3.7273
D2	Enhanced Participation in Supply Change	5.0000

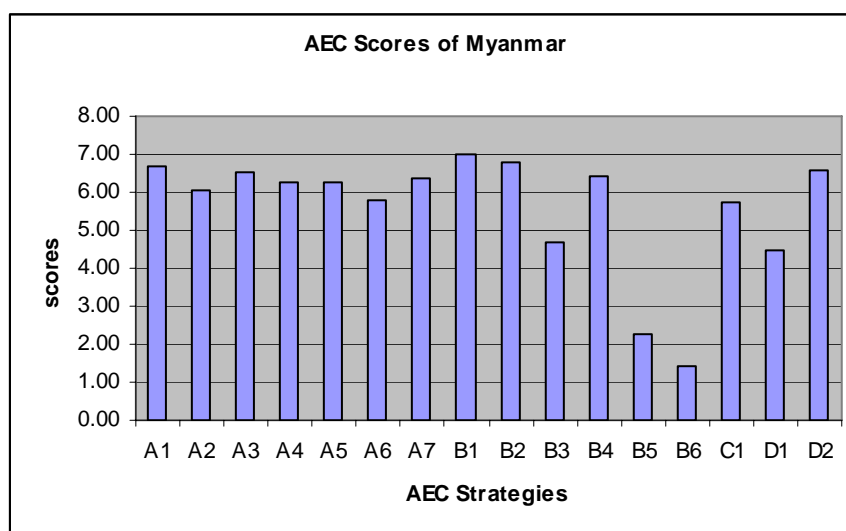
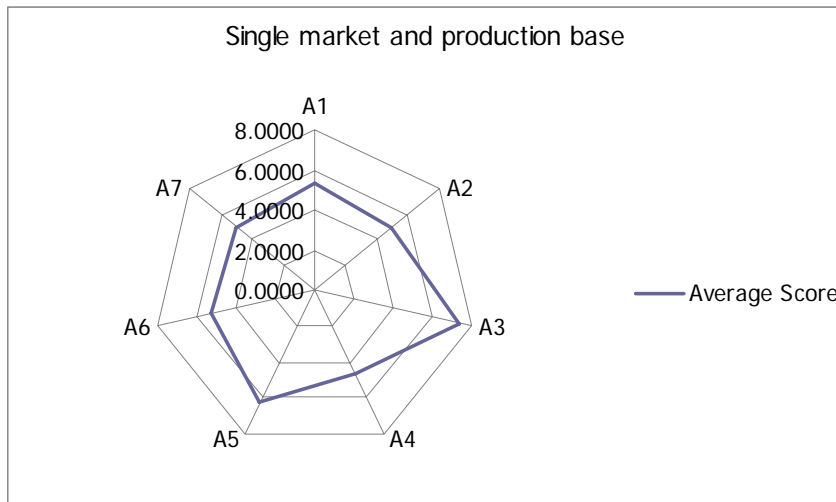
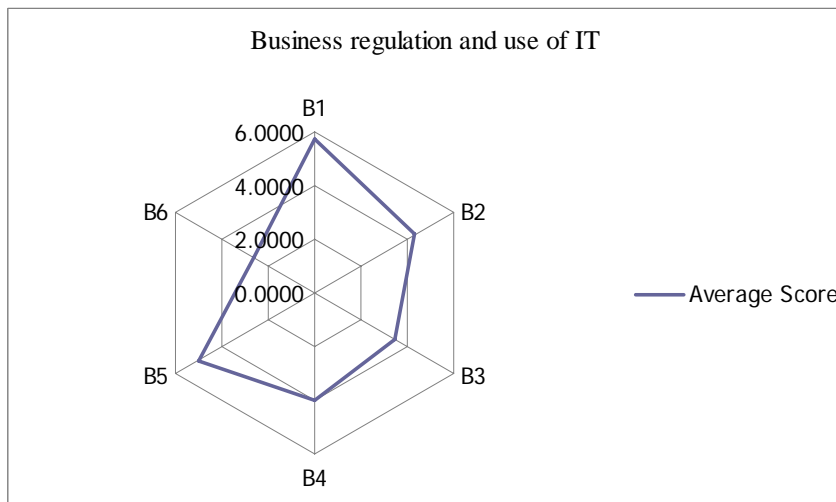
Figure 5 Summary of AEC Scores of Myanmar

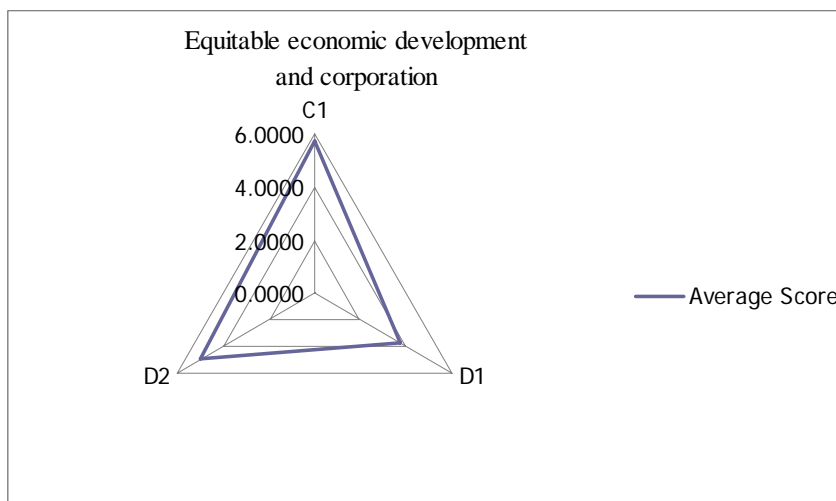
Figure 6 The Elements of AEC, Myanmar



(a)



(b)



(c)

As can be seen in Figures 6(a) to 6(c), the best-performing areas of Myanmar indicate ‘free flow of trade, free flow of services and investment, while the moderate development areas comprise competition and regulations, SME development, taxation policy and enhanced participation in supply change. In comparison, the weakest characteristics of the AEC scores in Myanmar show utilities and infrastructures, level of use of IT, E-commerce in business, and IPR.

9.4 List of Potential Industries to Participate in Integration

Industries with potential to participate in regional production and distribution networks from Myanmar can be found in the area of rubber-based products, fisheries, wood-based products, agro-based products, transport services, electronics, automotives, ICT services, healthcare and business services.

Table 29 List of Potential Industry for Integration

	Average scores	S.D.
Degree of Importance of sector under integration		
Electronics	6.08	2.353
IT services	5.07	2.017
Healthcare	4.92	1.801
Wood-based products	6.50	2.276
Automotives	5.25	2.179
Rubber-based products	7.08	1.929
Textiles and apparel	1.75	1.567
Agro-based products	6.33	1.366
Fisheries	7.00	1.155
Banking	3.50	1.732
Insurance	3.00	2.309
Business services	3.80	1.095
Transport services	6.14	2.673
Tourism	4.67	1.966

9.5 Recommendation on Industrial Capacity Building Requirements

The list of industrial capacity building requirements for Myanmar in terms of priority of importance is presented below.

Component	HRD Capacity Building Program/Project: Myanmar
ICT applications	Training and Expert Assistance Program in Computer Systems, Networks Development; Training and Computer Software Development; Trainings in ICT application for e-learning for high schools and universities; Training in development of ICT for e-business; and e-commerce; Training for Trainers in ICT Applications for Internet, portal, e-education, e-government; video conference
Textile industry	Training program in intelligent/technical textiles in clothing Technical textiles; Training program in Smart and Interactive Textiles; Training in textile and clothing science and engineering; Computer simulation and modelling; Fashion Design Training; Computer-Based Training and Computer-Aided Instruction to improve technologies in upgrading workers' skills;
Agro-based industry	A comprehensive design study on agro-based industries comprising functions, curriculum, infrastructure requirements, education and training program; A comprehensive design study on lather processing comprising functions, curriculum, infrastructure requirement, education and training program; A comprehensive design study on fishery industry comprising functions, curriculum, infrastructure requirement, education and training program;
Wood based industry	Technical training on wood based panels machines: comprising Composite Panel Lines; Technical training on Particleboard Lines, Engineered Lumber Lines, and Veneer & Plywood Lines; Technical training on Laminated Veneer Lumber Lines; Technical training Veneer Panel Related Machinery; Technical training Laminating & Surfacing; Technical training Panel Finishing & Handling;

MRA	<p>To provide training on certification that demonstrates conformity of on MRA priority products groups: cosmetic, pharmaceutical and electro-technical;</p> <p>HRD program and technical capacity building program to enhance Technical Competence of Testing Laboratories and Certification Bodies;</p> <p>Training</p>
Customs administration	<p>Promote training on regional uniformity, coordinated action, equivalent treatment and homogeneity to promote excellence to the needs of the region;</p> <p>Financial and technical assistance to enhance the effectiveness of customs compliance and control and to promote uniformity and harmonization;</p> <p>Training on customs professionals to conform to international standards by promoting consistency of customs treatment to traders through training programs.</p> <p>Provide more technical assistance to Customs Administrations to promote equal levels of development amongst customs administration in AMS to enhance regional efficiency, effectiveness and uniformity;</p>
Tourism	<p>Training on ASEAN Common Competency Standards for Tourism Professionals;</p> <p>Training and research study on tourism marketing;</p> <p>Training and technical assistance for enhancing outbound tourism development;</p> <p>Financial and technical assistance for developing ASEAN Labour Exchange for Tourism;</p> <p>Financial support for revising Tourism Strategic Plan to promoting tourism in ASEAN;</p>
Economics, Banking and Finance	<p>Professional Training for Senior officials in public and private sectors¹⁶² to gain professional experience and knowledge in the area of economics, banking and finance;</p>

The list of industrial capacity building requirements for Myanmar in terms of priority of importance are summarized as follows:

¹⁶² Main institutions may include the Ministry of National Economic Planning and Development; the Central Banks; the National Statistics Office; the Office of the Auditor General and Audit Services Corporation; Chambers of Commerce and Industry and the Institute/University of Business and Economic and Research Institutions.

Sector	Industrial Capacity Building Requirement: Myanmar
Textile and Clothing Technology	Modern round braiding machines, rope braiding machines, yarn braiding machines; Modern textile mills, spinning machines, knitting machines; Provide textile and clothing science and engineering labs and facility; Mechanization of dyeing and printing machines; Automatic Computer Aided Design; Computer Aided Manufacturing;
Agro-based technology	A fully operational laboratory in food processing technology; Pulses industry machinery; Pulse Milling Machinery, Frying Technology & Machinery, Pulses Processing Machines; Bean seedling production machines: Air-dry machine, Vibration Sheller, Weighing Packaging Machine, Electing bean machine, size and color screening machines; Modern leather processing technology; Rubber processing technology; Post-harvest technology; Research and consultancy program for agro-based products;
Wood based industry	Manufacturing of different panel products; Financial assistance for establishing Institute of Wood Science and Technology and machines; Wood Based Panels machines: comprising Composite Panel Lines; Parquet Flooring Lines machine; Particleboard Lines, Engineered Lumber Lines, Veneer & Plywood Lines; Laminating & Surfacing; Panel Finishing & Handling;
Energy	Upgrade power plant/power generating machinery; Agro Process Machinery and technology; Oil Refine ring Machinery;
ICT	More telephone lines extensions for public and private sectors in urban and rural areas; Establish more data network using wireless broadband in cities; Provide satellite TV stations in major public access points such as post office, library at town hall and community centers; Support web-based work/learning workstations in cities; Supply equipments for video conferencing;
Tourism	Develop tourism infrastructure; upgrade hotels under ministry of

	hotel and tourism; Hotel Management and Tour facilities;
Customs	Lab testing equipments for certification; Custom inspection and container inspection equipment;
Light industries	Mechanize and modernize all kinds of cottage industries;

10 Assessment of Industry Development in Viet Nam

10.1 Main Feature of Manufacturing Sector and structure of Production

Viet Nam's industry sector contributed 41.5 per cent of GDP in 2001 and 41.65 per cent of GDP in 2007. In terms of employment, this sector employed 3.9 million (9.1%) to 6 million (11.5 %) of total labour force in 2007.

Viet Nam's Industrial production structure comprises spinning and weaving accounted for 44.78 per cent and finishing of textiles accounted for 34.23 per cent of total industrial outputs and processed meat, fish, fruit, vegetables, fats at dedicate at 1 per cent. Tobacco, paper and paper products, basic chemicals, rubber products, glass and glass products, basic iron and steel, Structured metal, tanks; steam generators, general purpose machinery, electric motors, generators and transformers, motor vehicles and furniture constitute about altogether 15 per cent of total manufacturing.

Table 30 Structure of Manufacturing Production: Viet Nam

DESCRIPTION	ISIC	Share in manufacturing industry (in%)		Value (in million US\$)		Output per employee (in US\$)	
		2000	2006	2000	2006	1995	2000
		Processed meat, fish, fruit, vegetables, fats	151	4.18	4.18	183	202.032		1,627
Dairy products	1520	1.89	1.89	83	91.632	10,673	15,730
Grain mill products; starches; animal feeds	153	4.56	4.56	200	220.8	6,702	6,489
Other food products	154	6.17	6.17	270	298.08	4,548	3,171
Beverages	155	8.19	8.19	359	396.336	11,954	11,161
Tobacco products	1600	5.21	5.21	228	251.712	18,454	18,821
Spinning, weaving and finishing of textiles	171	3.62	3.62	159	175.536	2,753	1,949
Other textiles	172	0.65	0.65	29	32.016	1,294	809
Knitted and crocheted fabrics and articles	1730	0.27	0.27	12	13.248	889	1,378
Wearing apparel, except fur apparel	1810	8.59	8.59	376	415.104	1,161	1,765
Dressing & dyeing of fur; processing of fur	1820	0.09	0.09	4	4.416	1,184	1,082
Tanning, dressing and processing of leather	191	0.69	0.69	30	33.12	784	1,235
Footwear	1920	7.04	7.04	308	340.032	1,083	1,142
Sawmilling and planing of wood	2010	0.28	0.28	12	13.248	1,592	1,033
Products of wood, cork, straw, etc.	202	1.05	1.05	46	50.784	1,183	964
Paper and paper products	210	1.75	1.75	77	85.008	2,270	2,188
Publishing	221	0.61	0.61	27	29.808	6,749	6,199
Printing and related service activities	222	1.61	1.61	70	77.28	3,696	4,122
Reproduction of recorded media	2230	0.02	0.02	1	1.104	5,339	5,650
Coke oven products	2310				0	905,849	301
Refined petroleum products	2320	0.41	0.41	18	19.872		19,987
Basic chemicals	241	1.56	1.56	68	75.072	5,828	3,306
Other chemicals	242	4.7	4.7	206	227.424	4,474	5,711
Man-made fibres	2430				0		355
Rubber products	251	1.05	1.05	46	50.784	2,633	2,520
Plastic products	2520	2.36	2.36	103	113.712	3,154	3,181
Glass and glass products	2610	1.02	1.02	45	49.68	3,980	7,115
Non-metallic mineral products n.e.c.	269	9.55	9.55	418	461.472	4,101	3,510

Contd

Basic iron and steel	2710	1.94	1.94	85	93.84	3,249	4,064
Basic precious and non-ferrous metals	2720	0.11	0.11	5	5.52	1,707	911
Casting of metals	273	0.11	0.11	5	5.52	1,980	2,061
Structured. metal products; tanks; steam generators	281	1.29	1.29	57	62.928	3,225	4,196
Other metal products; metal working services	289	1.33	1.33	58	64.032	2,688	2,019
General purpose machinery	291	0.37	0.37	16	17.664	1,162	1,430
Special purpose machinery	292	0.81	0.81	35	38.64	2,919	2,267
Domestic appliances n.e.c.	2930	0.34	0.34	15	16.56	4,216	3,903
Office, accounting and computing machinery	3000	0.86	0.86	38	41.952	6,898	12,215
Electric motors, generators and transformers	3110	0.97	0.97	42	46.368	2,125	3,546
Electricity distribution & control apparatus	3120	0.1	0.1	4	4.416	3,088	1,880
Insulated wire and cable	3130	1.22	1.22	54	59.616	4,111	4,468
Accumulators, primary cells and batteries	3140	0.24	0.24	11	12.144	2,630	2,932
Lighting equipment and electric lamps	3150	0.36	0.36	16	17.664	4,356	4,230
Other electrical equipment n.e.c.	3190	0.38	0.38	17	18.768	2,052	4,287
Electronic valves, tubes, etc.	3210	0.23	0.23	10	11.04	4,814	1,987
TV/radio transmitters; line comm. Apparatus	3220	0.52	0.52	23	25.392	9,873	3,681
TV and radio receivers and associated goods	3230	1.77	1.77	77	85.008	7,887	17,947
Medical, measuring, testing appliances, etc.	331	0.34	0.34	15	16.56	2,428	2,769
Optical instruments & photographic equipment	3320	0.17	0.17	7	7.728	10,846	7,409
Watches and clocks	3330	0.01	0.01		0		2,375
Motor vehicles	3410	2.18	2.18	96	105.984	3,711	14,724
Automobile bodies, trailers & semi-trailers	3420	0.02	0.02	1	1.104	18,848	710
Parts/accessories for automobiles	3430	0.81	0.81	36	39.744	3,829	7,446
Building and repairing of ships and boats	351	1.6	1.6	70	77.28	1,471	3,969
Railway/tramway locomotives & rolling stock	3520	0.06	0.06	3	3.312	1,564	1,510

Contd.

Aircraft and spacecraft	3530	0.04	0.04	2	2.208	22,358	23,488
Transport equipment n.e.c.	359	2.21	2.21	97	107.088		6,437
Furniture	3610	1.03	1.03	45	49.68	1,219	1,093
Manufacturing n.e.c.	369	1.45	1.45	63	69.552	1,233	2,700
Recycling of metal waste and scrap	3710	-	-	-	-	1,308	11,234
Recycling of non-metal waste and scrap	3720	-	-	-	-	-	320
Total manufacturing	D	100	100	4379	4834.42	2,841	2,841

Source (i) <http://www.unido.org/index.php>, (ii) Statistical Year Book 2007 of Viet Nam.

10.2 Development in ITC, Health Care and Tourism Sectors

Following the successful commencement of its market economy in 1995 Viet Nam has consistently pursued the trade liberalization of its telecommunication sector. The current status of ICT development is reported in Table 30. The number of fixed line phone users increased from 2030 to 3060 in 2006 while number of mobile phone users increased from 300 in 2001 to 400 in 2006.

Health industry

The total number of hospitals in Viet Nam indicated 13243 and 13438 in 2005 and 2007 respectively while total numbers of beds accounted for 179200 and 210800 in 2005 and 2007 respectively. Total practitioners increased from 194100 in 2005 to 211300 in 2007. Numbers of nurses also increased from 8100 to 8500 during the same period.

Table 31 Télécommunications Infrastructures: Viet Nam

Sector performance		
Access		
Telephone mainlines (per 100 people)	3.3	19.1
International voice traffic (minutes per person) ^a	7	..
Mobile telephone subscribers (per 100 people)	1.0	18.4
Population covered by mobile telephony (%)	..	..
Internet users (per 100 people)	0.3	17.5
Personal computers (per 100 people)	0.8	1.4
Households with a television set (%)	78	83
Quality		
Telephone faults (per 100 mainlines)	..	..
Broadband subscribers (per 100 people)	0.00	0.61
International Internet bandwidth (bits per person)	0	84
Affordability		
Price basket for residential fixed line (\$ a month)	5.4	2.7
Price basket for mobile telephone service (\$ a month)	..	6.3
Price basket for Internet service (\$ a month)	..	1.8
Price of call to United States (\$ for 3 minutes)	9.29	1.95
Institutional efficiency and sustainability		
Telecommunications revenue (% of GDP)	3.5	4.7
Telephone subscribers per employee	43	79
Telecommunications investment (% of revenue)	50.1	..

Source: World Bank ICT at a Glance, <http://web.worldbank.org/WBSITE/EXTERNAL>.

Table 32 Health Infrastructures: Viet Nam

Public Health Facilities	2005	2006	2007
Number of hospital	878	903	956
Number of regional polyclinic	880	847	829
Number of sanatorium and rehabilitation hospital	53	51	51
Number of medical service units in communes, precincts	10,613	10,672	10,851
Number of medical service units in office, enterprise	769	710	710
Others	50	49	41
Total number of bed	179,200	198,400	210,800
Number of bed in hospital	127,000	131,500	142,800
Number of bed in regional polyclinic	9,300	9,300	9,200
Number of bed in sanatorium and rehabilitation hospital	7,700	4,400	4,400
Number of bed in medical service units in communes, precincts	45,800	46,100	47,300
Number of bed in medical service units in office, enterprise	5,400	5,000	5,000
Others	2,000	2,200	2,100
Total number of practitioner	194,100	200,200	211,300
Number of doctor	51,500	52,800	54,800
Number of pharmacists	15,100	16,300	18,100
Number of physician	49,700	48,800	48,800
Number of nurse	51,600	55,400	60,300
Number of midwife	18,100	19,000	20,800
Others	8,100	7,900	8,500

Source: *Statistical Yearbook 2007, Vietnam*

10.3 An assessment of Viet Nam's Performance in the Framework of

AEC Blueprint

The characteristics of firms and types of business under survey in Viet Nam are reported in Tables 32 and 33 indicating that 55 per cent of firms exist in the private sector, 6 per cent are Joint Ventures, and 2 per cent are foreign firms, In terms of type of firms, textiles, wood-based production and business firms represent about 10 per cent each of total firms. The tourism industry represents 9 per cent, agro-based firms at 8 per cent, rubber-based products at 5 per cent and automotives, 5 per cent.

The survey results for Viet Nam are provided in the light of average scores and ‘standard deviation’ of the scores of each element. Higher scores can be found in the areas of free flow of trade, free flow of services, free flow of investment and investment protection , free flow of capital, free flow of skilled labor, labor market conditions and regulations competition and regulations . Low scores are also obtained in the areas of automotives and business services.

Table 33 Characteristic of Enterprise under Survey, Viet Nam

	Number of company	Percent
Government or State Owned	8	13.1
Private Sector	16	26.2
Joint Venture	2	3.3
Cooperative	31	50.8
100% Foreign Owned Firm	4	6.6
Total	61	100.0

Table 34 Type of Business Surveyed

	Frequency	Percent
IT services	8	13.1
healthcare	5	8.2
wood-based products	2	3.3
textiles and apparels	5	8.2
agro-based products	8	13.1
fisheries	9	14.8
banking	4	6.6
insurance	6	9.8
transport services	4	6.6
Tourism	6	9.8
Other	4	6.6
Total	61	100.0

Table 35 AEC Scores of Viet Nam

	Elements of AEC	Average scores	S.D.
A1	Single market and production bases		
	Free flow of Trade		
	1. Trade Facilitation Measures (advance ruling, ROO, customs integration, single windows)		
	a) Trade and customs procedures and regulations are publicly available and easily accessible	6.28	1.247
	b) An effective advance ruling system in customs is in place	5.56	1.49
	c) An effective advance ruling system in ‘rule of origin’(ROO) of products is in place	4.74	1.50
	d) A regional transit system is in place	4.69	1.45
	e) Computerization and automation of customs and trade procedures have noticeably reduced time of clearance	2.72	1.20
	f) Submission of required trade documentation to trade/customs authorities for approval is easy	-	-
		6.42	1.35
	2. Elimination of Tariff		
	g) CEPT tariff reduction –import duty on all products	1.62	-
	h) Import duty on products under priority sectors	1.62	-
i) Import duty on products under Sensibility list	1.62	-	
3. Non-Tariff Barriers			
a) Administrative price fixing of import prices and/or export price are prevalent	6.17	1.867	
b) Advance payment requirements such as payment for import transactions, import deposits, advance custom duties are prevalent	5.43	1.254	
c) Technical regulations for imports, product characteristics requirements, labeling requirements do not deter trade			
d) Laboratory testing, inspection and quarantine requirements do not deter trade	6.18	1.377	
e) Pre-shipment inspection and special customs formalities do not deter trade	6.07	1.466	
	5.76	1.534	
A2	4. Free Flow of Services		
a) Capital markets (foreign and domestic) are easily accessible	5.67	1.511	
b) Public sector contracts are open to foreign bidders	6.06	1.232	
c) International transactions can be freely negotiated with foreign partners	5.90	1.406	
d) Foreign investors are allowed in banking, insurance, telecommunications and business service sectors	6.56	1.759	
e) High quality health services and hospitals are adequately accessible	5.81	1.526	

	Elements of AEC	Average scores	S.D.
A3	5. Free flow of investment and Investment Protection a) The investment climate and changes in rules, laws or regulations affecting my firm are consistent and predictable b) Personal security and protection of private property c) Transfer and repatriation of capital, profits and dividends is unobstructed d) Investment incentives are attractive to foreign investors	5.78 - 6.25 -	1.174 - 1.154 -
A4	6. Free flow of Capital a) Venture capital is easily available for business development b) Banking and financial services efficiently support business activities c) Risk factors in the financial system are adequately addressed d) Stock markets provide adequate finance for companies in your country e) Cash flow is generally sufficient for companies to self-finance	5.32 5.69 5.75 3.51 5.10	1.634 1.109 1.668 1.463 1.344
A5	7. Free flow of skilled labor, Labor Market Conditions and Regulations a) Labor regulations (hiring/firing practices, minimum wages, etc.) do not hinder business activities b) Immigration laws do not prevent your company from employing foreign labor c) Labor relations are generally productive d) Employee training is a high priority in companies f) Skilled labor in banking, insurance, telecommunications and business services is readily available	6.36 6.36 6.69 5.86 5.38	1.397 1.166 1.070 1.325 2.031
A6	8. Productivity and Efficiency in Priority Sectors a) Foreign direct investment is allowed in the priority sectors b) Enterprises are efficient by international standards c) Raw materials for the priority sectors are available adequately in your country. d) Productivity of your company is supported by global strategies (supplies, off shoring, outsourcing)	5.50 - 6.76	2.156 - 1.636
A7	9. Food, Agriculture and Forestry a) Skilled labor in manufacturing, agriculture, forestry, fishery, and mining and quarrying is readily available b) Health, safety & environmental concerns are adequately addressed by management c) Innovations are supported by legislation d) Firm or organization ratio of R&D expenditure to total expenditure per year e) Level of use of R & D in the enterprise or institution	4.44 4.77 7.03 9.77 6.00	1.232 .186 1.93

	Elements of AEC	Average scores	S.D.
B1	10. Competition and Regulations a) The legal and regulatory framework encourages your enterprise to compete b) Competition legislation is efficient in preventing unfair competition c) Product and service legislation does not deter business activity	5.13 5.60 4.80	1.433 1.633 1.580
B2	11. Consumer Protection a) Consumer protection is in place and effective b) Customer satisfaction is primary objective in companies c) Information sharing and exchange are publicly available and easily accessible	- 4.95 7.38	- 1.268 1.459
B3	12. Intellectual Property Rights (IRP) a) IRP is in place and effective b) The existence of IRP regulation in your country is important for business. c) IRP encourages foreign direct investment	5.45 5.84 5.75	1.245 1.358 1.377
B4	13. Utilities and Infrastructure Rate the overall quality and efficiency of following public agencies or services a) Roads Department/Public Works b) Postal Service/Agency c) The Telephone Service/Agency d) The Electric Power Company e) Water/Sewerage Service f) Water transportation (harbors, canals, etc.) g) Energy infrastructure is adequate and efficient h) The quality of health services and hospitals is high	3.79 6.22 7.43 5.64 4.78 6.71 4.25 -	1.583 1.416 1.220 1.613 1.629 1.347 1.860 -
B5	14. Taxation Policy a) Corporate taxes do not discourage entrepreneurial activity b) Tax evasion does not hamper business activity c) Double taxation has not been imposed on enterprises	5.78 4.86 -	.301 .387 -
B6	15. Level of Use of IT, E-Commerce in Business a) Advertising b) E-mail for business contacts c) To submit trade documents to government/trade organizations d) On-line trade in goods e) E-learning f) E-Government g) IT applications (Website/software development)	1.40 1.10 1.16 1.48 1.56 1.55 1.50	1.192 .300 .369 .505 .504 .522 .577

Contd.			
	Elements of AEC	Average scores	S.D.
C1	Equitable Economic Development 16. Small and Medium Enterprises a) Business Licensing b) Customs/Foreign Trade Regulations c) Labor regulations d) Foreign exchange regulations e) fire and safety regulation f) Tax g) Infrastructure (e.g. telephone, electricity, roads, land) h) Environmental regulation i) Inflation j) Instability/uncertainty k) Corruption (crime/theft/disorder) l) inadequate foreign exchange for imports	5.63 5.71 6.13 5.72 5.18 5.91 5.19 5.03 5.61 4.06 4.63 4.91	2.017 1.779 5.343 1.769 1.931 4.569 1.572 1.978 1.913 2.716 1.712 1.477
D1	Coherent approach towards external economic relations Country' trade with ASEAN +3 and CER countries Investment among ASEAN Country' FDI inflow from ASEAN +3 and CER countries	5 5	0.0 0.0
D2	Enhanced Participation in Supply Change a) Information on the laws and regulations affecting my firm is easy to obtain b) Interpretation of regulations affecting my firm is consistent and predictable c) Intellectual Property Rights (IRP) are in place and effective d) Ethical practices are implemented in company	6.47 5.78 5.28 7.39	1.463 1.189 1.189 1.516

Table 36 Summary of AEC scores of Viet Nam

	Elements of AEC	Average scores
A1	Free flow of Trade	5.4564
A2	Free Flow of Services	6.0000
A3	Free flow of investment and Investment Protection	6.0150
A4	Free flow of Capital	5.0740
A5	Free flow of skilled labor, Labor Market Conditions and Regulations	6.1300
A6	Productivity and Efficiency in Priority Sectors	6.1300
A7	Competitiveness in Food, Agriculture and Forestry	6.4020
B1	Competition and Regulations	5.1767
B2	Consumer Protection	6.1650
B3	Intellectual Property Rights (IRP)	5.6800
B4	Utilities and Infrastructure	5.5457
B5	Taxation Policy	5.3200
B6	Level of Use of ICT, E-Commerce in Business	1.3929
C1	Small and Medium Enterprise Development	5.3092
D1	Competition and Regulations	5.0000
D2	Enhanced Participation in Supply Change	6.2300

Figure 7: Summary of AEC Scores of Viet Nam

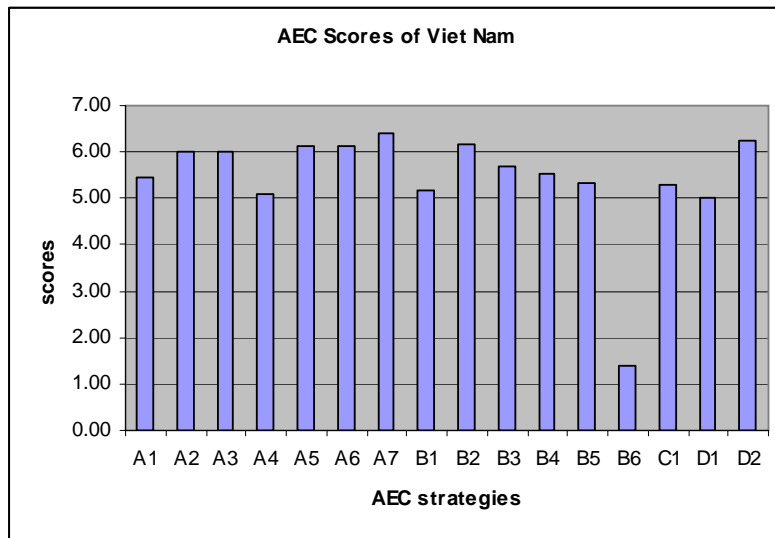
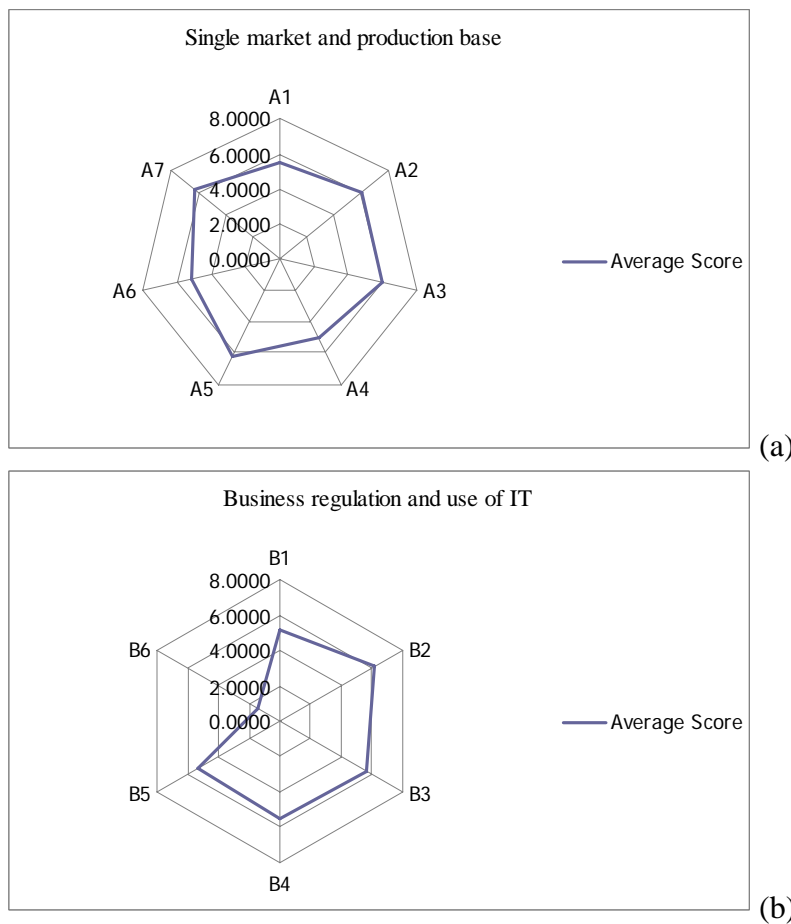


Figure 8 The Elements of AEC, Viet Nam



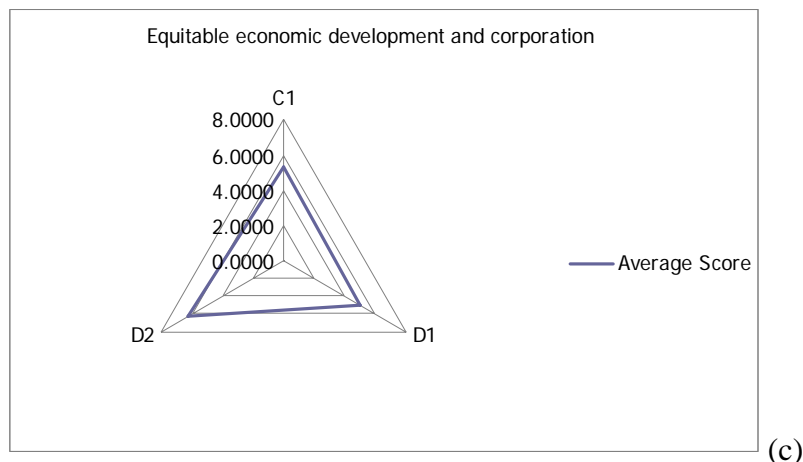


Figure 8(b) has an inward cut that comes from the relative weakness in AEC elements B6. Viet Nam performs well in the area of free flow of services and investments, free flow of skilled labor, labor market conditions and regulations, competitiveness in food, agriculture and forestry, consumer protection and enhanced participation in supply change. The relatively weak elements show free flow of trade, free flow of capital, level of use of IT, E-commerce in business, and competition and regulations, which can be supplemented by the deliberate initiatives to achieve the AEC objectives.

10.4 List of Potential Industries to Participate in Regional Production and Distribution Networks

The top-ten for Viet Nam are textiles and apparels, fisheries, agro-based products, banking, tourism, wood-based products, ICT services, transport services, rubber-based products and insurance.

Table 37 List of Potential Industries to Participate in Regional Production and Distribution Networks

	Average scores	S.D.
Degree of Importance of sector under integration		
Electronics	6.10	1.914
IT services	7.10	1.680
Healthcare	6.21	1.681
Wood-based products	7.11	1.470
Automotives	5.03	1.677
Rubber-based products	7.00	1.000
Textiles and apparel	8.69	2.142
Agro-based products	8.13	1.309
Fisheries	8.14	1.313
Banking	7.61	2.395
Insurance	6.75	1.441
Business services	6.56	1.612
Transport services	7.06	1.443
Tourism	7.23	1.085

10.5 Recommendation on Industrial and HRD Capacity Building Requirements

The top-ten for Viet Nam can be defined as textiles and apparels, fisheries, agro-based products, banking, tourism, wood-based products, ICT services, transport services, rubber-based products and insurance. Detailed industries are also summarized as follows:

The list of HRD capacity building requirements for Viet Nam in terms of priority of importance is provided as follows:

Component	HRD Capacity Building Program/Project: Viet Nam
ICT applications	Training and Expert Assistance Program in Computer Systems and Networks Development; Training and Computer Software Development; Trainings in ICT application for e-learning for high schools and universities; Training in development of ICT for e-business; and e-commerce;

	<p>Training for Trainers in ICT Applications for Internet, portal, e-education, e-government; video conference</p>
Textile industry	<p>Training program in intelligent/technical textiles in clothing Training program in Smart and Interactive Textiles; Enhancing textile and clothing science and engineering services; Computer simulation and modeling; Fashion Design Training; Advanced functional CAD technology; Computer-Based Training and Computer-Aided Instruction in upgrading workers' skills;</p>
Agro-based industry	<p>A comprehensive design study on agro-based industries comprising functions, curriculum, infrastructure requirements, education and training program; A comprehensive design study on lather processing comprising functions, curriculum, infrastructure requirement, education and training program; A comprehensive design study on fishery industry comprising functions, curriculum, infrastructure requirement, education and training program;</p>
Wood based industry	<p>Technical training on wood based panels machines: comprising Composite Panel Lines; Technical training on Particleboard Lines, Engineered Lumber Lines, and Veneer & Plywood Lines; Technical training on Laminated Veneer Lumber Lines; Technical training Veneer Panel Related Machinery; Technical training Laminating & Surfacing; Technical training Panel Finishing & Handling;</p>
MRA	<p>MRA in priority product groups: cosmetic, pharmaceutical and electro-technical; Provide training on certification that demonstrates conformity of electrical and electronic equipment; HRD and technical capacity building programs to enhance Technical Competence of Testing Laboratories and Certification Bodies;</p>
Customs administration	<p>Training on regional uniformity, coordinated action, equivalent treatment and homogeneity; and to promote excellence to the needs of the region; Technical assistance to enhance the effectiveness of customs compliance and control and to promote uniformity and harmonization;</p>

	Training for customs officials to conform to international standards by promoting consistency of customs;
Tourism	Training on ASEAN Common Competency Standards for Tourism Professionals; Training and research study on tourism marketing; Training and technical assistance for enhancing outbound tourism development;
Light industry	All kind of technical skills; HRD for industry sector; All kind of Machinery support to agriculture systems;

The areas of industrial capacity building requirements in Viet Nam are listed below.

Sector	Industrial Capacity Building Requirements: Viet Nam
Textile and Clothing Technology	Modern round braiding machines, rope braiding machines, yarn braiding machines; Modern textile mills, spinning machines, knitting machines; Textile and clothing science and engineering labs and facility; Mechanize dyeing and printing machines; Automatic Computer Aided Design; Computer Aided Manufacturing;
Agro-based technology	A fully operational laboratory in food processing technology; Fully functional educational and training institute for offering professional education and training in leather processing and related environmental protection technology; improving leather processing technology; implementing training program for improving professional competency and community development projects; Developing research and consultancy program for agro-based products;
Energy	Power Plant/Power Generating Machinery; Agro Process Machinery; Oil Refine ring Machinery;
ICT	Develop more data network using wireless broadband in cities; Provide satellite TV stations in major public access points such as post office, library at town hall and community centers; Support web-based work/learning workstations in cities;

	Supply equipments for video conferencing;
Tourism	Develop tourism infrastructure; Upgrade hotels under the public sector; Hotel Management and Tour facilities;
Customs	Lab testing equipments for certification; Custom inspection and container inspection equipment;

11 The Summary of Findings from Surveys and Recommendations

11.1 Findings on the AEC Performance

The survey results reveal that in pursuing ‘single market and production base’ CLMV receive a higher score in category A2: ‘Free flow of services’, free flow of skilled labor, labour market conditions and regulations, and competition law are rated above average. It is because public sector contracts can be freely negotiated internationally and foreign investment is allowed in banking, telecommunications, and the business services sector. The survey results reveal that the firms’ trade with intra-ASEAN receives low scores; in comparison, CLMV countries’ extra-ASEAN trade rate higher scores indicating that the requirements for encouraging trade and investment activities meet AEC objectives.

Preliminary investigation in CLMV indicates that the critical requirement is not so much of the absence of policies and institutions but deficiencies in policy coordination and implementation through accountability, transparency and consistency of the relevant public and private sectors.

However, the survey data have limitations. They reflect that qualitative assessments on AEC performance are difficult to quantify in some cases. Quantification

is necessary to aggregate scores over different strategies and countries and to compare scores between different elements of the survey. Furthermore, in constructing AEC scores, the quantitative measures builds on the assumption that senior executives, interviewed in different countries have, reasonably similar views on good and poor conditions of institutions and market environments. Finally, the survey sample aims at being indicative rather than representative, because of the existence of differences in limited sample size that calls for some caution in interpretation. The results also point out that the deviation of individual responses from a country's means are typically quite small, which points to the reliability of the survey responses.

However, the results are useful for focusing on discussion on critical strength and weakness in each group (or cluster) of AEC elements in each country. The impact of the proposed policy or strategy is based on the other clusters of elements and it would be more effective if it were supplemented by initiatives to address some of the unattended structural weakness. Finally the results also highlight how CLMV can exercise the effective policy leverages to influence the overall policy framework relative to each element.

This study also investigates the major problems faced by the business environment and other information for enhancing regional integration activities such as the requirements for regional production and distribution networks, existing firms' trade other ASEAN countries in the region; environmental costs; the current status of backward and forward linkages in the firms under study and supply chain management practices.

11.2 Degree of Importance of Sector to Participate in Regional Integration

The top ten sectors in terms of importance for Cambodia are textiles and apparels, fisheries, agro-based products, banking, tourism, wood-based products, ICT services, transport services, rubber-based products and insurance. In contrast, the top ten sectors of Lao PDR are tourism textiles and apparels, wood-based products, electronics, banking, agro-based products, transport services, ICT services, healthcare and business services.

Industries with potential to participate in regional production and distribution networks from Myanmar can be found in the area of rubber-based products, fisheries, wood-based products, agro-based products, transport services, electronics, automotives, ICT services, healthcare and business services while the top-ten for Viet Nam are textiles and apparels, fisheries, agro-based products, banking, tourism, wood-based products, ICT services, transport services, rubber-based products and insurance. Details industries are also summarized as follows:

Table 38 Potential Sectors to Participate in Regional Integration

	Cambodia	Lao PDR	Myanmar	Viet Nam
1	textiles and apparels	tourism	rubber-based products	textiles and apparels
2	Fisheries	textiles and apparels	fisheries	fisheries
3	agro-based products	wood-based products	wood-based products	agro-based products
4	Banking	electronics	agro-based products	banking
5	tourism	banking	transport services	tourism
6	wood-based products	agro-based products	electronics	wood-based products
7	ICT services	transport services	automotives	ICT services
8	transport services	ICT services	ICT services	transport services
9	rubber-based products	healthcare	healthcare	rubber-based products
10	insurance	business services	business services	insurance
11	business services	insurance	banking	business services
12	healthcare	automotives	insurance	healthcare
13	electronics	rubber-based products	textiles and apparels	electronics
14	automotives	fisheries	rubber-based products	automotives

Summary of Recommendations

- (i) To focus a maximum momentum on participation in goods and service trade liberalization under the WTO and ASEAN-led negotiations
- (ii) To further improve and streamline bureaucratic procedures for trade
- (iii) To promote post-harvest technology for the agriculture and food sector
- (iv) To encourage backward linkage industries in the Cambodian garment industry

- (v) To facilitate forward linkage industries relating to distribution, logistics, marketing and financing for future industries
- (vi) To promote further FDI in specific industries to engage in ASEAN production and distribution networks
- (vii) To encourage use of ICT in both government and private sectors for effective participation process in business and administrative measures
- (viii) To focus strategically on wood-based processing industries in maintaining sustainability in forestry sector and higher value-added manufacturing activities.
- (xi) To transfer remaining products from the 'Temporary Exclusion List' to the 'Inclusion List' under the AFTA
- (x) To explore the transfer of technology to assist in exploring comparatively competitive industries under AEC
- (xi) To pursue strategic consultation with regional and internal donors to meet the HRD and industrial capacity requirements to fully enjoy the benefits under AEC
- (xii) To upgrade the high-class hospitals to encourage the tourist industry as well as to encourage FDI in country.
- (xiii) To investigate the area in which effective trade facilitations are needed to enhance competitiveness of domestic firms as well as being conducive in attracting foreign direct investment.
- (xiv) To promote the potential integration in regional production and distribution networks in the local business environment.
- (xv) To institute policy coordination and implementation through administrative transparency and accountability of the relevant public sector.
- (xvi) These policy recommendations are based on the results of qualitative and quantitative assessment of CLMV. Individual CLMV country may require specific strategic and differentiated policy approach but there are common

characteristics pertaining to CLMV countries.

12. Recommendation on Industrial and HRD Capacity Building Requirements

Main areas of requirements in terms of priority in these CLMV indicate

- The laboratory testing equipments, and the inspection equipments for certification the Central Testing Centre and Testing Centres at the various major border crossing points;
- ICT equipments for trade facilitations and container-inspection facilities at the Customs Ports;
- Logistic service facilitations such as cold-storage facilities, warehouse and folk-clip trucks;

Table 39 HRD Capacity Building Requirements

	Cambodia	Lao PDR	Myanmar	Viet Nam
1	MRA (Mutual Recognition Arrangement)	Customs administration	Technicians	IP officials
2	Socio-economics	Competency in lab work	Socio-economics	MRA
3	Customs administration	MRA	IP officials	ICT applications
4	IP official	IP officials	Competency in lab work	Custom administration
5	Technicians	Technicians	ICT application	Competency in lab work
6	Competency in lab work	ICT applications	Customs administration	technicians
7	ICT applications	Socio-economics	MRA	Socio-economics
8	Industrial networks in AEC	Industrial networks in AEC	Industrial networks	industrial networks in AEC

Industrial Capacity Building Needs in Cambodia

Dying Machine
 Printing Machine
 Computer Aided Manufacturing
 Power Plant/Power Generating Machinery
 Agro Process Machinery
 Oil Refine ring Machinery

HRD Capacity Building Needs in Cambodia

Networking Distribution
 Marketing and Negotiation
 Wearing Machinery
 Dying Machinery
 Fashion Design Training
 Food Science
 Agro-food Science
 Computer Aided Design
 IT Engineering
 Hotel Management and Tour
 Agro-based-Science
 Oil Refine ring and oil engineering

Industrial Capacity Building Needs in Lao PDR

Textile and Clothing Technology
 Power Plant/Power Generating Machinery
 Computer Aided Manufacturing
 Logistic training for business owner

HRD Capacity Building Needs in

Logistic
 Training of Trainers on logistics
 Logistic training for technical staff
 Logistic course at NUOL

Handicraft
 Tree extraction techniques
 Improve Quality Textile
 Write the project/business plan

Industrial Capacity Building Needs in Myanmar

Computer Aided Manufacturing
 Power Plant/Power Generating Machinery
 Agro Process Machinery
 Cottage industry machinery

HRD Capacity Building Needs in Myanmar

Training for IRP professionals

Technicians

Economic and business and banking management

Outbound tourism

Automotives technicians

Rubber processing technology

Post-harvest technology

Industrial Capacity Building Needs in Viet Nam

Light industry

All kind of machines

Industrial Developing in the region

All kind of Machinery support to agriculture based

Washing Machine

Oil Refinery Machine

Food Processing Machine

Information Technology

Agro-based science

HRD Capacity Building Need in Viet Nam

Industrial development in the region

HRD for industry sector

13 Empirical study of the Impact of Accelerating ASEAN Economic Community**from 2020 to 2015 on CLMV**

In analyzing the impact of trade policy at industry level, the GSIM model is often used in the context of partial equilibrium analysis. We model CLMV countries' imports in two main areas based on data availability comprising (i) bilateral aggregate trade flows and (ii) bilateral transport and machinery trade flows for the period: 2004-2006. This study attempts to investigate changes in economic gains from a price change (lower price due to tariff elimination) will exceed expected losses at household level. This analysis evaluates the notion that increased intra-regional trade, through facilitating better grain movement, will bring benefits at least on household and industry levels. In this analysis,

three year average of bilateral trade flows for the period 2004-2006 are constructed while bilateral tariffs were obtained from WITS and IMF. Domestic absorption is included in modelling the aggregate export-import flow in which the value of GDP at world current price minus net exports represent the domestic absorption. Subsidies are not included in this study due to the availability of data. Establishing AEC by 2015 in stead of 2020, implies that the tariff level of all ASEAN including CLMV will be zero by this period. Thus the effects of reduction of tariff of CLMV are estimated using GSIM model on the basis of the postulation that the current (2008) level of MFN tariff of CLMV will be set at zero in 2015. The elasticity of substitution are obtained previous studies comprising 0.5 for the countries under studies.

In particular, GSIM model is used to explain the welfare, price and output effects of following three policy scenarios.

Scenario 1: Elimination of intra-ASEAN tariffs from current level to zero using aggregate trade flow;

Scenario 2: A 20 % increase in productivity in association with import growth in the presence of tariff elimination using aggregate trade flow;

Scenario 3: Elimination of intra-ASEAN tariffs from current level to zero using transport and machinery trade flow;

In each simulation, the welfare, price, cross-price and output effects under each scenario are estimated using the GSIM model.

Scenario 1: Elimination of intra-ASEAN tariffs from current level to zero using aggregate trade flow

Accelerating the AEC by 2015, it would lead to changes on direction of trade among the ASEAN countries and its major trading partners as well as other ROW to ASEAN countries. It suggests that countries' increasingly specialize in producing only particular stages of a good's production sequence so-called vertical specialization in a particular product would results in by trading good crosses multiple borders in the dynamic process.

Results from the first simulations are presented in Table 37, implying increases in expected producer and consumer surplus changes and hence increases in 'net welfare gain'. It will bring benefits at least at the consumers/household level in the form of better wages or at farm level with improved technology. Results indicate that tariff revenues generated from the trade sector account for a small proportion of tariff revenues – generally smaller when compared with the productivity gains under the AEC strategies. Trade diversion may not occur since ASEAN does not act institutionally as a customs union. However, the changes in direction of CLMV trade may occur when an increase in trade within CLMV is achieved at the expense of trade with the ROW.

Table 40

**Simulation 1: Effects of complete tariff elimination on the social welfare
(Using aggregate trade flow data)**

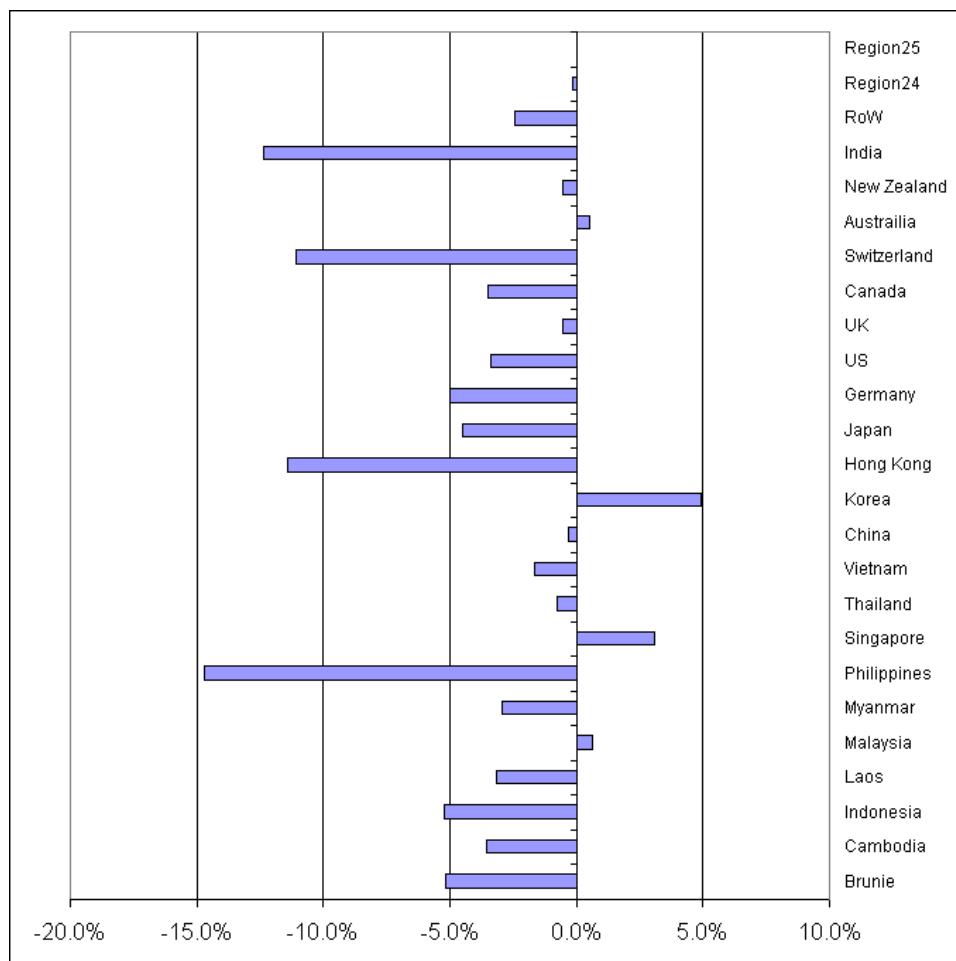
	A	B	C	D	E= A+B+C+D	
	Producer surplus	Consumer surplus	Tariff revenue	Change in subsidy payments	Net welfare effect	
Brunei	-220.0	179.7	-171.1	0.0	-211.4	
Cambodia	-167.1	208.6	-467.8	0.0	-426.3	
Indonesia	-10390.0	10695.6	-2966.6	0.0	-2661.0	
Laos	-79.5	239.3	-252.9	0.0	-93.0	
Malaysia	594.9	5561.7	-4765.0	0.0	1391.6	
Myanmar	-435.4	365.0	-345.7	0.0	-416.1	
Philippines	-4094.3	9381.0	-2492.5	0.0	2794.1	
Singapore	6127.2	2024.4	0.0	0.0	8151.5	
Thailand	-1383.6	5376.6	-2382.4	0.0	1610.6	
Vietnam	-642.7	788.2	-10628.3	0.0	-10482.7	
China	-5170.4	18305.6	5090.9	0.0	18226.1	
Korea	9520.4	6683.2	-1660.1	0.0	14543.6	
Hong Kong	-31538.3	14504.7	0.0	0.0	-17033.6	
Japan	-121757.7	116211.6	-6953.2	0.0	-12499.2	
Germany	-96737.3	86079.5	-13059.6	0.0	-23717.4	
US	-235990.8	256383.6	-18300.6	0.0	2092.2	
UK	-6951.5	18658.9	5663.5	0.0	17370.9	
Canada	-30077.6	32156.6	-2971.9	0.0	-892.9	
Switzerland	-54212.7	42585.7	-1335.1	0.0	-12962.1	
Australia	2978.4	6306.2	-2479.7	0.0	6804.9	
New Zealand	-1373.9	8557.2	-2200.5	0.0	4982.8	
India	-71308.2	180367.5	-79442.2	0.0	29617.1	
RoW	-91606.9	1701111.9	-	1371233.0	0.0	244272.0

Source: Estimation of the Author.

Figure 9

Simulation 1: Welfare Decomposition

(Using aggregate trade flow)



Scenario 2: A 20 % increase in productivity in association with import growth in the presence of tariff elimination using aggregate trade flow

Results indicate that tariff revenues generated from the trade sector account for a small proportion of tariff revenue. If trade creation occurs, we expect trade within the ASEAN region to increase without reducing trade with the rest of world (ROW).

The improvements in productivity may be achieved substantially when the firms in ASEAN accommodate industrial and human resource capacity building strategies in CLMV at the expense of producers' losses due to tariff elimination. The column 'net welfare effects' represents the expected sum of producers' and consumers' surplus.

The results from simulation 2 are presented in Table 38. It suggests that each CLMV country's imports from ASEAN will increase compared to CLMV country's imports from other ASEAN major trading partners and ROW. In other words, CLMV countries' exports to ASEAN will also increase as the export demand for CLMV countries' products from ASEAN and major trading partners increase under trade liberalization conducted in simulation 1. The net welfare gains indicates the total expected welfare increase derived from both consumers and producers and a negative welfare increase indicates the position that producers' losses outweigh consumers' gains.

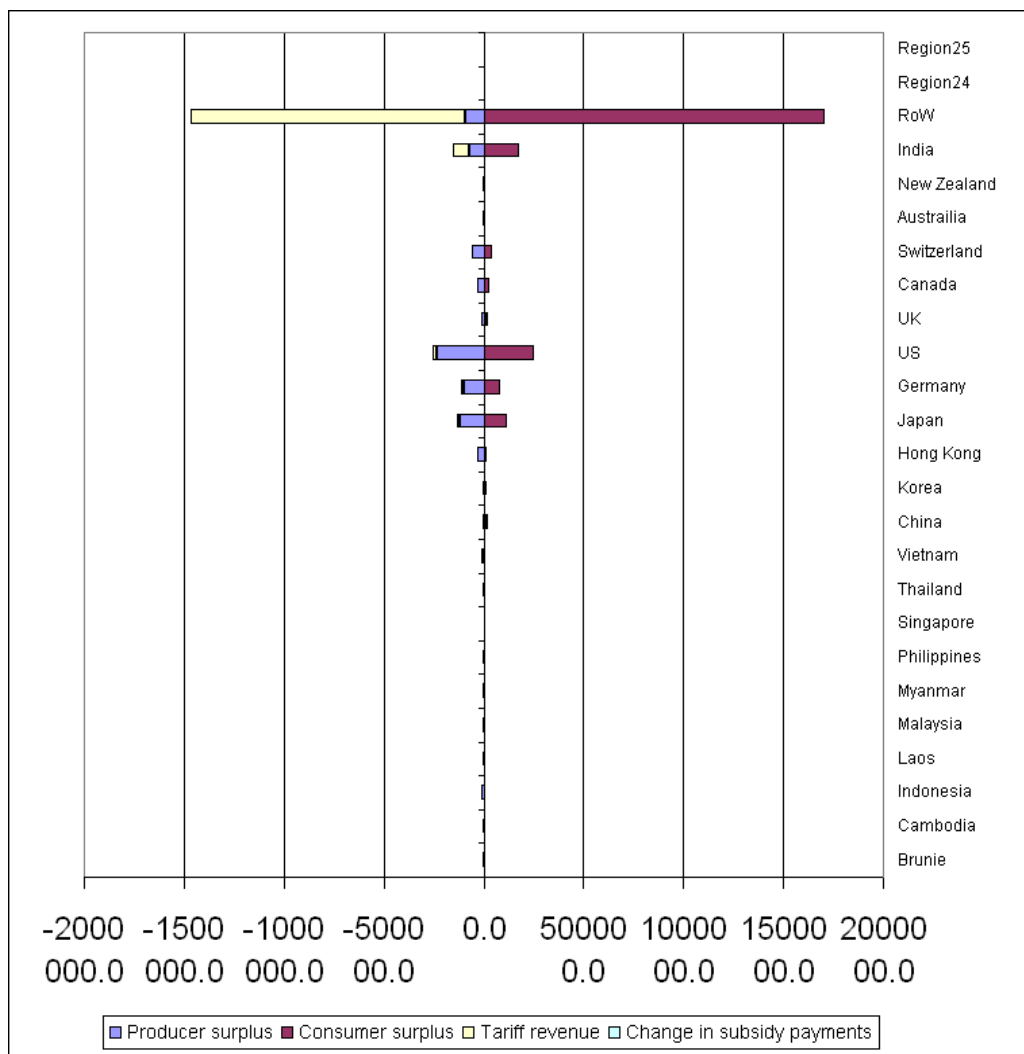
Table 41**Simulation 2: Effects of 20% increase in production on welfare**

(Using aggregate trade flow data)

	A	B	C	0	0
	Producer surplus	Consumer surplus	Tariff revenue	0	Net welfare effect
	Producer surplus	Consumer surplus	Tariff revenue	Change in subsidy payments	Net welfare effect
	A	B	C	D	E= A+B+C+D
Brunei	-328.9	291.9	-162.8	0.0	-199.8
Cambodia	-234.2	277.2	-465.4	0.0	-422.5
Indonesia	-15896.1	16428.2	-2947.7	0.0	-2415.7
Laos	-110.2	270.5	-250.5	0.0	-90.2
Malaysia	1361.9	4744.5	-3059.5	0.0	3047.0
Myanmar	-682.9	616.4	-347.2	0.0	-413.7
Philippines	-4094.3	14420.0	-2769.5	0.0	7556.2
Singapore	7488.7	682.7	0.0	0.0	8171.4
Thailand	-1946.2	5939.7	-2030.9	0.0	1962.6
Vietnam	-786.1	2987.4	-13640.5	0.0	-11439.2
China	-7696.5	20833.2	6439.7	0.0	19576.5
Korea	110359.1	-92130.8	11653.6	0.0	29881.9
Hong Kong	-38276.1	21708.0	0.0	0.0	-16568.1
Japan	-194298.7	190747.0	-7357.7	0.0	-10909.4
Germany	-144855.4	136077.3	-14888.5	0.0	-23666.6
US	-370483.2	393648.0	-19235.5	0.0	3929.4
UK	-10465.9	22182.2	6849.6	0.0	18565.9
Canada	-43828.2	46170.6	-3095.8	0.0	-753.4
Switzerland	-67616.5	56897.9	-940.7	0.0	-11659.2
Australia	4193.5	5093.0	-2520.7	0.0	6765.8
New Zealand	-1541.1	8724.3	-2235.6	0.0	4947.6
India	-7773.5	35709.0	-9011.9	0.0	18923.5
RoW	-111782.4	1707111.9	-1371233.0	0.0	224096.5

Figure 10

Simulation 2: Welfare Decomposition



Scenario 3: Elimination of intra-ASEAN tariffs from current level to zero using transport and machinery trade flow

Table 39 exhibits indicates that trade liberalization, to lower the both domestic prices and increase consumers' welfare. This analysis investigates how increased intra-

ASEAN trade, through liberalization will benefit both importers and exporters at least at household and firm levels.

Table 42
Simulation 3: Effects of complete tariff elimination on the social welfare
(Using transport and machinery trade flows)

Million U.S. Dollar

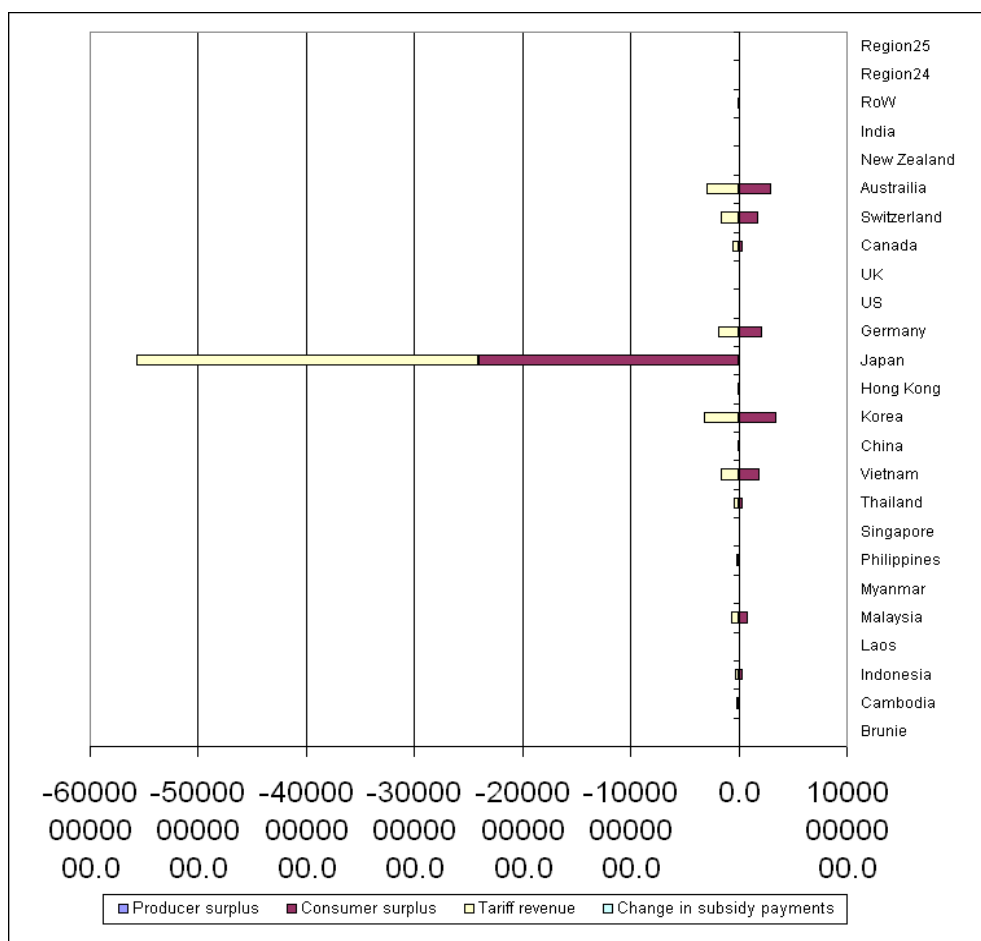
Origin	Welfare Effect			
	Producer surplus	Consumer surplus	Tariff revenue	Net welfare effect
Brunei	-3.77	-23.92	-6.20	-33.89
Cambodia	-13.45	2,240.41	-1,953.27	273.68
Indonesia	-50.53	3,537.81	-2,542.89	944.38
Laos	-0.87	0.00	0.00	-0.87
Malaysia	4.04	8,862.30	-6,797.94	2,068.40
Myanmar	-4.30	0.00	0.00	-4.30
Philippines	-0.0041	1,821.24	-1,605.62	215.62
Singapore	2.16	81.38	0.00	83.53
Thailand	-5.07	4,420.72	-3,886.11	529.53
Vietnam	-21.28	19,202.20	-16,753.29	2,427.63
China	-132.18	0.00	0.00	-132.18
Korea	24.95	35,785.30	-31,824.53	3,985.72
Hong Kong	-106.66	424.85	0.00	318.18
Japan	-5.76	-240,557.52	-315,954.12	-556,517.40
Germany	-7.97	22,335.29	-18,660.45	3,666.87
US	-24.61	0.00	0.00	-24.61
UK	-1.34	0.00	0.00	-1.34
Canada	-1.93	3,978.82	-5,677.76	-1,700.88
Switzerland	-6.13	18,181.10	-16,033.53	2,141.45
Australia	0.43	31,036.78	-29,389.78	1,647.43
New Zealand	-0.33	0.00	0.00	-0.33
India	-78.05	0.00	0.00	-78.05
ROW	-1,170.30	1.71	-1.37	-1,169.97

Source: Estimation of the Author.

Figure 11

Simulation 3: Welfare Decomposition

(Transport and Machinery Trade)



The results of simulation exercise 3 using transport and machinery trade data flow support the positive welfare gains in Cambodia and Viet Nam; however, Lao PDR and Myanmar faced minimal welfare losses indicating the need for strategies to encourage increases in trade and investment among ASEAN members; enterprise integration is an essential part of the AEC.

Thus if goods are produced in multiple stages in multiple countries, vertical specialization may emerge as discussed by Hummels, Ishii, and Yi (2001) and it would lead to the dynamic efficiency gains. The major weakness of GSIM indicates that it cannot explain numerically the effects of the inter-linkages among sectors upon the employment and welfare gains.

Trade can affect the structure of manufacturing industry by reallocating resources across industries according to comparative advantages. This improves the static efficiency of resource allocation. Recent developments in the growth theory, however, are focusing on the dynamic aspects of this resource allocation, namely technological progress. The source of technological progress is 'Learning-by-doing' and spill-over effects from it.

In addition, the trade-induced specialisation enable the movements of workers from low technology to high technology industries, the economy would experience a higher growth. Movement of workers to industries where the potential for learning-by-doing has already been exhausted, has the opposite effect on growth. Another source of technological progress is investment in plant and machinery embodying new technology. Expansion of capital-intensive industries stimulate investment in plant and machinery. A contraction of this sector due to trade-induced shift in specialisation, on the other hand, would lead to a lower rate of investment. trade-induced investment-led growth.

Thus increases in the trade openness, with significant differences across industries, as well as the changing production structures, may suggest that the influence of trade can vary from industry to industry, pointing towards a possible effect of trade on the structure of CLMV countries' manufacturing industry.

Conclusion

The AEC scores in this study represent the delivery gap which indicates the needs of local business for improving competitiveness and the current status of provisions in CLMV. Thus these AEC scores can be used to formulate action plan in the weak areas pinpointed by the AEC scores, to enhance the competitiveness of the business environment. Moreover such provisions will also enable them to attract FDI in these countries. In particular, the significant factors determining the group scores, for example, the scores for 'single market' can be examined in the most detailed manner possible thus, efficient management practices can be established for a particular set of strategies to meet the AEC objectives.

Consumers can enjoy gains in terms of consumer surpluses since products can be purchased as imports at relatively lower prices in line with elimination of tariffs. However, with the elimination of tariffs, the domestic industries in CLMV cannot make gains under infant industry arguments, which had been enjoyed by early members of ASEAN. It would result in the negative effects on domestic producers and thus producer surpluses become negative under the tariff elimination scheme.

As predicted by international trade theories and evidence shown by the early members of ASEAN, technology spill-over effects encourage increases in productivity and levels of production of all CLMV countries. The results of simulation exercise 3 using manufactured export-import flow support advocate the positive welfare gains in Cambodia and Viet Nam; however, Lao PDR and Myanmar faced minimal welfare losses indicating the need for strategies to encourage increases in trade and investment among ASEAN members; enterprise integration is an essential part of the AEC. As set out in the

AEC blueprint, to enjoy fully the benefit of the AEC, it is essential to engage effectively in the HRD and industrial capacity building, regional production and distribution networks by cooperation in the form of comprehensive economic partnerships in ASEAN and its trading partners as well as other international organizations.

14. Approaches and capacity building required to enable the identified industries to integrate with the rest of the region

14.1 Strategic regional approaches.

Once we know which industry has potential, we have to identify the strategic approach and capacity-building required, including those in the areas of human resource (HR), institutions, regulatory system, etc. Through increasing efficiency and productivity through infrastructure development, the CLMV countries can become more competitive. Economic and strategic approaches with respect to human development, capacity-building and institutional establishment can be tackled through the strategic approach, from national to sub-national or regional within the bilateral basis.

Internally, at the national level, capacity-building should be grounded in consistent long-term and strategic policy-making spelt out in a master plan that is reactive to emerging production networking. In other words. CLMV countries must have a very clear strategic blueprint for themselves in developing the industrial and domestic capacity building through leveraging on the emerging production network , the regional and global value chain based on each comparative advantage and by getting assistance through the IAI and various international and regional agencies.

The current inherent weak human resource capabilities in the CLMV countries together with weak or absent policy, institutional and legal frameworks make it difficult for these countries to raise their productive capacities; it also constraints the effective absorptive capacity of making optimum use of foreign aid and so IAI Work Plan will strengthen the productive capacities of the CLMV countries with an improved enabling environment and strengthened support capacities and information and communications technology offering the CLMV countries a vital opportunity and means to leapfrog the historical stages of development.¹⁶³

14.2 Need to confront social costs.

Deeper economic integration could lead to huge social costs incurred by the CLMV countries due to structural adjustments and the risk of falling into a low cost labor trap (where there is little incentive for domestic industries to move up the value chain); appropriate resources should therefore be allocated to these countries to ensure the full participation of all member countries in the integration process, including financial and technical assistance, transfer of technology, education, training facilities and other capacity building activities.¹⁶⁴

CLMV countries need to confront social costs in a determined manner and build up a social consensus; encouragement of private sector development, particularly those of SMEs is apparently a need and can be undertaken via a range of measures, including facilitation for their access to formal finance and besides they should establish their own social safety nets with views to ensure the minimum living standard for the people and to

¹⁶³ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website <http://www.aseansec.org/14684.htm>

¹⁶⁴ Hew, Denis (ed.), *Brick by Brick* (Singapore: Asia Pacific Press), 2007, p. 214.

ensure equity as it endeavours to get income tax from its people and also effective utilization of family and kinship supports may prove to be a good direction for Vietnam to pursue.¹⁶⁵

In Cambodia, there is migration from agricultural sectors to the manufacturing industries. Many rural workers continue to work 3-6 months in farming but for the rest of the time, they need to find sources of income in the cities in manufacturing sector. But inflation may impede this process of industrialization. The typical industrial worker makes about USD80 -85 per month. After renting a house, paying high food prices, paying off the electricity and running water bills, there is reduced amount of money to send back home to their villages. The whole point of going to industrial zones in Phnom Penh is to save money and if this is not possible, then people are discouraged from moving to the cities. Inflation thus needs to be controlled by the government to prevent swindling sources of rural labor.

Much of the investments and capital spending go into lower value added products such as garment, real estate speculation, tourism and the agricultural sector. Real estate and hydropower industries which sometimes hover to the turn of US\$200 million or so however employ limited numbers of people. Cambodia may need investments valued at US\$10 million but creating 1000-2000 jobs. Such jobs tend to be more technical in nature and thus vocational training is needed. Vocational training on a large scale is important. In Cambodia for example, the Ministry of Commerce is not conducting this kind of training due to lack of resources (e.g. qualified trainers).

¹⁶⁵ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 515.

14.3 Soft projects should also be promoted.

The CLMV countries not only lack hard physical infrastructure also the ‘soft’ infrastructure that would serve as prerequisites for next stage of the actual construction of the physical infrastructure projects (roads, rail, etc) and installing hardware for the ICT systems; in short, the first stage will focus on addressing the ‘soft’ issues such as conducting training to build up to capacity, assisting in developing policy, institutional, legal and regulatory frameworks, conducting feasibility studies etc before the hard physical infrastructure can be constructed/installed in the next phase.¹⁶⁶

14.4 Redistribution of income.

ASEAN should also consider introducing the principle of redistribution of income or resources, which can be formalized in the form of either compensation schemes or joint efforts to provide regional public goods that would be mostly beneficial to the less developed members of ASEAN to ensure the political feasibility of the integration project and to exclude temporarily or even permanently, some sensitive sectors from the liberalization objective.¹⁶⁷ However, ASEAN members must also come to an agreement to bring these sectors under the umbrella of the integration project through a common policy approach and such common policies can focus on managing production and trade and the use of domestic policy instruments (for e.g. subsidies) as a substitute for trade policy should also come under some common discipline.¹⁶⁸

¹⁶⁶ ASEAN Secretariat, "Bridging the Development Gap among Members of ASEAN" in the ASEAN secretariat website

<http://www.aseansec.org/14684.htm>Bridging the Development Gap among Members of ASEAN

¹⁶⁷ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 27.

¹⁶⁸ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 27.

14.5 Consumption.

Opening up and expansion of the consumption side should go hand in hand with the opening up and expansion of the production side and, for the less developed members of ASEAN (CLMV) the opening up of the consumption side will be facilitated by an expansion of the consumption side.¹⁶⁹ In turn, the expansion of the consumption side will result mainly from an expansion of the production side and the latter can be facilitated by its opening up, by hooking up to the regional production networks and this has been the experience of the other ASEAN members and China, and before them of the other East Asian countries (Japan and Korea).¹⁷⁰ One possible policy is to apply the “ASEAN-X” principle to the economic integration process -- member countries that are ready to remove barriers on good and services, investments, capital and labour should be allowed to do so while the remaining member countries can join in as and when they are ready.¹⁷¹ This would mean that a common market could initially be established by the ASEAN-6 (based on a realistic target deadline after 2020) with a time frame for the remaining CLMV countries to join in later.¹⁷²

Because closing the development gaps is considered to be very important for successful economic integration in the region, there is a common interest for countries in East Asia to provide development assistances to CLMV countries, whether financial or technical, e.g. various initiatives such as the Initiative for ASEAN Integration (IAI),

¹⁶⁹ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

¹⁷⁰ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

¹⁷¹ Hew, Denis, "Towards an ASEAN Economic Community by 2020: Vision or Reality?" dated 16 June 2003 in Viewpoints (Singapore: ISEAS), 2003,unpaginated.

¹⁷² Hew, Denis, "Towards an ASEAN Economic Community by 2020: Vision or Reality?" dated 16 June 2003 in Viewpoints (Singapore: ISEAS), 2003,unpaginated.

Greater Mekong Sub-Region (GMS), and Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) can provide financial and other technical resources to assist CLMV countries. GMS is robust in building and upgrading physical infrastructure, while IAI concentrates more on 'soft' development, focusing on training, skill upgrading, seminars and forums, which are less resource intensive.

Internally, at the national level, capacity-building should be grounded in consistent long-term and strategic policy-making spelt out in a master plan that is reactive to emerging production networking. In other words, CLMV countries must have a very clear strategic blueprint for themselves in developing the industrial and domestic capacity building through leveraging on the emerging production network, the regional and global value chain based on each comparative advantage and by getting assistance through the IAI and various international and regional agencies.

14.6 Initiative for ASEAN Integration (IAI).

At the 4th ASEAN Informal Summit in Singapore in November 2000, ASEAN leaders agreed to launch the Initiative for ASEAN Integration (IAI) with the aim of narrowing the development gap within ASEAN and assist the newer members in the process of regional integration.¹⁷³ To implement this initiative, a work plan was drawn up in November 2001.¹⁷⁴ The IAI Work Plan for CLMV focuses on the priority areas of Infrastructure Development (Transport and Energy), Human Resource Development (Public Sector Capacity Building, Labour & Employment, and Higher Education),

¹⁷³ Hew, Denis, "Towards an ASEAN Economic Community by 2020: Vision or Reality?" dated 16 June 2003 in Viewpoints (Singapore: ISEAS), 2003, unpaginated.

¹⁷⁴ Hew, Denis, "Towards an ASEAN Economic Community by 2020: Vision or Reality?" dated 16 June 2003 in Viewpoints (Singapore: ISEAS), 2003, unpaginated.

Information and Communications Technology, and Promoting Regional Economic Integration (Trade in Goods and Services, Customs, Standards and Investments) in the CLMV countries.¹⁷⁵ The launching of the IAI work plan is the response of ASEAN in assisting its less fortunate members bridge the development gap among the older and newer members. Concerned about the wellbeing of their fellow members, ASEAN-6 countries have committed to make significant contributions to uplift the standards of living of the CLMV countries in line with the concept of self help.¹⁷⁶

The core elements of the AEC are defined as those elements of integration that need to be there to make the region a single market and production base and they should desirably be achieved in 2015 but, beyond this, ASEAN should agree on a set of so-called “defining elements” that would further deepen the integration.¹⁷⁷ This will depend on how far the region is prepared to go though success in implementing the commitments in the five core areas of the AEC could strengthen the political will of leaders and broaden the constituency for greater regional integration within each of the Member States.¹⁷⁸

The Initiative for ASEAN Integration (IAI) adopted in November 2000 is ASEAN’s main instrument for delivering technical and development cooperation and assistance to the CLMV sub-region with capacity building for regional economic integration is intended to help the CLMV countries take part in and benefit from

¹⁷⁵ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

¹⁷⁶ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

¹⁷⁷ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 12.

¹⁷⁸ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 12.

AFTA/AFAS/AIA and other economic integration schemes.¹⁷⁹ The IAI Work Plan for 2002-08 initially focuses on 4 priority areas--- infrastructure, human resource development, ICT, and capacity building for regional economic integration, but this was later extended to include energy, investment climate, tourism, poverty reduction and improvement in the quality of life.¹⁸⁰

In addition to the ASEAN-6 contribution to the IAI work plan , 12 dialogue partners and development agencies are providing funding assistance to 62 projects totally US\$20.18 million and the top five donors are Japan, Korea, India, Norway and EU, contributing about US\$17.84 million (or 87.3%) of the total funding by donors.¹⁸¹

Under the IAI, all industries (in the manufacturing, agriculture, fishery, forestry and mining and quarrying sectors and services incidental to these five sectors) shall be open and national treatment granted to investors both at the pre-establishment and the post-establishment stages, with some exceptions as listed in member countries' Temporary Exclusion Lists (TEL) and Sensitive Lists (SL) . The TEL is to be phased-out based on agreed timelines. Although the SL does not have a timeline for phasing-out, they will be reviewed periodically.

In many instances, the measures and projects in the Work Plan are part of region-wide programmes of ASEAN but specially focused on CLMV3 and the ASEAN-6 contributions take various forms, including training, provision of technical experts and supply of equipment, and seeking funding support from ASEAN's dialogue and

¹⁷⁹ Chia, Siow Yue, "Integrating the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, p.10.

¹⁸⁰ Chia, Siow Yue, "Integrating the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, p.10.

¹⁸¹ Status Update of the IAI Work Plan (2002-2008), 31st Meeting of the IAI Task Force, 4 June 2008, ASEAN Secretariat, unpublished.

development partners and, since 1996, the ASEAN-6 have contributed some US\$165 million, comprising 58 projects worth US\$4.59 million, and bilateral contributions of US\$159.4 million to implement 209 projects.¹⁸² But, obviously these resources are limited, when compared to the needs of CLMV countries and their total receipts of ODA and ASEAN-6 need to leverage their IAI activities through cooperation with donor countries such as Korea, Japan, India, Norway and Australia and cooperate closely with the ADB's Greater Mekong Sub-region (GMS) scheme.¹⁸³

Meeting the AEC challenge will require CLMV to develop policy to enhance economic growth, strengthen economic competitiveness, increase domestic and foreign direct investments, expand private sector enterprises while meeting its public goals.

Actions:

- i. Enhance the IAI to serve as the platform for identifying and implementing technical assistance and capacity building programmes for both public and private sectors in ASEAN Member Countries, in particular, CLMV and the other sub-regional arrangements such as the IMT-GT and the BIMP-EAGA within ASEAN to allow them to be equal partners in the development of regional production and distribution networks;
- ii. ASEAN-6 to continue its support for IAI programmes;
- iii. Garner sufficient support from dialogue partners and international organisations such as the Asian Development Bank and the World Bank for effective implementation of the IAI programmes;

¹⁸² Chia, Siow Yue, "Integrating the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, p.10.

¹⁸³ Chia, Siow Yue, "Integrating the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, p.10.

- iv. Build/strengthen capacity of government officials to develop/implement economic and social policies that would mitigate the effects of economic integration.
- v. Conduct periodic socio-economic studies to monitor/evaluate the impact of economic integration.

14.7 GMS.

ASEAN and Greater Mekong Subregion (GMS) Programme have been the most prominent in promoting cooperation on transport in Southeast Asia. In the GMS, Thailand and the CMLV countries work with the Yunnan Province of China and, due to their geography, in fact, Thailand, Myanmar and Lao People's Democratic Republic are of potential importance for land transport linking India and China.¹⁸⁴ The GMS Programme has focused on strengthening cross-border connectivity since 1992.

For each of the designated five economic corridors, the programme promotes roads to improve access, institutional and policy support for trade and transport facilitation, and transit policy harmonization to reduce logistics costs across the subregion.¹⁸⁵ Such cooperation is important because a 20 percent reduction in logistic costs is expected to increase the trade to GDP ratio by more than 10 percent in the case of Cambodia and the Lao People's Democratic Republic and that several high impact

¹⁸⁴ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 51,

¹⁸⁵ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 51.

projects (e.g. missing TAR links, and transit roads through Myanmar and the Lao People's Democratic republic) can be achieved.¹⁸⁶

14.8 Formation of economic promotion agencies.

The economic promotion agencies of the CLMV countries also need upgrading. The Cambodian Cambodia Development Council (CDC) with its three branches [CIB (Cambodia Investment Board), CRDB (Cambodia Rehabilitation and Development Board) and the Special Economic Zone Board for example facilitates all investments activities US\$2 million and above]. They process the applications related to investment while the CRDB facilitates foreign aid to the foreign countries and deals with foreign donors. In such CLMV agencies, some changes can be made to increase incentives for the staff to speed up investment application, create awareness of the urgency of such assignments in the national interests and remove redundant officers. The lines of responsibilities can be made clearer with restructuring.

The CLMV governments have admitted the importance of role of the private sector in the development of the country. In Cambodia, there is a private sector working group meeting which meets twice a year and it is usually hosted by the PM. It has eight working groups in charge of tourism, construction, etc. These working groups are attended by the PM and he is the host. The working groups are given vast powers and convey what they are thinking and sway government decisions and they can also raise grievances straight to the PM.

¹⁸⁶ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 54.

14.9 Special economic zones (SEZs).

Special economic zones (SEZs) including export processing zones (EPZs) could be a good policy tool to reduce business and transaction costs embedded in CLMV economies; SEZs could provide well developed infrastructure with intensive capital investments in the demarcated production sites, and can also provide efficient administrative procedures including one stop services for export and import, business services such as offshore banking and logistics, and government support for human resources development and technology transfer; SEZs will be able to provide these services efficiently if they are insulated from the rest of the country where investment climate is generally poor.¹⁸⁷ SEZs can be located along border areas where it will be easier for them to connect to the regional and global economy through the borders they share with their neighboring countries; to develop SEZs, individual countries should provide a favourable legal framework, master plans, infrastructure, land clearance support aftercare services and a close link between owners and potential investors.¹⁸⁸

15. Regulatory and policy changes that CLMV countries can implement as a group to ensure full benefits of economic integration and minimize any adverse impacts.

Besides implementing regulatory and policy changes in each of the CLMV countries, such changes can also take place within the CLMV as a group in the following manner:

¹⁸⁷ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 10.

¹⁸⁸ Sotharith, Chap, "Development Strategy for CLMV in the Age of Economic Integration", ERIA Research Project Report 2007 No.4, March 2008, p. 10.

15.1 Creation of a dispute settlement mechanism (DSM).

One of the most important recommendations by the High Level Task Force (HLTF) was the creation of a more effective dispute settlement mechanism with powers to make legally binding decisions in resolving trade disputes among members states as the number of trade disputes would likely rise significantly as the region moves towards a higher level of economic integration..¹⁸⁹ Some studies recommend the establishment of a high level judicial body to enforce the SDM and the proposed court should be staffed by judges from every ASEAN member country.¹⁹⁰

15.2 Creation of regional units.

The creation of regional units is a first step towards regional institutional development as regional units of independent regional bodies are staffed by nationals who are formally independent of governments and should initially be given charge of areas where common policy approaches have been adopted, including the management of development collaboration (for e.g., implementing the IAI Initiative for ASEAN Integration) and the monitoring of progress of various other initiatives and a stronger ASEAN Secretariat, working together with the regional units can function as the driver and guardian of the integration project with its design consisting of the ASEAN Secretariat and Regional Units which may be amalgamated into a kind of ASEAN Commission.¹⁹¹

¹⁸⁹ Hew, Denis, "Introduction: Roadmap to an ASEAN Economic Community" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, pp. 2-3.

¹⁹⁰ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 28.

¹⁹¹ Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 28.

The Secretariat working together with the regional units can continue to co-exist in a decentralized but synergistic fashion, with the regional units given the responsibility of managing various functional cooperation projects as well as overseeing specific tasks entrusted upon them, as described above and national-level political oversight will continue to be provided by the AMM (ASEAN Ministerial Meeting), aided by the SOM (Senior Officials Meeting) and the AEM (ASEAN Economics Ministers Meeting), supported by the SEOM (Senior Economic Officials Meeting) or eventually by an ASEAN Council of Ministers.¹⁹²

Some have argued for a roadmap for the creation of an ASEAN regional bond market (ARBM), that is, an integrated system within which cross-issuance of fixed income securities would be possible, consistent with the Hanoi Plan of Action and this will help the AEC process by strengthening ASEAN financial development in general by reducing the need for extra-regional intermediation; increasing the participation in the regional market on both the demand and supply sides of the market, including higher participation by international players, creating greater diversity in the financial system with more efficient portfolio diversification/debt management for the private sector, quasi-governmental institutions, and governments; reducing to a minimum the currency and maturity mismatches.

15.3 ASEAN Consultative Network on Prepared Foodstuff.

An ASEAN Consultative Network on Prepared Foodstuff has been established which provides forum for regulatory authorities in ASEAN Member Countries, scientific experts and industry to interact on any issues related to prepared foodstuff and the

¹⁹² Hadi, Soeastro, "ASEAN Economic Community: Concepts, Costs and Benefits" in Roadmap to an ASEAN Economic Community edited by Denis Hew (Singapore: ISEAS), 2005, p. 29.

Network also provides with concerned stakeholders all necessary information on food legislation of Member Countries.¹⁹³ ASEAN has also identified 4 areas for harmonization of technical requirements: (1) Food Labelling (2) Import-Export Certification and registration Procedure (3) Food Fortification and GMO and (4) HACCP and GMP Inspection and Certification. This harmonization of technical requirements will pave the way towards future mutual recognition arrangements on prepared foodstuff in ASEAN. The current status of the priority sectors is in the stage of drawing out a roadmap for each sector and what remains missing is the overall roadmap towards achieving AEC, although ASEAN has produced an internal document, *Roadmap for ASEAN Integration*, prior to the decision to move towards an AEC.¹⁹⁴

16. Modality of assistance (regional or bilateral).

In order to successfully implement a regional strategic approach, structural shortcomings must be addressed. First, the CLMV countries must get development assistance either through the IAI, ADB, multinational agencies or developed countries. For example, CLMV countries can initiate capacity building, leverage and maximize the development assistance provided by the IAI and ADB within the GMS Greater Mekong

¹⁹³ ASEAN Secretariat Information Paper, "Progress on the Implementation of Eleven Priority Sectors" in the Badan Perencanaan dan Pembangunan Nasional (Bappenas) website [downloaded on 30 August 2008], available at www.bappenas.go.id/index.php?module=Filemanager&func=download&pathext=ContentExpress/39/ASEAN%20R, p. 1

¹⁹⁴ Soesastro, Hadi, "Realizing the East Asia Vision" dated Feb 2005 in CSIS Working Paper Series WPE 090 (Indonesia: CSIS), 2005, p. 13.

Subregion and the emerging network of North-South Corridor/East-West corridor and the Irrawaddy Chao Phraya projects.¹⁹⁵

External assistance to help out to close this gap in the transition period between revenue loss from tariff reduction to increase in producer and consumer surplus, to compensate the revenue gap in the revenue period. CLMV cannot generate funds to cover this transitional period internally. They need assistance in this area. Transfer payment and outright grants are not recommended as it is counterproductive. Assistance can be dispensed through training, remobilization of public administration and reallocation for factors of production to make the economy more mobile, more productive and adaptable to changing economic structures.

16.1 Room for improvement for IAI.

A comprehensive review undertaken of the IAI Work Plan found most of the projects have been judged to be beneficial, with positive feedbacks from all CLMV countries but some shortcomings have been revealed, such as the narrow focus of the Work Plan; weak inter-agency coordination, reporting mechanisms, implementation and follow-through actions; weak ownership of the IAI projects by the CLMV countries; and inadequate coherence of training programmes and duration of training courses, leading to recommendations to expand the scope of the Work Plan; improve the criteria for selection of IAI projects; improve coordination among the countries and agencies

¹⁹⁵ Sussangkarn, Chalongsob, "CLMV and East Asian Integration" in the International Monetary Fund (IMF) website [downloaded on 23 April 2008], available at www.imf.org/external/np/seminars/eng/2006/mekong/cs.pdf, p. 13.

involved; and improve CLMV ownership through CLMV's active participation in all stages of the project and CLMV contribution to the project in cash or kind.¹⁹⁶

16.2 Financial resource commitment.

Financial resources committed to the IAI programmes are relatively small compared with other Overseas Development Assistance (ODA) received by the CLMV (Thanh, 2006) and the GMS. While the GMS received a total of US\$ 2 billion in funding 10 years after it started in 2002, IAI received US\$51 million as of 2008, eight years after it started. The separation of ASEAN-6 and CLMV in the IAI program may be potentially segregating. Also, it is limited in its effectiveness as the capability and level of development of some of the ASEAN-6 may be overstated. While the IAI's philosophy is 'the more-well-off helping the less-well-off', it also needs to be 'working together to grow together'. There is hence a need for a more equitable and mutually-beneficial approach. Countries outside of ASEAN and international developmental agencies also need to be greater engaged.

16.3 More attention to developmental aspects.

Economic growth does not equate to economic well-being. The IAI needs to address other developmental aspects such as health and housing, as well as take a pre-emptive approach to deal with problems that might arise with development such as structural unemployment, a widening income gap, and human and drug trafficking with increased linkages. The gap between the ASEAN-6 and CLMV countries is a complex

¹⁹⁶ Chia, Siow Yue, "Integrating the Mekong Region into ASEAN" dated 26-27 June 2008 in the International Monetary Fund (IMF) website [downloaded on 26 April 2008], available at <http://www.imf.org/external/np/seminars/eng/2006/mekong/yue.pdf>, p.10.

one. Hence, the IAI needs to be able to identify and tackle these areas of disparity with sharpness.

16.4 Incorporated with external assistance.

IAI programmes should be incorporated with other external assistance such as multinational donors and Japan's ODA. Institutions are foundational to successful free market systems. As the CLMV countries transit from a centrally-planned to a market economy, there needs to be a shift in the legal and regulatory frameworks, which are still weak in the CLMV countries (Thanh, 2006). The scope of the IAI should be broadened to include exchange at a leadership level, for economically more advanced countries to lend their expertise in policy making. But the exchange should not be one-way, there needs to be a dialogue so that reforms suit the CLMV countries' each unique circumstance. This would also be a step towards political integration. Further, trade liberalization and economic integration would achieve more if they are supported by reforms in the inefficient state-owned enterprises (SOE) sector and banking system.

16.5 Getting NGO involved.

One possible way for the IAI to achieve sustainable development is to widen its scope to include cooperation in the non-governmental, non-profit sector. In terms of execution and evaluative mechanisms, the IAI can learn from the GMS in setting up working groups to follow through on the work plan. Cross sector linkages, if introduced in the IAI, could raise its effectiveness through synergy. For instance, transport linkages would open up opportunities for the industrial, trade and tourism sectors; multifaceted

developmental issues such as environmental protection can also be better dealt with Business linkages can also be encouraged.

16.6 Forums and networking.

Forums and networking sessions could be set up to help businesses in the ASEAN countries identify investment and collaboration opportunities. The IAI should also strive to be incorporated into other sub-regional cooperatives such as the GMS program, Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT), Brunei-Indonesia-Malaysia-Philippines-East Asia Growth Area (BIMP-EAGA), ASEAN-Mekong Basin Development Cooperation (AMBDC), AEM-METI Economic and Industrial Cooperation Committee (AMEICC), and Mekong River Commission (MRC).

16.7 Selection criteria need fine-tuning.

The criteria for selection of IAI projects have to be fine-tuned to include the precise needs of the CLMV countries in terms of the projects' role in national development and their effectiveness in building CLMV's capacity for participation in ASEAN programmes. To ensure more efficient and effective implementation, the approach to project status reporting and follow-up actions must change. The existing Co-Shepherd mechanism should be strengthened to ensure close monitoring of the IAI projects as well as the evaluation of completed projects and developing new modalities for funding mobilisation.

16.8 Stakeholder analysis.

The CLMV countries need to participate more actively at every stage, from the conception and formulation of projects to their implementation and monitoring, and to their final completion. The CLMV countries themselves must also provide some

contributions to the IAI projects whether in cash or kind. The CLMV countries need to ‘invest’ in their IAI focal points to ensure that they play the vital role expected of them in assisting in the smooth conceptualisation, implementation and follow-through of the IAI projects.

As the CLMV countries transit from a centrally-planned to a market economy, there needs to be a shift in the legal and regulatory frameworks, which are still weak in the CLMV countries (Thanh, 2006). The scope of the IAI should be broadened to include exchange at a leadership level, for economically more advanced countries to lend their expertise in policy making. But the exchange should not be one-way, there needs to be a dialogue so that reforms suit the CLMV countries’ each unique circumstance. This would also be a step towards political integration. Further, trade liberalization and economic integration would achieve more if they are supported by reforms in the inefficient state-owned enterprises (SOE) sector and banking system.

16.9 Recommendations for GMS.

Dr Surin Pitsuwan, the current ASEAN Secretary General, has recently expressed the need for radical and innovative ways to make ASEAN regional integration more effective, and requested a stocktake of ASEAN integration measures, pointing to the lack of coordination within ASEAN and with GMS initiatives, and low GMS stakeholder interest and ownership.¹⁹⁷ In many ways the Initiative for ASEAN Integration (IAI) framework is the same as the GMS, with the GMS countries a sub-set of IAI but

¹⁹⁷ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI, p. 2.

‘something is missing!’ in effectively linking and integrating these policy initiatives as they become operational.¹⁹⁸

GMS programs and projects with regional ownership and support now exceed ADB’s resources to lead them. An ADB evaluation study recommended that instead of acting as lead financier in every case, ADB should initiate, coordinate and finance a strategic share of programs in consultation with governments and donors and the ADB’s Regional Cooperation Strategy and Program (RCSP) commits itself to initiating new donor coordination meetings for interested and contributing donors and line ministries of the GMS governments, development partners, and civil society when appropriate.¹⁹⁹

The ADB study argues that expanded partnership will not only bring intellectual capital to the sectors and thematic areas but will also bring badly needed financial resources; the GMS governments have encouraged development partners to attend the working group meetings and to participate in sector debates and program formulation and partners are also invited to identify their areas of interest from the development matrix and to support those activities through a choice of means that ranges from sole support in partnership with the governments multipartner engagement.²⁰⁰ In addition, the development partners’ meeting during the annual ministerial conference is to be

¹⁹⁸ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI, p. 2.

¹⁹⁹ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI, p. 10.

²⁰⁰ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI, p. 10.

redesigned to ensure a more focused and inclusive discussion on issues that the partners wish to raise with the GMS governments and vice versa.²⁰¹

In principle, Governments should have their own mechanisms in place to seek the views of various groups within their countries, so as to arrive at a balance view and position to be adopted during the working group meeting discussions. However, considering the limited resources and capacity of some of the GMS governments, and the difficulties experienced in establishing effective stakeholder consultation mechanisms in even the most developed countries in the world, it may be wise to review the working group design to more systematically and directly facilitate the participation of relevant stakeholders groups.

This could be done by (1) including non-governmental and independent entities as working group members, or by (2) opening some of the working group meetings (or part thereof) to non-governmental stakeholders. Since the most vulnerable stakeholder groups are also generally the least organized, pro-active invitation of representatives of these groups should be considered (e.g., SMEs, in the case of private sector, consumer groups in the case of civil society).

In addition, the working groups could further consider discussing and developing mechanisms or institutional arrangements for provincial, national and subregional level stakeholder consultations in their respective sectors, so as to ensure that inter-governmental working group decisions are inclusive and evidence-based. Including those national and sub-national arrangements as an integral part of the overall institutional GMS cooperation arrangements may be considered.

²⁰¹ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI, p. 10.

16.10 Other shortcomings.

CLMV countries are often vulnerable to the national priorities and agendas of donor countries. Cambodia for example depend on 70% of the donor countries, has leverage to it. To minimize the influence of donor agendas on economic development, more turnkey projects can be sought. Turnkey projects minimize the ability of bureaucrats and politicians to stash away aid money. Another way to maximize development assistance is to channel the resources straight to the private sector. In the past, most projects in Southeast Asia have been financed by the Japanese loans through ADB or Japanese financial institutions. Financial grants go to the infrastructure and thereafter governments have to come up with repayments which locks in the already limited finances from the government, usually 30-40 years worth of interest from the loans.

But now, another new type of aid is getting popular: aid for trade and aid for business financing. China for example tries this different approach, investing in loans targeted at the private sector, directly paying the loan to enterprise owners. This then gives rise to a variety of loans and development aid for the CLMV region. In other words, there is a choice: infrastructure development or aid for business types of development aid.

16.11 Bilateral agreements.

16.11.1 Korea.

The Republic of Korea (ROK) Government has agreed to contribute USD 5 million from 2006-2011 to fund 5 IAI projects in Infrastructure, Trade, and Information & Communications Technology.²⁰²

16.11.2 Japan.

The Ministry of Health Labour & Welfare of Japan has agreed to fund a 3-year Labour & Employment project. In addition, Japan has also agreed to fund a new project namely “Japan-ASEAN Collaboration Programme for Strengthening the Basis of Human Resources Development in CLMV (2004-2007)”.²⁰³ ASEAN Foundation through the ASEAN-Japan Solidarity Fund is providing funding support to 1 IAI HRD project (jointly financed with Philippines) & 1 ICT project (jointly-financed with Thailand).²⁰⁴ Japan through the Third-Party Funding Scheme entitled Japan-ASEAN General Exchange Fund (JAGEF) is funding 6 IAI Infrastructure projects (five are jointly financed with Indonesia and one with Thailand). JAGEF also provided funding for the 5 first and second batch of Attachment Programme for Junior Diplomats of CLMV at ASEAN Secretariat and the Workshop on Formulation of IAI Programmes and cofund 1

²⁰² ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

²⁰³ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

²⁰⁴ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

HRD project with Malaysia.²⁰⁵ In collaboration with Malaysia, Japan International Cooperation Agency is funding 4 IAI projects in HRD, namely “Irrigation System Management Training Programme for CLMV Countries” (2 projects) and “Environment Protection for CLMV Countries” (2 projects).²⁰⁶

16.11.3 China.

To further enhance bilateral trade, China has agreed in principle to fund a Transport project namely “Development Study for the Inland Waterway Improvement Project in CLMV”.²⁰⁷ An ASEAN integrated transport network is needed to support ASEAN integration. However, insufficient progress has been made to develop such a network. Lessons learned from cross-border transport projects in recent years have shown that 1) governments need to play a larger role, even in projects that are primarily private sector-driven; 2) they require formal or informal institutional arrangements to reduce risk or conflict; and 3) a fair system of distribution is needed, when costs and benefits between different groups vary dramatically.²⁰⁸

China is investing some US\$6.4 billion in three Trans-Asian Railway sections in its Yunnan province to the borders with Vietnam, the Lao People’s Democratic Republic and Myanmar, and in view of the fact that a future India-China rail connection through Myanmar would be much cheaper and less than one third of the distance of the searoute

²⁰⁵ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

²⁰⁶ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

²⁰⁷ ASEAN Secretariat, "INITIATIVE FOR ASEAN INTEGRATION (IAI) WORK PLAN FOR THE CLMV COUNTRIES Progress Report as at 15 May 2005" in the ASEAN Secretariat website [downloaded on 7 Oct 2008], available at www.aseansec.org/pdf/IAI-Article.pdf

²⁰⁸ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 3.

in March 2007, China started working on a US\$1.9 billion 350 kilometer link from Dali to Ruli on the Myanmar border, where India has sanctioned 100 of the 315 km line to its border with Myanmar.²⁰⁹ Further liberalization of freight logistics services, as well as of certain transport services could also contribute to reducing logistics costs, which would greatly increase trade particularly in CLMV countries, for e.g. a 20% reduction in logistics costs is expected to increase the trade to GDP ratio by more than 10 per cent in the case of Cambodia and the Lao Democratic Republic.²¹⁰

Lao PDR receives various sources of support for its domestic reforms and international integration from international organizations as well as other agencies, among which UNESCAP⁵⁷, which serves as the Secretariat for the Asia-Pacific Trade Agreement (APTA, previously the Bangkok Agreement signed in 1975) - APTA is a preferential trade agreement which includes, among others, China, India and Lao PDR.²¹¹ After three rounds of multilateral negotiations, Lao PDR has received many preferential and general tariff concessions from other members and such concessions have significantly promoted Laos' exports to China; Lao PDR may therefore continue to take an active part in deepening this unique agreement during future rounds.²¹²

²⁰⁹ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 53.

²¹⁰ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 54.

²¹¹ Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, pp. 37-38.

²¹² Lewis, Donald J., "Integration of Landlocked Countries into the Global Economy and Domestic Economic Reforms: The case of Lao People's Democratic Republic" in the UNESCAP website, Working Paper Series, No 58, August 2008 [downloaded on 1 Oct 2008], (Asia Pacific Research and Training Network on Trade), available at <http://www.unescap.org/tid/artnet/pub/wp5808.pdf>, pp. 37-38.

17. Conclusion.

Efforts to engage in ASEAN integration and cooperation (through AFTA , ASEAN investment Area AIA, ASEAN Framework Agreement on Services AFAS etc) are essential for CLMV countries to progress in competition with more advanced members, before exposing itself to the much tougher competition in the global market and active involvement in ASEAN cooperation and integration also improve international bargaining power for CLMV countries in its relationship with external economic partners.²¹³ However, the benefits for CLMV from ASEAN cooperation and integration depend very much on their own reform efforts and the strengthening of ASEAN as a strong institution and economic bloc, and besides as the ASEAN consist largely of developing countries, engaging in ASEAN trade and investment should be given due care, to reduce the risk of putting the CLMV countries further down the value chain in the longer run.²¹⁴

Despite recent improvements in the implementing regulations, the laws on domestic and foreign investment themselves need to be amended and harmonized with each other. Incentives provided for investments are much decided on a case by case basis and consist mainly of import duty reductions and profit tax reductions or exemptions; the latter types of incentives are costly and "blunt" instruments and often not effective.²¹⁵ The incentive system needs to be made more "automatic" and designed so as to target

²¹³ ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 302.

²¹⁴ ERIA Member Research Institute, "Developing a Roadmap toward East Asian Economic Integration Perspective from 16 Countries, ERIA Related Joint Research Project Series 2007 No. 1, p. 302.

²¹⁵ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

specific objectives such as exports, employment creation and skills development.

Incentives should be discussed in an ASEAN context to avoid a regional “price war”.²¹⁶

In harmonizing practices, it may be necessary to recognize that the CLMV countries themselves are at different stages of development in terms of GDP per capita, openness of economy, political systems, information availability, ability to process raw materials, government bureaucracy, levels of corruption and infrastructure. Even in relative periods of development, Cambodia for example has enjoyed peace for only the last 10 years and Myanmar remains relatively closed to the external exchanges. Each CLMV country faces specific impediments.

17.1 Accelerating AEC would tend to widen development gap.

Basically, as ASEAN accelerates the time table of ASEAN free trade area, the AEC from 2020-2015, the CLMV countries will have less time to adapt and adjust to industrial policies, restructuring, capacity building. While AEC pillars emphasize competitiveness in the region, a single market base and integration into the global economy, it also places premium on equitable economic development. For the CLMV countries, the thrust of accelerating is to hope for equitable development because, for them, the existence of a single market is meaningless. They also need more development assistance and for them, regional integration and cooperation must involve to great extent economic development.

Closing the gap between Singapore and the other ASEAN members will take a long time, for example, ILO has calculated that, if recent trends continue, reducing the

²¹⁶ UNIDO, "Lao PDR: Medium Term Strategy and Action Plan for Industrial Development Final Report AA COMPREHENSIVE FRAMEWORK TO FOSTER ECONOMIC INITIATIVE IN LAO PDR" (Vientiane: Government Counterpart Agency: Ministry of Industry and Handicrafts), 31 May 2003, p. xi.

GDP per capita between Singapore and Cambodia by 25 per cent will take 15 years; a reduction of 50 per cent will take 34 years.²¹⁷ According to the United Nations Economic and Social Commission for Asia and the Pacific Report "Economic Cooperation and Regional Integration in the Greater Mekong Subregion (GMS)" dated 15 September 2008, although all GMS countries have experienced rapid growth over the past 15 years, no evidence is found that participation of CLMV in subregional cooperation and integration initiatives has led to a narrowing of the gap between the least and most developed GMS and ASEAN countries and while significant progress has been made in reducing poverty, within country inequality also increased during that period; in addition, while intra-GMS and intra-ASEAN trade both increased, trade of Cambodia and Lao PDR with other GMS or ASEAN countries remain small.²¹⁸

The persistence of development gaps among ASEAN member countries is unsustainable for ASEAN's future effectiveness; true regional integration will require all countries to achieve minimum standards of economic and social development and, without such development, ASEAN integration will lead to clear winners and losers, with poverty and inequality increasing between members as well as within member countries.²¹⁹ Narrowing the wide development gaps amongst ASEAN members is a condition for poorer ASEAN countries to benefit from ongoing initiatives to establish

²¹⁷ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007.

²¹⁸ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008.

²¹⁹ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 3.

stable and supportive financial flows systems for development.²²⁰ Member countries and groups therein that are adversely affected by the deepening and widening of integration should be compensated. ASEAN can consider formulating a covenant on social protection which could provide the basis for expanding its accessibility and financing as well as strengthening its solidarity components.²²¹

17.2 Development Assistance is more important than accelerating free trade and market access to CLMV economies.

The many achievements of ASEAN notwithstanding, the present report notes serious development gaps between the member countries of ASEAN and argues that these disparities need to be bridged urgently to prevent losers of the integration process from being permanently left behind; ESCAP believes that, in the long run, uneven development is unsustainable, as instabilities resulting from disparities will spill across borders into neighbouring countries, involving the movement of displaced people and the transformation of border areas into conflict zones, destabilizing wider areas of the region, nor is it sustainable to build firewalls to contain instabilities rather than addressing root causes.²²²

Greater regional cooperation aimed at reducing development gaps will benefit all countries, as it would enhance the functioning and sustainability of the partnerships between the member States and enable the region as a whole to become collectively more

²²⁰ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 2.

²²¹ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 4.

²²² United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 6.

competitive in the global economy, which increasingly hinges on the free flow of goods, services, capital, people and ideas as well as the benefits resulting from this free flow and the failure to address instabilities will obstruct this flow and structurally inhibit the competitiveness of the regional producers in the global economy.²²³

Regional cohesion that bridges development gaps between and within member States will require substantial transfers of resources in the form of investments in economic, social and environmental development, including the development of local infrastructure as part of regional networks; modalities for such investments need to be discussed and agreed upon, not merely through bilateral arrangements that already exist between various countries, but through more significant, collective processes.²²⁴

Financial assistance is required to enable the poorer countries to benefit from the opportunities offered by regional integration and these countries require additional support to provide social and economic resources to their citizens to benefit from increased openness to investment and trade.²²⁵

17.3 Domestic institutional, legal and human resource development are pre-requisite to complement for CLMV economies to benefit from accelerating AEC.

To implement both liberalisation and cooperation measures in realising a fully integrated economic community requires focus on HRD areas such as human resources development and capacity building; recognition of educational qualifications. As part of

²²³ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 6.

²²⁴ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 6.

²²⁵ United Nations Economic and Social Commission for Asia and the Pacific, “Ten as One: Challenges and Opportunities for ASEAN Integration” in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 4.

bridging the economic and social gaps within ASEAN, technical assistance to the CLMV countries should focus on the area of institutional building and human resource development. Institutions are foundational to successful free market systems.

In addition, as the CLMV countries transit from a centrally-planned to a market economy, there needs to be a shift in the legal and regulatory frameworks, which are still weak in the CLMV countries and the scope of the IAI should be broadened to include exchange at a leadership level, for economically more advanced countries to lend their expertise in policy making.²²⁶ The GMS countries have taken measures to enhance the investment climate, including improvements in the legal framework, incentives regime and the streamlining of investment procedures; in 2000, the GMS Business Forum was established to promote investment in the region and the GMS Program also arranged special GMS events to publicize the investment opportunities in the GMS region.²²⁷

To improve the business climate they have give proper attention to the development of physical infrastructure in transportation and telecommunications; trade facilitation measures in customs clearance and other bureaucratic procedures; and improve legal systems and economic institutions such as standards, IPR protection, and dispute settlement facilities.²²⁸ The traditional ASEAN way, already ill at ease with AFTA when binding agreement became inevitable, will be under increasing tension if and when the AEC is going to be filled in over time; the four strategic choices for treaty designers, discussed in the NAFTA and EU sections above, leave little if any room for

²²⁶ A comparison of the initiative for ASEAN Integration (IAI) programme and the Greater Mekong Sub-region (GMS) Economic Cooperation Programme, unpublished.

²²⁷ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008.

²²⁸ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 8.

the old ASEAN way and the McKinsey Report has clarified that multinational business wants far more legal certainty and a credible compliance system, before a single production base and a single market will be sufficiently attractive.²²⁹

The most important decision that ASEAN governments must make in order to move further in a credible fashion is to strengthen the legal base of the undertaking; short of this, many initiatives and commitments remain on paper and cannot be enforced; thus, the second issue is the need for ASEAN to develop a new ASEAN way in achieving the goal of an AEC, which is part of the broader ideal of an ASEAN Community and, by 2010, at the latest, ASEAN governments will have to make the critical decision of whether or not they want to deepen and widen their economic integration on the basis of a treaty.²³⁰

17.4 Coordination of aid agencies and larger development assistance are vitally important to promote more effective industrial development.

Besides accelerating the scheme, ASEAN should also work more closely with sub-regional arrangements such as the GMS program as these lower level arrangements have potential to boost regional cooperation on building capacities and infrastructure because they are in a more advantageous position to mobilise the peripheral areas and private sector. ASEAN's current support for these arrangements could be expanded to include assistance in mobilising resources and providing expertise, and integration with wider economic cooperatives and the benefits are two-fold: first, the performance of

²²⁹ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 13.

²³⁰ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 13.

these sub-regional initiatives would be improved; second, ASEAN would be able to better align its goals with these arrangements, creating a more consistent and effective network of trade and investment cooperatives in the region.²³¹

The financial assistance provided by the more developed GMS or ASEAN economies themselves to development and cooperation programmes targeted at the less developed members remains small compared to that provided by international organizations and non-ASEAN or non-GMS bilateral donors; in addition, while these GMS and ASEAN country “donors” see benefits in deepening cooperation and reducing the development gap between countries of the region, it is yet unclear whether they will be able to support implementation of a truly integrated regional development plan - interestingly, most of the funding from ASEAN countries for the IAI originates from Singapore, while other countries seem to be providing more funding through bilateral cooperation.²³²

GMS programs and projects with regional ownership and support now exceed ADB’s resources to lead them. An ADB evaluation study recommended that instead of acting as lead financier in every case, ADB should initiate, coordinate and finance a strategic share of programs in consultation with governments and donors and the ADB’s Regional Cooperation Strategy and Program (RCSP) commits itself to initiating new donor coordination meetings for interested and contributing donors and line ministries of the GMS governments, development partners, and civil society when appropriate. Measures should be expanded and coordinated in the future and such cooperating

²³¹ "ASEAN Regional trade and Investment-related Cooperation: Problems and Solutions" unpublished. P. 22.

²³² UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008.

agencies and donor governments should pay particular attention to the need to arouse awareness of the private sector and improve communications with the private sector in order to better implement such assistance measures and programmes.

17.5 On strategic approach and the potential for production and distribution network.

The AEC envisions a region in which there are increased backward and forward linkages amongst various production facilities and networks that are dispersed throughout the entire region and, as ASEAN members exhibit different endowments, levels of development and capacity, a dynamic division of labour can be developed amongst them if a smooth and efficient exchange of inputs to production can be assured. The elimination of barriers to trade thus plays an important role in facilitating this exchange but the dynamic division of labour amongst the ASEAN members will result primarily from sustained flows of investment, including the trans-migration of industries from the more developed to less developed members, and the continuous expansion and upgrading of regional production networks.²³³ Efforts need to be made to ensure that these regional production networks can become more dynamic and stronger segments of the global supply chain. Investment, in particular foreign direct investment (FDI), plays a critical role here as a single production base in the region implies that production activities in each of the ASEAN members will become regionalised and internationalised.²³⁴

²³³ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

²³⁴ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

In order to establish a single production base, ASEAN needs to promote regional production networks in the region as global trends in manufacturing indicate a shift towards adopting flexible production techniques and integrated production chains and intense competition means it is no longer cost effective for all manufacturing activities to be done in in-house or in a single country.²³⁵ In order to shorten production cycle time and speed-up delivery to the market, MNCs are integrating their manufacturing activities across several locations and introducing innovative Just-In-Time management techniques, often through international subcontracting. Such global production trends mean that MNCs are not only seeking large consumer markets but also regional sites where they can establish efficient production networks.²³⁶

Opening up and expansion of the consumption side should go hand in hand with the opening up and expansion of the production side; for the less developed members of ASEAN (CLMV) the opening up of the consumption side will be facilitated by an expansion of the consumption side and, in turn, the expansion of the consumption side will result mainly from an expansion of the production side while the latter can be facilitated by its opening up, by hooking up to the regional production networks.²³⁷

ASEAN Governments need no convincing that in order to be able to attract export-oriented foreign investment, they must provide location advantages and lessons can be drawn from past experience; first, trade protection negatively affects location advantages. Second, since in many developing countries the supporting industries are

²³⁵ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 9.

²³⁶ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 9.

²³⁷ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 6.

very weak, aggressive policy to invite foreign SMEs helps in the formation of industrial clusters and gradually also strengthen local SMEs. Third, sufficient public resources should be used to build economic infrastructure and most importantly, efforts to foster local firms, SMEs and otherwise, can be done through enhancing their capacity to penetrate into vertical production chains.²³⁸

To improve the business climate they have give proper attention to the development of physical infrastructure in transportation and telecommunications; trade facilitation measures in customs clearance and other bureaucratic procedures; and improve legal systems and economic institutions such as standards, IPR protection, and dispute settlement facilities and, finally, the sophistication of networks and the development of agglomeration require extensive involvement of local indigenous firms - there is a role for governments to assist local firms to penetrate into regional/international vertical production chains.²³⁹

For the less developed ASEAN countries (CLMV), by leveraging on their cost advantage in the production value chain, the CLMV countries would clearly stand to benefit from being part of a regional production base. However, appropriate resources should be allocated to ensure the full participation of these countries in the integration process and this would include financial and technical assistance, transfer of technology, education and training facilities GMS transport networks, combined with cross-border facilitation measures, help to increase access to markets and other economic opportunities

²³⁸ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 7.

²³⁹ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 8.

through strengthening of linkages, reduction of transportation costs for production networking.²⁴⁰

In East Asia the trade pattern is no longer simply one-way trade based on international differences in resource endowments; rather, sophisticated vertical production chains as well as distribution connection are extended to region-wide networks and fragmentation is at work as the networks consist of both intra-firm geographical extension and inter-firm business relationships. One of the motivations for fragmentation in East Asia is to take advantage of factor price differences as the CLMV countries have not been fully involved with the networks as yet so these countries have substantially low wage levels but have not been successful in attracting labour-intensive production processes, suggesting the need for policies to reduce costs and to encourage agglomeration in order to hook up to the regional production and distribution networks.²⁴¹

The institutional infrastructure in ASEAN would also need to be strengthened to expedite the economic integration process, including strengthening the capacity of existing regional institutions such as the ASEAN Secretariat as well as setting-up suitable supranational institutions to facilitate economic integration.²⁴² For e.g., there is also currently no DSM for disputes between private sectors under AFAS, the implementation of which is predominantly driven by businesses and there are no provisions for the issue, leaving it open without identifying any solution either based on domestic legal systems or

²⁴⁰ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, p. 10.

²⁴¹ Soesastro, Hadi, "Accelerating ASEAN economic integration Moving beyond AFTA" dated March 2005 in CSIS Working Paper Series WPE 091 (Indonesia: CSIS), 2005, pp. 7-8.

²⁴² Hew, Denis, "Towards an ASEAN Economic Community by 2020: Vision or Reality?" dated 16 June 2003 in Viewpoints (Singapore: ISEAS), 2003.

arbitration or other procedures which could be problematic as disputes are common and unavoidable in business exchanges.²⁴³

17.6 Salient specific country comparative strong and weak points of CLMV.

GMS countries have achieved significant socio-economic development over the past 15 years, the development gap has remained, particularly between China and Thailand on one side and CLMV on the other but the four CLMV countries can hardly be bundled together as they remain very different, for example, the political situation in Myanmar is unique and not conducive to a deepening of subregional and regional cooperation, not to mention economic integration; Lao PDR and Cambodia are both small countries with very small economies, while Viet Nam is the largest country of the GMS – excluding China - in terms of population and is seen by many as a potential long-term challenger of Thailand's economic dominance of the group given its impressive economic performance.²⁴⁴

While the data suggests that China and Viet Nam have significantly reduced the development gap with ASEAN-6 countries since the early 1990's, the development gap has not narrowed for the smaller and least developed countries - Cambodia and Lao PDR. While indicators incorporating social aspects are somewhat more encouraging than the macro-economic indicators, the two countries remain well behind most of other ASEAN members.²⁴⁵ Good statistics are required for evidence-based decision-making by a broad range of stakeholders and potential users; not only policymakers, but also private sector companies, civil society organizations, academia, the media, the general public and

²⁴³ "ASEAN Regional trade and Investment-related Cooperation: Problems and Solutions" unpublished.

²⁴⁴ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 50.

²⁴⁵ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 50.

international agencies need good statistics to use as a basis to take informed decisions, among other purpose, for .e.g. international agencies, for example, are among the key users of international statistics to monitor disparities between countries and target programmes towards less developed countries. Companies that operate globally also need international statistics to identify trade and investment opportunities.²⁴⁶

The member countries that joined ASEAN after 1996, Cambodia, the Lao People's Democratic Republic and Myanmar, were for various reasons rather insulated from the globalizing world at the beginning of the 1990s and, following the peace settlement and elections in 1993, the economy of Cambodia has grown at average annual rates higher during each successive half-decade.²⁴⁷ The growth experience of the Lao People's Democratic Republic and Myanmar has been similar although Myanmar is the only country in the ASEAN region with an average annual economic growth rate of over 7 per cent since 1990 but it should be noted that the large discrepancy between official and unofficial foreign exchange rates and the weakness of the country's statistical system makes a true assessment of Myanmar's growth performance difficult and this is reflected in the wide variation in in estimates of the country's GDP growth rate in recent years.²⁴⁸

In terms of trade integration, only Lao PDR – in large part due to its landlockedness – appears to be trade dependent on other GMS countries and, although Intra-GMS trade and Intra-ASEAN trade has increased since the early 1990's, Cambodia

²⁴⁶ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 23.

²⁴⁷ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 10.

²⁴⁸ United Nations Economic and Social Commission for Asia and the Pacific, "Ten as One: Challenges and Opportunities for ASEAN Integration" in ESCAP Series on Inclusive and Sustainable Development 1 (Bangkok: UNESCAP), 2007, p. 10.

and Lao PDR's share of intraregional trade each accounted for only about 2% of total intra-GMS trade, and less than 0.5% of total intra-ASEAN trade in 2006; both Cambodia and Lao PDR have very limited trade with non-GMS ASEAN member countries, suggesting that the ASEAN trade-related agreements may not have been so far very helpful for these two countries in reaching the regional markets.²⁴⁹

This points to the fact that increasing market access, either through better transport links (as particularly emphasized by the GMS programme) and through preferential trade agreements (as in ASEAN FTA) may need to be accompanied by enhancement of the supply-side (production) capacity of the weaker countries; indeed, if the various development frameworks in place aim to reduce the development gap and poverty in the poorest countries and provinces, activities more directly aimed at these objectives may need to be emphasized, as there is a risk – and some evidence – that an overemphasis on infrastructure enhancements may enhance rather than reduce inequalities both across and within countries.²⁵⁰

17.7 Stakeholder approach for regional development of CLMV to reduce impediments, policy-drag and to improve policy implementation.

While the rise in within-country inequality may not be attributed to regional cooperation and integration processes, this trend reinforces the need to take into account all stakeholders, particularly the most vulnerable and influential ones, in development initiatives including those supporting the regional integration process and this need was recognized earlier by ADB, which implemented a technical assistance project specifically

²⁴⁹ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 50.

²⁵⁰ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 50.

entitled “Promoting NGO Support for Poverty reduction in the GMS”, in which a number of recommendations were made to more closely involve civil society and private sector organizations and representatives in the design and implementation of GMS activities supporting regional integration.²⁵¹

The GMS working groups did include participation of some stakeholder groups but overall, however, there is no evidence that working group members actively and systematically sought the views of a range of stakeholders as the basis for or to enrich their discussions during the meetings.²⁵² There is a need not only rely on the existing top-down approach of governmental agreements and frameworks, but also encourage more participation of private sector and academics in the working groups, or in stakeholder consultations facilitated by working group members at the sub-regional level or in their own countries.²⁵³

In issues like the environment, for e.g., given the number of civil society and research institutions involved in the protection of the environment in the subregion, the participation of a few, mainly global, advocacy groups may not be adequate; in addition, the non-participation of private and business sector in the WGE meetings may be questioned at a time when there is much talk about the need for public-private partnerships to resolve sustainable development issues and when a significant portion of environmental problems may be linked with activities involving private businesses.²⁵⁴

Since the most vulnerable stakeholder groups are also generally the least organized, pro-

²⁵¹ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008.

²⁵² UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 51.

²⁵³ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 51.

²⁵⁴ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 52.

active invitation of representatives of these groups should be considered (e.g., SMEs, in the case of private sector, consumer groups in the case of civil society).²⁵⁵

The GMS programme, although hosted, owned and driven by the ADB, defines itself as 'inclusive', involving key stakeholders including governments, the private sector through the GMS Business Forum, major external aid/funding agencies, and civil society organizations, although to date to a limited extent.²⁵⁶ The central or ultimate stakeholders in GMS and regional integration are the affected peoples themselves, and their interest groups - public, private and civil society and, in the GMS integration context, the ADB as 'a donor agency', is a significant stakeholder, but one of many, with an important 'donor' role but not necessarily the role of 'driver' if sub-regional integration is to be effective; other stakeholders are the 4 governments, the private sector - national regional and international, and broader regional institutions such as ASEAN.²⁵⁷

The role of the private sector is critical to economic integration and growth and development in the GMS, but private sector stakeholder interests and roles need to be 'disaggregated' to include the GMS Business Forum, national Chambers of Commerce, local SMEs, foreign and domestic investors, and local and multinational corporations and the nature of these interests and their respective weights will be different in the different GMS countries, for example the largely foreign private sector ownership of the

²⁵⁵ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 52.

²⁵⁶ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI

²⁵⁷ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI

Cambodian garment industry by companies from Singapore, Taiwan, Korea, and China.²⁵⁸

The GMS cooperation programme and other regional cooperation initiatives may focus on strengthening the organizations of various stakeholder groups to give them a voice - this type of activity is not entirely new; ESCAP and ADB have, for example, actively supported the development of business sector organizations at the national and regional level and similar efforts may be made in strengthening organization of, in particular, important but low-influence stakeholder groups affected by subregional cooperation activities and more generally the integration of individual GMS countries and/or provinces in the regional and global economy – The first step in this process may be to identifying and classify the various stakeholder groups involved.²⁵⁹

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²⁵⁸ Strange, Larry, and Lim Sovannara, "ARTNeT: The Political Economy of Regional Integration in the Greater Mekong Sub-region – A Stakeholder Analysis Concept Note (Final - September 2008)" in CDRI, p. 2.

²⁵⁹ UNESCAP, "Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), Trade and Investment Division Staff working Paper 02/08 dated 15 September 2008, p. 52.

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Appendix 1 Summary of GSIM model

Import demand function

$$(1) M_{(i,v),r} = f(P_{(i,v),r}, P_{(i,v),s}, y_{(i,v)})$$

Hicksian demand function

$$(2) N_{(i,v),(r,s)} = \theta_{(i,v),s} (E_m + E_s)$$

$$(3) N_{(i,v),(r,r)} = \theta_{(i,v),r} E_m - \sum_{s \neq r} \theta_{(i,v),s} E_s = \theta_{(i,v),r} E_m - (1 - \theta_{(i,v),s}) E_s$$

Internal Price Equation

$$(4) P_{(i,v),r} = (1 + t_{(i,v),r}) P_{i,r}^* = T_{(i,v),r} P_{i,r}^*$$

Export supply equation

$$(5) X_{i,r} = f(P_{i,r}^*)$$

$$(6) P_{(i,v),r} = P_{i,r} + T_{(i,v),r}$$

$$(7) X_{i,r} = E_{x(i,r)} P_{i,r}^*$$

$$(8) M_{(i,v),r} = N_{(i,v),(r,r)} P_{(i,v),r} + \sum_{s \neq r} N_{(i,v),(r,s)} P_{(i,v),s}$$

Global Equilibrium Conditions

$$(9) M_{i,r} = \sum_v M_{(i,v),r} = \sum_v N_{(i,v),(r,r)} P_{(i,v),r} + \sum_v \sum_{s \neq r} N_{(i,v),(r,s)} P_{(i,v),s}$$

$$= \sum_v N_{(i,v),(r,r)} [P_{i,r}^* + T_{(i,v),r}] + \sum_v \sum_{s \neq r} N_{(i,v),(r,s)} [P_{i,r}^* + T_{(i,v),s}]$$

$$(10) M_{i,r} = X_{i,r} \Rightarrow$$

$$E_{x(i,r)} P_{i,r}^* = \sum_v N_{(i,v),(r,r)} P_{(i,v),r} + \sum_v \sum_{s \neq r} N_{(i,v),(r,s)} P_{(i,v),s}$$

$$= \sum_v N_{(i,v),(r,r)} [P_{i,r}^* + T_{(i,v),r}] + \sum_v \sum_{s \neq r} N_{(i,v),(r,s)} [P_{i,r}^* + T_{(i,v),s}]$$

Changed in producer surplus

$$(11) \Delta PS_{(i,r)} = R^0_{(i,r)} P_{i,r}^* + 1/2 \cdot R^0_{(i,r)} P_{i,r}^* \cdot X_{i,r}$$

$$= (R^0_{(i,r)} P_{i,r}^*) \cdot \left(1 + \frac{Ex(i,r) P_{i,r}^*}{2}\right)$$

$$(12) Q_{i,r} = A_v \cdot \left[\sum_{i=1}^r \gamma_{(i,v),r} M^p_{(i,v),r} \right]^{1/p}$$

Composite Price Equation

$$(13) P = \frac{dP}{P} = \sum_{i=1}^r \theta_{(i,v),r} P_{(i,v),r} = \sum_{i=1}^r \theta_{(i,v),r} \cdot [(1 + P^*_{i,r}) \frac{T_{1,(i,v),r}}{T_{0,(i,v),r}}]$$

$$(14) \frac{dP(i,v)r}{P(i,v)r} = \frac{(P_{(i,v)r})^1}{(P_{(i,v)r})^0} - 1 = \left[\left(\frac{(P^*_{i,r})^0 + dP^*_{i,r} + dP^*_{i,r}}{(P^*_{i,r})^0} \right) \frac{T_{1,(i,v)r}}{T_{0,(i,v)r}} - 1 \right]$$

Change in consumer surplus

$$(15) \Delta CS_{(i,v)} = \left(\sum_r R^0_{(i,v)r} \cdot T^0_{(i,v)r} \right) \cdot \left(\frac{1}{2} E_{m,(i,v)} P_{(i,v)}^2 \cdot \text{sign}(P_{(i,v)} - P_{(i,v)}) \right)$$

$$\text{where } P_{(i,v)} = \sum_r \theta_{(i,v),r} P_r^* + T_{(i,v)r}$$

Own- and cross-trade effect

$$(16) M_{(i,v)r} = N_{(i,v)(r,r)} P_{(i,v),r} + \sum_{sr} N_{(i,v)(r,s)} P_{(i,v),s} \\ = N_{(i,v)(r,r)} T_{(i,v),r} + \sum_{sr} N_{(i,v)(r,s)} T_{(i,v),s}$$

Own- trade effect

$$(17) TC_{(i,v),r} = M_{(i,v)r} \times [N_{(i,v)(r,r)} T_{(i,v)r}]$$

Cross-trade effect

$$(18) TD_{(i,v),r} = M_{(i,v)r} \times \sum_{sr} N_{(i,v)(r,s)} T_{(i,v),s}$$

Variables

M imports (quantity)

X exports (quantity)

P Composite domestic price

$P^*(i,r)$ World price for exports from region r

$P(I,r),v$ Internal prices for goods from region r imported into region v .

$t(i,r),v$ Import tariffs for goods from region r imported into region v .

r,s exporting regions

v,w importing regions

i industry designation

Parameters

$Q_{i,v}$ The composite good in region v .

A_v An efficiency term calibrated so that the price of Q , $P=1$.

$\gamma_{(i,v),r}$ $(i,v),r$ The CES expenditure weight term

The CES exponent term, where the substitution elasticity

$$E_s = \frac{1}{1-p}$$

E_s elasticity of substitution

$E_{m,(i,v)}$ aggregate import demand elasticity

Defined for aggregate imports $M(i,v)$ and composite price $P(i,v)$

$$= \frac{\partial M_{(i,v)}}{\partial P_{(i,v)}} \cdot \frac{P_{(i,v)}}{M_{(i,v)}}$$

$Ex,(i,r)$ elasticity of export supply

$$= \frac{\partial M_{(i,r)}}{\partial P_{(i,r)}} \cdot \frac{P_{(i,r)}}{M_{(i,r)}}$$

Calibrated coefficients

$N_{(i,v),(r,r)}$ Own price demand elasticity

$N_{(i,v),(r,s)}$ Cross-price elasticity

$T_{(i,v),r}$ The power of the tariff, $T=(1+t)$

$\theta_{(i,v),r}$ Demand expenditure share (at internal prices)

$$\theta_{(i,v),r} = M_{(i,v),r} T_{(i,v),r} / \sum_s M_{(i,v),s} T_{(i,v),s}$$

$\phi_{(i,v),r}$ Export quantity shares

$$\phi_{(i,v),r} = M_{(i,v),r} / \sum_w M_{(i,w),r}$$

Appendix Table 2
Intra- and extra-ASEAN trade by Priority Commodity Group, 2006
(as of 14 September 2007) in US\$ million

Commodity group ^{1/}		Intra-ASEAN			Extra-ASEAN			Total ASEAN		
No.	Description	Exports	Imports	Total trade	Exports	Imports	Total trade	Exports	Imports	Total trade
1	Electronics	27.19	27.84	27.49	27.19	27.84	27.49	27.55	27.62	27.58
2	ITC Products	17.63	17.60	17.62	17.63	17.60	17.62	17.58	16.81	17.22
3	Healthcare	0.78	0.75	0.77	0.78	0.75	0.77	0.65	0.62	0.64
4	Wood-based product	3.88	1.44	2.74	3.88	1.44	2.74	3.39	1.67	2.59
5	Automotives	2.14	2.42	2.27	2.14	2.42	2.27	2.27	2.48	2.37
6	Rubber-based products	3.25	0.62	2.02	3.25	0.62	2.02	2.82	0.78	1.87
7	Textiles and apparels	6.30	2.58	4.57	6.30	2.58	4.57	5.19	2.39	3.89
8	Agro-based product	5.87	3.82	4.91	5.87	3.82	4.91	5.68	4.07	4.93
9	Fisheries	1.14	0.38	0.79	1.14	0.38	0.79	0.94	0.42	0.70
10	Logistics	2.03	0.80	1.46	2.03	0.80	1.46	1.82	0.72	1.31
12	Tourism	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	Other	29.79	41.74	35.36	29.79	41.74	35.36	32.11	42.60	36.90
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: The ASEAN Secretariat, Jakarta.

Notes

- not available as of publication time 1/ based on the 2-digit classification (section) of the Harmonized System (HS)

x not available/not compiled 2/ include products with unspecified codes and/or products that could not be explicitly classified according to the current HS

Some figures may not sum up to totals due to rounding off errors.

Appendix 3
Questionnaires
For
Executive Opinion Survey on
Business Performance, Business Needs and Prospects for Enterprise Integration under the
ASEAN Economic Community (AEC)

Part 1



Objectives of the study

- i) To review the current status of industrial development in Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) based on the fourteen industries (sectors) covering the 12 priority industries (sectors) under the regional initiative agreement;
- ii) To identify areas or industries of the CLMV countries that have potential to become part of the regional production and distribution networks;
- iii) To identify strategic regional approaches and capacity building requirements to enhance the AEC;

Industry coverage

This survey includes state, privately owned, joint venture and cooperative enterprises.

All responses will be treated as confidential and will only be used in aggregate form. This survey is being conducted by the School of Management, Mae Fah Laung University, Chiang Rai, Thailand and (Institution x in country xx), in collaboration with the Initiative for the ASEAN Integration (AIA) Unit, ASEAN Secretariat in Jakarta, Indonesia and may be contacted at country team Mr..... email and Ms. Dyah Maryati, Initiative for ASEAN Integration (IAI) Unit, the ASEAN Secretariat, Jakarta, Indonesia, e-mail: dyah@asean.org for more information.

Please return the completed questionnaires to X Institution in X country

The Level of Performance Rating Score in the Survey

10---Extremely excellent, having competitiveness at the international level, and ranking the

first or second worldwide.

9--- Excellent, possessing competitiveness at the international level, and ranking within top

five worldwide.

8--- very good, having an exclusive advantage across the nation

7--- good, at a competitive advantage in the nation.

6--- not bad, having no competitiveness, but exceeding the average level in the nation.

5--- at mean level, having the national average strength.

4--- at limited level, possessing slightly below the national average strength

3---very limited level, having a certain gap comparing with the national average strength, and

the gap might influence the development of the whole cluster.

2---poor, having a remarkable gap comparing with the national average level, and the gap has

obvious impacts on the company/industry.

1---very poor, existing a huge gap comparing with the national average level, and the difference has impeded severely the cluster development

1. Which of the following best describes your company/organization. [Please tick $\sqrt{}$]

<input type="checkbox"/> Government or State Owned Enterprises	<input type="checkbox"/> International Organization
<input type="checkbox"/> Private Sector	<input type="checkbox"/> 100% Foreign Owned Firm
<input type="checkbox"/> Joint Venture (JV) Foreign firm's share % = _ _ _ _ _	<input type="checkbox"/> Trade Organization
<input type="checkbox"/> Cooperative	<input type="checkbox"/> Other (SPECIFY) _ _ _ _ _

2. What is your job title? [Please tick $\sqrt{}$]

Chief Executive/President	<input type="checkbox"/>	General Manager	<input type="checkbox"/>
Owner/proprietor	<input type="checkbox"/>	Manager/Officer	<input type="checkbox"/>
Director	<input type="checkbox"/>	Other (PECIFY) _ _ _ _ _	<input type="checkbox"/>

3. The following sectors include ASEAN's 12 priorities sectors. How would you best describe your company or organization's main area of activity? [Please tick $\sqrt{}$]

<input type="checkbox"/> electronics	<input type="checkbox"/> rubber-based products	<input type="checkbox"/> insurance
<input type="checkbox"/> IT services	<input type="checkbox"/> textiles and apparels	<input type="checkbox"/> business services
<input type="checkbox"/> healthcare	<input type="checkbox"/> agro-based products	<input type="checkbox"/> transport services
<input type="checkbox"/> wood-based products	<input type="checkbox"/> fisheries	<input type="checkbox"/> tourism
<input type="checkbox"/> automotives	<input type="checkbox"/> banking	<input type="checkbox"/> other _ _ _ _ _

4. How many full-time employees and casual staff in total work for this company?

Number of employees	Full-time	Casual /Part-time
None		
1-9		
10-49		
50-99		
100-199		
200-499		
500 or more		

5. Describe the nationality of company and its equity share %

nationality of company..... equity share %

6. Please specify your enterprise's leading products or services. WRITE IN

1.....2.....3.....

...

4.....5.....

7. What proportion of your sales or raw material are traded with the State sector? %

8. What proportion(%) of your sales are exports? %

9. How long has your company /organization been in operation years

To what degree do you agree with the following statements?

Use a scale of 1 to 10 (10=highest quality/efficiency; 5= average, 1=lowest), write scores in the brackets.

10. How would you rate the overall quality and efficiency of following public agencies or services:

- a) Trade and customs procedures and regulations are publicly available and easily accessible ()
- b) An effective advance ruling system in customs is in place ()
- c) An effective advance ruling system in rule of origin of product is in place ()
- d) Regional transit system is in place. ()
- e) Computerization and automation of customs and trade procedures have noticeably reduced average time of clearance ()
- f) Submitting required trade documentation to trade/customs authorities for approval is easy. ()

- 11a) Administrative price fixing of import or export are prevalent ()
 b) Advance payment requirements such as payment for import transaction, import deposit, advance custom duties are prevalent ()
 c) Technical regulations for imports, product characteristics requirements, labeling requirement do not deter trade. ()
 d) Testing, inspection and quarantine requirements do not deter trade. ()
 e) Pre-shipment inspection and special custom formalities do not deter trade. ()
12. a) Capital markets (foreign and domestic) are easily accessible ()
 b) Public sector contracts are open to foreign bidders ()
 c) International transactions can be freely negotiated with foreign partners ()
 d) Foreign investors are allowed in banking, insurance, telecommunications and business service sectors ()
- 13.a) The investment climate and changes in rules, laws or regulations, affecting my firm are consistent and predictable. ()
 b) The overall efficiency of the judiciary and courts encourages our investment ()
 c) transfer and repatriation of capital, profits and dividends is unobstructed ()
 d) Investment incentives are attractive to foreign investors ()
14. a) Venture capital is easily available for business development ()
 b) Banking and financial services efficiently support business activities ()
 c) Risk factors in the financial system are adequately addressed ()
 d) Stock markets provide adequate finance for companies in your country ()
 e) Cash flow is generally sufficient for companies to self-finance ()
- 15 a) Labor regulations (hiring/firing practices, minimum wages, etc.) do not hinder business activities ()
 b) Immigration laws do not prevent your company from employing foreign labor ()
 c) Labor relations are generally productive ()
 d) Employee training is a high priority in companies ()
 e) Skilled labor is readily available ()
16. Productivity and Efficiency in manufacturing, agriculture, forestry, fishery, and mining and quarrying
 a) Enterprises are efficient by international standards ()
 b) Productivity of your company is supported by global strategies (supplies, off shoring, outsourcing) ()
 c) Mutual Recognition Agreement (MRA) between your firm and firms in other ASEAN countries is in place in your enterprise ()
- 17a) Health, safety & environmental concerns are adequately addressed by management ()
 b) The quality of health services and hospitals is high ()
 c) The high quality health services and hospitals are accessible adequately ()

18. a) The legal and regulatory framework encourages competition of your enterprise()
b) Competition legislation is efficient in preventing unfair competition ()
c) Product and service legislation does not deter business activity ()
19. a) The Consumer protection is in place and effective. ()
b) Customer satisfaction is emphasized in companies ()
20. a) IRP is in place and effective. ()
b) The existence of IRP regulation in country is important for business. ()
c) IRP encourages foreign direct investment ()
21. How would you rate the overall quality and efficiency of following public agencies or services
- a) Roads Department/Public Works ()
b) Postal Service/Agency ()
c) The Telephone Service/Agency ()
d) The Electric Power Company ()
e) Water/Sewerage Service ()
f) Water transportation (harbors, canals, etc.) meets business requirements ()
g) Energy infrastructure is adequate and efficient ()
22. a) Corporate taxes do not discourage entrepreneurial activity ()
b) Tax evasion does not hamper business activity ()

23. Describe current information technology used by your company/organization

Type of use of IT	Now	In next 3 years
Advertising	<input type="checkbox"/>	<input type="checkbox"/>
E-mail for business contacts	<input type="checkbox"/>	<input type="checkbox"/>
To submit trade documents to government/trade organization	<input type="checkbox"/>	<input type="checkbox"/>
Internet sales/E-payment using credit cards	<input type="checkbox"/>	<input type="checkbox"/>
E-learning	<input type="checkbox"/>	<input type="checkbox"/>
e-Government	<input type="checkbox"/>	<input type="checkbox"/>
IT service (Web/software development)	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)_____	<input type="checkbox"/>	<input type="checkbox"/>

24. Which of the following forms of access to ICTs are being used?

IT Access	Now	In next 3 years
Fixed-line telecommunications (telephone, dial-up Internet, etc.)	<input type="checkbox"/>	<input type="checkbox"/>
Cellular mobile	<input type="checkbox"/>	<input type="checkbox"/>
Internet access	<input type="checkbox"/>	<input type="checkbox"/>
Voice over IP (Internet Telephony)	<input type="checkbox"/>	<input type="checkbox"/>
Satellite solutions (including VSATs and satellite phones)	<input type="checkbox"/>	<input type="checkbox"/>
Interactive television (cable TV)	<input type="checkbox"/>	<input type="checkbox"/>
Public access points (including Telecentres and Tele-shops)	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>

25 (a) Information on the laws and regulations affecting my firm is easy to obtain ()

(b) Interpretation of regulations affecting my firm is consistent and predictable ()

(c) Intellectual Property Rights (IRP) is in place and effective ()

(d) Ethical practices are implemented in company ()

26. a) The public service is independent from political interference ()

b) Bribing and corruption do not exist ()

c) Auditing and accounting practices are adequately implemented in business ()

d) Social cohesion is a priority for the government ()

27. a) Personal security and private property are adequately protected ()

b) The risk of political instability is very low ()

c) A social security system for employees is in place in your firm or company ()

28. Innovations and Research and Development (R&D)

(a) Innovations are supported by legislation ()

(b) What is your firm or organization' ratio of R&D expenditure to total expenditure per year:%

29. Are you a member of a trade association or lobby group? Yes No

30. Small and Medium Enterprises

Have you receives the **business set-up assistance** from the Government in the following areas during the last 3 years?

If 'No', please continue to Question 18.

If 'Yes', please evaluate, using scale of 1 to 10 as above.

Technical assistance	()
Fixed line telephones	()
Low interest loans	()
Product information	()
Market information	()
Other [Specify] -----	()

31. What does **turnover** add to your enterprise's? (or) Percent of **value added** in annual production: %.

32. What were your enterprises' **turnover sales** in during the last year. %

33. Of your current total exports or imports, approximately what proportion is accounted for by ASEAN countries, and others given below, during the last three years?

	From ASEAN countries	China, Korea and Japan	India, Bangladesh, Pakistan	E.U	U.S.	Others
> 80%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
50%-80%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20%-50%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
< 20%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
None	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Not available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

34.a) Environmental laws do not hinder the competitiveness of businesses ()
 b) Pollution problems do not seriously affect your economy ()
 c) The wastage management costs and municipal sanitary cost are moderate. ()

35. a) English Language skills meet the needs of enterprises ()
 b) Knowledge transfer is highly developed between companies and universities ()
 c) AEC would enhance the knowledge transfer for enterprises and community. ()

36. a) Companies have to make extra payment (unofficial payments) to public officials to perform business transactions such as getting a business license, permits, government contracts, custom clearance, etc. ()
- b) The transaction costs do not obstruct business competition and growth ()

37. On average, what **percentage of revenues of transaction cost** do enterprises have to pay per annum to public officials.

None	<input type="checkbox"/>
< 1%	<input type="checkbox"/>
1 – 5%	<input type="checkbox"/>
6 – 10%	<input type="checkbox"/>
10 – 20%	<input type="checkbox"/>
> 20%	<input type="checkbox"/>

38. Has your company undertaken any of the following **initiatives** during **the last three years**?

A reduction in the company workforce of greater than 10%	<input type="checkbox"/>
An increase in the company workforce of greater than 10%	<input type="checkbox"/>
Successful development of major new product line	<input type="checkbox"/>
Upgrading an existing product line	<input type="checkbox"/>
Discontinuation of at least one product line	<input type="checkbox"/>
Change of main supplier	<input type="checkbox"/>
Changes of main customers (>20% of sales)	<input type="checkbox"/>
Exporting to new country	<input type="checkbox"/>
Opening a new plant or branch	<input type="checkbox"/>
Closure of at least one existing plant/branch	<input type="checkbox"/>
Joint venture with foreign partner	<input type="checkbox"/>
Outsourcing of production activity that was previously conducted in-house	<input type="checkbox"/>
Quality accreditation received (ISO	<input type="checkbox"/>
Our enterprise has not undertaken any of these initiatives	<input type="checkbox"/>

39. Business Problematic areas (trading environment)

How problematic are the following for the operation and growth of your business?

- Business Licensing ()
- Customs/Foreign Trade Regulations in your country ()
- Labor regulations ()
- Foreign exchange regulations ()
- Fire and safety regulations ()
- Tax regulations/administration ()

Infrastructure (e.g. telephone, electricity, roads, land)	()
Environmental regulations	()
Inflation	()
Instability/uncertainty	()
Corruption(crime/theft/disorder)	()
Inadequate foreign exchange for imports	()
Other (Specify).....	()

40. How problematic are these different **financing issues** for the operation and growth of your business.

Collateral requirements of the banks/financial institutions	()
High interest rates	()
Lack of access to non bank equity/investors	()
Lack of access to specialized export finance	()
Lack of access to finance to lease equipment	()
Inadequate credit/financial information on customers	()
Lack of access to long-term bank loans	()

41. Which of the following would be the biggest competitive **threat** to your business?

Domestic small and medium enterprises	<input type="checkbox"/>
Domestic large private enterprises	<input type="checkbox"/>
Foreign firm producing in the domestic market (not imports)	<input type="checkbox"/>
State-owned enterprises	<input type="checkbox"/>
Informal sector enterprises	<input type="checkbox"/>
Legal imports	<input type="checkbox"/>
Smuggled goods	<input type="checkbox"/>
My firm has no effective competitors	<input type="checkbox"/>
Other (SPECIFY)	<input type="checkbox"/>

42. Have your company's sales, investment, exports, employment and debt changed in real terms over the last three years. By what percentage have increased/decreased?

Growth rates	% increased		% decreased		Unchanged
	WRITE %	≥ 10 %	WRITE %	≥ 10%	
Production		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Sales		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Investment		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Employment		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Exports		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Imports		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Debt		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

43. Do you expect your company's sales, investment, exports and employment to change in real terms over the next three years? What percentage change do you anticipate?

Growth rates	% increased		% decreased		Unchanged
	WRITE %	≥ 10 %	WRITE %	≥ 10%	
Production		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Sales		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Investment		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Employment		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Exports		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Imports		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Debt		<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

44. Does your firm have holdings or operations in other countries?

Yes No

If YES, which countries.

45. Does your company/organization have **backward linkages** (enterprise networks) for factor inputs such as import, tools, spare-parts, logistics and banking services and employment?

	Local company	Company in ASEAN countries	Company in Other countries
If YES, please describe.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

46. Does your company/organization have **forward linkages** (enterprise networks) for factor inputs such as distribution, export, tools, spare-parts, logistics and banking services and employment?

	Local company	Company in ASEAN countries	Company in Other countries
If YES, please describe.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

47. Does your company/organization have a plan for sales growth?

For this year		For next 3 years	
<input type="checkbox"/> YES	<input type="checkbox"/> NO	<input type="checkbox"/> YES	<input type="checkbox"/> NO

48. Please indicate the most importance sectors (industries) in your country already of ready for integration into ASEAN countries? *Use a scale of 1-10 (10 =highest; 5=average, 1=lowest)*

Sectors (Industries)	Ranking
electronics	
IT services	
healthcare	
wood-based products	
automotives	
rubber-based products	
textiles and apparels	
agro-based products	
fisheries	
banking	
insurance	
business services	
transport services	
tourism	

49. Does your company/organization have a plan to participate ASEAN regional distribution and industry networks in ASEAN Economic Community by 2015.

YES

NO

50. Please indicate as your opinion which industries can be integrated into ASEAN countries **based only on your company's areas/product line or sectors** given below.

Sectors	Describe particular name of products or industries	
electronics	1. 3.	2 4.
IT services	1. 3.	2. 4.
healthcare	1. 3.	2 4.
wood-based products	1 3.	2 4.
automotives	1 3.	2
rubber-based products	1. 3.	2 4.
textiles and apparels	1. 3.	2 4.
agro-based products	1. 3.	2 4.
fisheries	1. 3.	2 4.
banking	1. 3.	2. 4.
insurance	1. 3.	2 4.
business services	1 3.	2 4.
transport services	1 3.	2 4.
Tourism	1 3.	2 4.

51. What type of skills training programs will be needed, in order of priority, to engage in the ASEAN regional distribution network? Use a scale of 1-10 same as above.

Area of Training Needs	score
1. Trade Facilitation	
(a) Customs administration	()
(b) Competency in laboratory, inspection and certification	()
2. Application of standards under Mutual Recognition Agreement (MRA) between enterprises in ASEAN	()
3. Training courses for consumer protection officials and IP officials	()
4. ICT application in key areas: customs, logistics, and publication	()

- Training for National Computer Emergency Response Team ()
- 5. Socioeconomics and finance studies for government officers ()
- 6. technical assistance for industrial capability ()
- 7. Others ()

INTERVIEWER:

NAME:.....

COMPANY NAME:

ADDRESS:.....

.....

TEL:

E-MAIL:

DATE:

Appendix 4
Questionnaires
For
Executive Opinion Survey on Evaluating the Importance of Sub-factors to Factors
Influencing the ASEAN Economic Community (AEC)

Part 2



Objectives of the study

- i) To review the current status of industrial development in Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) based on the fourteen industries (sectors) covering the 12 priority industries (sectors) under the regional initiative agreement;
- ii) To identify areas or industries of the CLMV countries that have potential to become part of the regional production and distribution networks;
- iii) To identify strategic regional approaches and capacity building requirements to enhance the AEC;

Industry coverage

This survey includes state, privately owned, joint venture and cooperative enterprises.

All responses will be treated as confidential and will only be used in aggregate form.

This survey is being conducted by the School of Management, Mae Fah Luang University, Thailand in collaboration with ----- and the Initiative for the ASEAN Integration (IAI) Unit, ASEAN Secretariat, Jakarta, Indonesia. For more information, it can be contacted at -----, e-mail: ----- and Ms. Dyah Maryati, ASEAN Secretariat, Indonesia, e-mail: dyah@asean.org.

Please return the completed questionnaires to Mr/Ms -----.

Thank you for your cooperation.

This Questionnaire contains 20 principal factors and respective sub-factors influencing the AEC. **Please rate the degree of importance of sub-factors in relation to individual factors.**

Use scale of 1 to 7 (7=highest quality/efficiency; 3= average, 1=lowest) and write scores in the brackets.

1. Trade Facilitation Measures

- a) Trade and customs procedures and regulations are publicly available and easily accessible ()
- b) An effective advance ruling system in customs is in place ()
- c) An effective advance ruling system in 'rule of origin' of products is in place ()
- d) A regional transit system is in place ()
- e) Computerization and automation of customs and trade procedures have noticeably reduced time of clearance ()
- f) Submission of required trade documentation to trade/customs authorities for approval is easy ()

2. Non-Tariff Barriers

- a) Administrative price fixing of import prices and/or export price are prevalent ()
- b) Advance payment requirements such as payment for import transactions, import deposits, advance custom duties are prevalent ()
- c) Technical regulations for imports, product characteristics requirements, labeling requirements do not deter trade ()
- d) Laboratory testing, inspection and quarantine requirements do not deter trade ()
- e) Pre-shipment inspection and special customs formalities do not deter trade ()

3. Free Flow of Services and Market Access

- a) Capital markets (foreign and domestic) are easily accessible ()
- b) Public sector contracts are open to foreign bidders ()
- c) International transactions can be freely negotiated with foreign partners ()
- d) Foreign investors are allowed in banking, insurance, telecommunications and business service sectors ()
- e) High quality health services and hospitals are adequately accessible ()

4. Investment Protection

- a) The investment climate and changes in rules, laws or regulations affecting my firm are consistent and predictable ()
- b) Personal security and protection of private property ()
- c) Transfer and repatriation of capital, profits and dividends is unobstructed ()
- d) Investment incentives are attractive to foreign investors ()

5. Free flow of Capital

- a) Venture capital is easily available for business development ()
- b) Banking and financial services efficiently support business activities ()
- c) Risk factors in the financial system are adequately addressed ()
- d) Stock markets provide adequate finance for companies in your country ()
- e) Cash flow is generally sufficient for companies to self-finance ()

6. Labor Market Conditions and Regulations

- a) Labor regulations (hiring/firing practices, minimum wages, etc.) do not

- hinder business activities ()
- b) Immigration laws do not prevent your company from employing foreign labor ()
- c) Labor relations are generally productive ()
- d) Employee training is a high priority in companies ()
- e) Skilled labor in manufacturing, agriculture, forestry, fishery, and mining and quarrying is readily available ()
- f) Skilled labor in banking, insurance, telecommunications and business service is readily available ()

7. Productivity and Efficiency in Priority Sectors

- a) Foreign direct investment is allowed in the priority sectors ()
- b) Enterprises are efficient by international standards ()
- c) Raw materials for the priority sectors are available adequately in your country. ()
- d) Productivity of your company is supported by global strategies (supplies, off shoring, outsourcing) ()
- e) Health, safety & environmental concerns are adequately addressed by management ()

8. Competitiveness in Food, Agriculture and Forestry

- a) A fishery quality management system is in place and effective ()
- b) Inspection and quarantine are in place and effective ()
- c) Safety and quality standards for horticultural and agricultural products are in place ()
- d) Efforts to combat illegal logging and associated trade are in place and effective ()
- e) Research and technology transfer in agriculture, food and forestry products are in place and effective ()

9. Competition and Regulations

- a) The legal and regulatory framework encourages your enterprise to compete ()
- b) Competition legislation is efficient in preventing unfair competition ()
- c) Product and service legislation does not deter business activity ()

10. Consumer Protection

- a) Consumer protection is in place and effective ()
- b) Customer satisfaction is primary objective in companies ()
- c) Information sharing and exchange are publicly available and easily accessible ()

11. Intellectual Property Rights (IRP)

- a) IRP is in place and effective ()
- b) The existence of IRP regulation in your country is important for business. ()
- c) IRP encourages foreign direct investment ()

12. Utilities and Infrastructure

How would you rate the overall quality and efficiency of following public agencies or services

- a) Roads Department/Public Works ()
- b) Postal Service/Agency ()
- c) The Telephone Service/Agency ()
- d) The Electric Power Company ()
- e) Water/Sewerage Service ()
- f) Water transportation (harbors, canals, etc.) ()
- g) Energy infrastructure is adequate and efficient ()
- h) The quality of health services and hospitals is high ()

13. Taxation Policy

- a) Corporate taxes do not discourage entrepreneurial activity ()

- b) Tax evasion does not hamper business activity ()
 c) Double taxation has not been imposed on enterprises ()

14. Level of Use of IT/ E-Commerce/ in Your Business

- a) Advertising ()
 b) E-mail for business contacts ()
 c) To submit trade documents to government/trade organizations ()
 d) On-line trade in goods ()
 e) E-learning ()
 f) E-Government ()
 g) IT applications (Website/software development) ()

15. Small and Medium Enterprises

- a) Have you receives the **business set-up assistance** from the Government
 b) Environmental laws and compliance do not hinder the competitiveness of businesses ()
 c) Waste management and municipal sanitary costs are moderate ()
 d) Companies have to make extra payments (unofficial payments) to public officials to perform business tractions such as getting a business license, permits, government contracts, customs clearance, etc. ()
 e) Transaction costs do not obstruct business competition and growth ()

16. Problems in Trading Environment

Evaluate the trading environment in your country.

- a) Business Licensing ()
 b) Customs/Foreign Trade Regulations ()
 c) Labor regulations ()
 d) Foreign exchange regulations ()
 e) Infrastructure (e.g. telephone, electricity, roads, land) ()
 f) Inflation ()
 g) Instability/uncertainty ()
 h) Corruption(crime/theft/disorder) ()

17. The obstacles in financing issues for the operation and growth of your business.

- a) Collateral requirements of the banks/financial institutions ()
 b) High interest rates ()
 c) Lack of access to non bank equity/investors ()
 d) Lack of access to specialized export finance ()
 e) Lack of access to finance to lease equipment ()
 f) Lack of access to long-term bank loans ()

18. Institutions (Transparency of government policy)

- a) Information on the laws and regulations affecting my firm is easy to obtain ()
 b) Interpretation of regulations affecting my firm is consistent and predictable ()
 c) Intellectual Property Rights (IRP) are in place and effective ()
 d) Ethical practices are implemented in company ()

19. State Efficiency

- a) Public services is free from political interference ()
 b) Bribing and corruption do not exist ()

- c) Auditing and accounting practices are adequately implemented in business ()
- d) Social cohesion is a priority for the government ()
- e) A social security system for employees is in place in your firm or company ()

20. Innovations, and Research and Development (R&D)

- a) Innovations are supported by legislation ()
- b) What is your firm or organization' ratio of R&D expenditure to total expenditure per year:%
- c) Describe the level of use of R & D in your enterprise or institution ()
- d) Research relationships between Universities and industry are strong ()

INTERVIEWER:

NAME:.....

COMPANY NAME:

ADDRESS:.....

.....

TEL:

E-MAIL:

DATE:

**Appendix 5 : AEC Data Acquisition Template for Interviews with High Level Senior Officials
from Government Sector and CEO from Trade Organizations**



Objectives of the study

- i) To review the current status of industrial development in Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV) based on the fourteen industries (sectors) covering the 12 priority industries (sectors) under the regional initiative agreement;
- ii) To identify areas or industries of the CLMV countries that have potential to become part of the regional production and distribution networks;
- iii) To identify strategic regional approaches and capacity building requirements to enhance the AEC;

Industry coverage

This survey includes state, privately owned, joint venture and cooperative enterprises.

All responses will be treated as confidential and will only be used in aggregate form.

This survey is being conducted by the School of Management, Mae Fah Luang University, Thailand, and the IAI Unit, ASEAN Secretariat, Jakarta, Indonesia, e-mail: kmnyunt@mfu.ac.th (Mae Fah Luang University) and dyah@asean.org (the IAI Unit, ASEAN Secretariat) for more information.

Data Required for 14 Priority Integrating Sectors

- 1. electronics
- 2. e-ASEAN status
- 3. healthcare

4. wood-based products
5. automotives
6. rubber-based products
7. textiles and apparels
8. agro-based products
9. fisheries
10. air travel (transport services)
11. tourism
12. logistics
13. banking and insurance
14. business services

Sector/Industry Name:

Policy initiatives	
Factor/ inputs conditions	
Number of employee	
Register capital	
Raw materials	
Imports	
Technology	
Related supporting industries	
a) Backward linked industries	
b)Forward liked industries	
Industry Strategies	
Government plan/ Activities towards AEC	
Source:	

**List of Potential Industries to Engage in the Regional Production
and Distribution Networks**

Sectors	Describe particular name of products or industries	
Electronics	1.	2.
	3.	4.
	1.	2.
IT services	3.	4.
	1.	2.
	3.	4.
Healthcare	1.	2.
	3.	4.
	1.	2.
Wood-based products	3.	4.
	1.	2.
	3.	4.
Automotives	1.	2.
	3.	4.
	1.	2.
Rubber-based products	3.	4.
	1.	2.
	3.	4.
Textiles and apparels	1.	2.
	3.	4.
	1.	2.
Agro-based products	3.	4.
	1.	2.
	3.	4.
Fisheries	1.	2.
	3.	4.
	1.	2.
Banking	3.	4.
	1.	2.
	3.	4.
Insurance	1.	2.
	3.	4.
	1.	2.
Business services	3.	4.
	1.	2.
	3.	4.
Transport services	1.	2.
	3.	4.
	1.	2.
Tourism	3.	4.

Source:

e-ASEAN sector: Questionnaire

1. The status of Information Infrastructure;
 - (i) status of use of broadband technology
 - (ii) status of ITC laws and regulations
 - (iii) government policies
 - (iv) status of use of e-commerce in ASEAN trade
2. The growth of electronic commerce in your country
 - (i) number of internet users (in cities)
 - (ii) number of internet users (in remote areas)
3. The liberalisation of trade in ICT products, tariff in ICT products
4. ASEAN countries' investments in ITC sector;
 - (i) names of ASEAN countries investing in ITC in your county
 - (ii) amount of investment in ITC
5. The status of use of ICT applications in the delivery of government services (e-Government) among local and central governments
6. Status of cooperation in following area

	ASEAN proposed functions	Describe briefly the completed and on-going activities
1	Enabling Policy and regulatory	
2	Inter-connectivity and inter operability in remote area	
3	Digital content and online services	
4	Network security in ASEAN	
5	Capacity building -ongoing program -new program	

Priority Sector :Public Health

Health Infrastructure

	Public health facilities	Number			Number of beds		
		2005	2006	2007	2005	2006	2007
	General hospitals ^c						
	Specialized hospitals ^d						
	District/first level referral hospitals						
	Primary health care centres						
	Private hospitals						
	Public health practitioner						
	number of doctors						
	number of specialist						
	number of nurses						
	number of health-scientist						

Notes:

c Refers to central-level general hospitals, regional general hospitals and provincial general hospitals.

d Refers to specialized hospitals at central level.

Industrial Capacity Building Requirements: 2008-2015

Sector name:

Please provide the list of machinery and the amount of capital required for possible participation in the regional production and distribution networks.

Serial no.	Type of required machinery for industrial capacity building	quantity	Value (U.S. dollar)
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

Notes: It aims to collect the base-line capital estimates for the industrial capacity building.

HRD (Human Resource Development) Capacity Building Requirements 2008-2015

Sector name:

Please provide the list of the HRD capacity building training programs for possible participation in the regional production and distribution networks.

Serial no.	Type of training program	Number of staffs need to attend the program	Level of position of staff
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

Appendix Table 6

Simulation 1: Output and Domestic Price Effect

	Change in Overall Consumer Prices	Change in Output	Producer Price for Home Good	Market Price for Home Good
Brunei	-5.90%	-5.2%	-3.44%	-3.44%
Cambodia	-2.81%	-3.6%	-2.38%	-2.38%
Indonesia	-3.62%	-5.2%	-3.47%	-3.47%
Laos	-5.04%	-3.2%	-2.11%	-2.11%
Malaysia	-2.28%	0.7%	0.44%	0.44%
Myanmar	-1.61%	-2.9%	-1.96%	-1.96%
Philippines	-6.81%	-14.7%	-9.80%	-9.80%
Singapore	-0.75%	3.1%	2.06%	2.06%
Thailand	-1.73%	-0.7%	-0.49%	-0.49%
Vietnam	-1.04%	-1.7%	-1.10%	-1.10%
China	-0.74%	-0.3%	-0.22%	-0.22%
Korea	2.46%	4.9%	3.29%	3.29%
Hong Kong	-3.18%	-11.4%	-7.59%	-7.59%
Japan	-2.76%	-4.5%	-2.99%	-2.99%
Germany	-2.79%	-5.0%	-3.32%	-3.32%
US	-2.13%	-3.4%	-2.25%	-2.25%
UK	-0.83%	-0.5%	-0.36%	-0.36%
Canada	-2.22%	-3.5%	-2.34%	-2.34%
Switzerland	-3.69%	-11.1%	-7.38%	-7.38%
Australia	-0.56%	0.5%	0.33%	0.33%
New Zealand	-1.31%	-0.5%	-0.35%	-0.35%
India	-7.68%	-12.3%	-8.23%	-8.23%
RoW	-16.11%	-2.4%	-1.60%	-1.60%

Appendix 7 Simulation 1 Cross-price effects

	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand
Brunei	-22.7	-13.2	-15.0	-23.7	-9.9	-7.9	-32.0	-3.6	-8.1
Cambodia	-27.7	-6.7	-15.1	-23.7	-10.0	-7.9	-32.0	-3.6	-8.1
Indonesia	-26.5	-12.1	-4.5	-23.7	-8.7	-7.7	-31.7	-3.1	-7.5
Laos	-27.8	-13.2	-15.1	-17.8	-10.0	-7.9	-32.0	-3.7	-8.1
Malaysia	-20.4	-12.4	-14.7	-23.7	-10.7	-7.6	-31.6	-3.9	-7.0
Myanmar	-27.7	-13.2	-15.1	-23.7	-9.9	0.1	-32.0	-3.6	-7.8
Philippines	-27.5	-13.1	-15.1	-23.7	-8.7	-7.8	-5.4	-2.8	-7.6
Singapore	-17.9	-11.2	-13.5	-23.2	-7.6	-7.3	-31.3	-6.4	-7.5
Thailand	-26.1	-7.9	-14.6	-6.7	-8.5	-6.8	-31.5	-3.6	-6.9
Vietnam	-27.7	-10.4	-15.1	-22.2	-9.7	-7.8	-31.9	-3.6	-8.0
China	-27.7	-12.4	-15.1	-22.9	-9.9	-7.7	-32.0	-3.6	-8.1
Korea	-28.1	-13.3	-15.3	-23.7	-10.4	-8.0	-32.4	-4.2	-8.4
Hong Kong	-27.2	-10.1	-15.0	-23.5	-9.4	-7.8	-31.4	-3.1	-8.0
Japan	-27.1	-12.8	-14.8	-23.5	-8.9	-7.8	-31.1	-2.6	-6.9
Germany	-27.5	-13.2	-15.0	-23.5	-9.6	-7.8	-31.9	-3.3	-8.0
US	-27.5	-13.1	-15.0	-23.7	-9.2	-7.8	-31.3	-2.6	-7.8
UK	-27.7	-13.2	-15.1	-23.7	-9.9	-7.9	-32.0	-3.6	-8.1
Canada	-27.7	-13.2	-15.0	-23.6	-9.8	-7.9	-31.9	-3.5	-8.0
Switzerland	-27.7	-13.2	-15.0	-23.5	-9.5	-7.8	-31.8	-3.0	-7.8
Australia	-27.8	-13.2	-15.2	-23.6	-10.0	-7.9	-32.0	-3.7	-8.2
New Zealand	-27.7	-13.2	-15.1	-23.6	-9.9	-7.9	-32.0	-3.6	-8.1
India	-27.3	-13.1	-14.8	-23.7	-9.3	-7.6	-32.0	-2.9	-8.0
RoW	-27.3	-23.6	-14.8	-26.7	-9.5	-10.6	-31.2	-2.7	-7.1

Source: Calculations of the author.

Contd:

	Vietnam	China	Korea	Hong Kong	Japan	Germany	US	UK
Brunei	-4.9	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Cambodia	-4.8	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Indonesia	-4.0	-3.4	11.6	-14.9	-12.9	-11.7	-10.0	-3.6
Laos	-4.8	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Malaysia	-3.5	-3.5	11.6	-15.0	-13.0	-11.7	-10.0	-3.6
Myanmar	-4.9	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Philippines	-4.4	-3.2	11.6	-14.5	-12.9	-11.6	-10.0	-3.6
Singapore	-2.4	-3.5	11.5	-15.3	-13.0	-11.7	-10.0	-3.6
Thailand	-3.3	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Vietnam	22.7	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
China	-11.7	-2.8	11.6	-14.6	-13.0	-11.7	-10.0	-3.6
Korea	-6.4	-4.0	-1.4	-15.4	-13.1	-11.7	-10.1	-3.6
Hong Kong	-4.3	-3.1	11.7	-3.0	-13.0	-11.6	-10.0	-3.4
Japan	-4.6	-2.8	11.9	-13.9	-1.0	-11.6	-9.9	-3.5
Germany	-4.8	-3.2	11.7	-14.8	-12.9	-2.6	-9.9	-3.2
US	-4.9	-3.2	11.7	-14.6	-12.8	-11.5	-1.4	-3.4
UK	-4.9	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-2.5
Canada	-4.9	-3.4	11.6	-14.8	-13.0	-11.5	-9.9	-3.6
Switzerland	-4.5	-3.2	11.6	-14.3	-12.9	-11.0	-9.9	-3.6
Australia	-5.2	-3.5	11.6	-15.0	-13.0	-11.7	-10.0	-3.6
New Zealand	-5.0	-3.5	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
India	-4.8	-3.3	11.7	-14.7	-13.0	-11.6	-10.0	-3.5
RoW	-27.6	-2.4	12.0	-14.6	-12.5	-10.3	-9.2	-2.0

Appendix7

Contd:

	Korea	Hong Kong	Japan	Germany	US	UK
Brunei	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Cambodia	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Indonesia	11.6	-14.9	-12.9	-11.7	-10.0	-3.6
Laos	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Malaysia	11.6	-15.0	-13.0	-11.7	-10.0	-3.6
Myanmar	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Philippines	11.6	-14.5	-12.9	-11.6	-10.0	-3.6
Singapore	11.5	-15.3	-13.0	-11.7	-10.0	-3.6
Thailand	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
Vietnam	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
China	11.6	-14.6	-13.0	-11.7	-10.0	-3.6
Korea	-1.4	-15.4	-13.1	-11.7	-10.1	-3.6
Hong Kong	11.7	-3.0	-13.0	-11.6	-10.0	-3.4
Japan	11.9	-13.9	-1.0	-11.6	-9.9	-3.5
Germany	11.7	-14.8	-12.9	-2.6	-9.9	-3.2
US	11.7	-14.6	-12.8	-11.5	-1.4	-3.4
UK	11.6	-14.9	-13.0	-11.7	-10.0	-2.5
Canada	11.6	-14.8	-13.0	-11.5	-9.9	-3.6
Switzerland	11.6	-14.3	-12.9	-11.0	-9.9	-3.6
Australia	11.6	-15.0	-13.0	-11.7	-10.0	-3.6
New Zealand	11.6	-14.9	-13.0	-11.7	-10.0	-3.6
India	11.7	-14.7	-13.0	-11.6	-10.0	-3.5
RoW	12.0	-14.6	-12.5	-10.3	-9.2	-2.0

Appendix 7

Contd:

	Canada	Switzerland	Australia	New Zealand	India	RoW
Brunei	-10.9	1.1	0.1	0.4	2.3	4.8
Cambodia	-10.9	1.1	0.1	0.4	2.3	4.8
Indonesia	-10.8	1.1	0.1	0.4	2.3	4.8
Laos	-10.9	1.1	0.1	0.4	2.3	4.8
Malaysia	-10.9	1.1	0.1	0.4	2.3	4.8
Myanmar	-10.9	1.1	0.1	0.4	2.3	4.8
Philippines	-10.8	1.1	0.1	0.4	2.3	4.8
Singapore	-10.9	1.1	0.1	0.4	2.3	4.8
Thailand	-10.9	1.1	0.1	0.4	2.3	4.8
Vietnam	-10.9	1.1	0.1	0.4	2.3	4.8
China	-10.8	1.1	0.1	0.4	2.3	4.8
Korea	-10.9	1.1	0.1	0.4	2.3	4.9
Hong Kong	-10.8	1.1	0.1	0.4	2.3	4.7
Japan	-10.8	1.1	0.1	0.4	2.3	4.8
Germany	-10.8	1.1	0.1	0.4	2.3	4.6
US	-8.6	1.1	0.1	0.4	2.3	4.8
UK	-10.8	1.1	0.1	0.4	2.3	4.8
Canada	-3.4	1.1	0.1	0.4	2.3	4.8
Switzerland	-10.8	0.3	0.1	0.4	2.3	4.7
Australia	-10.9	1.1	0.1	0.4	2.3	4.8
New Zealand	-10.9	1.1	0.1	0.4	2.3	4.8
India	-10.8	1.1	0.1	0.4	0.0	4.8
RoW	-10.0	0.8	0.0	0.0	2.3	0.5

Appendix Table 8

Simulation 2: Output and Domestic Price Effect

(per cent)

	Change in Overall Consumer Prices	Change in Output	Producer Price for Home Good	Market Price for Home Good
Brunei	-4.63	-5.16	-3.44	-3.44
Cambodia	-2.69	-3.57	-2.38	-2.38
Indonesia	-3.56	-5.21	-3.47	-3.47
Laos	-4.34	-3.17	-2.11	-2.11
Malaysia	-1.57	0.66	0.44	0.44
Myanmar	-1.73	-2.94	-1.96	-1.96
Philippines	-7.62	-14.69	-9.80	-9.80
Singapore	-0.20	3.09	2.06	2.06
Thailand	-1.39	-0.73	-0.49	-0.49
Vietnam	-3.28	-1.65	-1.10	-1.10
China	-0.57	-0.32	-0.22	-0.22
Korea	2.77	4.93	3.29	3.29
Hong Kong	-3.94	-11.39	-7.59	-7.59
Japan	-2.85	-4.48	-2.99	-2.99
Germany	-2.96	-4.98	-3.32	-3.32
US	-2.17	-3.38	-2.25	-2.25
UK	-0.69	-0.54	-0.36	-0.36
Canada	-2.25	-3.51	-2.34	-2.34
Switzerland	-4.22	-11.06	-7.38	-7.38
Australia	-0.34	0.50	0.33	0.33
New Zealand	-1.25	-0.53	-0.35	-0.35
India	-1.61	-12.34	-8.23	-8.23
RoW	-16.11	-2.41	-1.60	-1.60

Appendix 9 Simulation 2 Cross-price effects

	Brunei	Cambodia	Indonesia	Laos	Malaysia
Brunei	-0.17	-0.13	-0.15	-0.23	-0.09
Cambodia	-0.25	-0.06	-0.15	-0.23	-0.09
Indonesia	-0.24	-0.12	-0.04	-0.23	-0.08
Laos	-0.25	-0.13	-0.15	-0.16	-0.09
Malaysia	-0.19	-0.12	-0.15	-0.23	-0.10
Myanmar	-0.25	-0.13	-0.15	-0.23	-0.09
Philippines	-0.25	-0.13	-0.15	-0.23	-0.08
Singapore	-0.17	-0.11	-0.14	-0.22	-0.07
Thailand	-0.24	-0.08	-0.15	-0.07	-0.08
Vietnam	-0.25	-0.10	-0.15	-0.21	-0.09
China	-0.25	-0.12	-0.15	-0.22	-0.09
Korea	-0.25	-0.13	-0.15	-0.23	-0.09
Hong Kong	-0.25	-0.10	-0.15	-0.22	-0.08
Japan	-0.25	-0.13	-0.15	-0.22	-0.08
Germany	-0.25	-0.13	-0.15	-0.22	-0.09
US	-0.25	-0.13	-0.15	-0.23	-0.08
UK	-0.25	-0.13	-0.15	-0.23	-0.09
Canada	-0.25	-0.13	-0.15	-0.22	-0.09
Switzerland	-0.25	-0.13	-0.15	-0.22	-0.08
Australia	-0.25	-0.13	-0.15	-0.22	-0.09
New Zealand	-0.25	-0.13	-0.15	-0.22	-0.09
India	-0.25	-0.13	-0.15	-0.23	-0.08
RoW	-0.25	-0.22	-0.15	-0.25	-0.08

Source: Calculations of the author.

Appendix 9
Simulation 2 Cross-price effects

	Myanmar	Philippines	Singapore	Thailand	Vietnam
Brunei	-0.08	-0.33	-0.03	-0.08	-0.08
Cambodia	-0.08	-0.33	-0.03	-0.08	-0.08
Indonesia	-0.08	-0.33	-0.02	-0.07	-0.08
Laos	-0.08	-0.33	-0.03	-0.08	-0.08
Malaysia	-0.08	-0.33	-0.03	-0.07	-0.07
Myanmar	0.00	-0.33	-0.03	-0.07	-0.08
Philippines	-0.08	-0.05	-0.02	-0.07	-0.08
Singapore	-0.08	-0.33	-0.06	-0.07	-0.06
Thailand	-0.07	-0.33	-0.03	-0.06	-0.07
Vietnam	-0.08	-0.33	-0.03	-0.07	0.21
China	-0.08	-0.33	-0.03	-0.08	-0.15
Korea	-0.08	-0.34	-0.03	-0.08	-0.10
Hong Kong	-0.08	-0.33	-0.02	-0.07	-0.08
Japan	-0.08	-0.33	-0.02	-0.06	-0.08
Germany	-0.08	-0.33	-0.02	-0.07	-0.08
US	-0.08	-0.33	-0.02	-0.07	-0.08
UK	-0.08	-0.33	-0.03	-0.08	-0.08
Canada	-0.08	-0.33	-0.03	-0.07	-0.08
Switzerland	-0.08	-0.33	-0.02	-0.07	-0.08
Australia	-0.08	-0.33	-0.03	-0.08	-0.09
New Zealand	-0.08	-0.33	-0.03	-0.08	-0.08
India	-0.08	-0.33	-0.02	-0.07	-0.08
RoW	-0.10	-0.33	-0.02	-0.07	-0.30

Appendix 9

Contd:

	China	Korea	Hong Kong	Japan	Germany	US	UK	Canada
Brunei	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Cambodia	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Indonesia	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Laos	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Malaysia	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Myanmar	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Philippines	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Singapore	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Thailand	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Vietnam	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
China	-0.02	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
Korea	-0.04	-0.01	-0.17	-0.13	-0.12	-0.10	-0.03	-0.11
Hong Kong	-0.03	0.12	-0.03	-0.13	-0.12	-0.10	-0.03	-0.11
Japan	-0.03	0.12	-0.15	-0.01	-0.12	-0.10	-0.03	-0.11
Germany	-0.03	0.12	-0.16	-0.13	-0.02	-0.10	-0.03	-0.11
US	-0.03	0.12	-0.16	-0.13	-0.12	-0.01	-0.03	-0.09
UK	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.02	-0.11
Canada	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.03
Switzerland	-0.03	0.12	-0.16	-0.13	-0.11	-0.10	-0.03	-0.11
Australia	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
New Zealand	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
India	-0.03	0.12	-0.16	-0.13	-0.12	-0.10	-0.03	-0.11
RoW	-0.02	0.13	-0.16	-0.13	-0.11	-0.09	-0.02	-0.10

Appendix 9

Contd:

	Switzerland	Australia	New Zealand	India	RoW
Brunei	0.01	0.00	0.00	0.01	0.05
Cambodia	0.01	0.00	0.00	0.01	0.05
Indonesia	0.01	0.00	0.00	0.00	0.05
Laos	0.01	0.00	0.00	0.01	0.05
Malaysia	0.01	0.00	0.00	0.01	0.05
Myanmar	0.01	0.00	0.00	0.01	0.05
Philippines	0.01	0.00	0.00	0.00	0.05
Singapore	0.01	0.00	0.00	0.01	0.05
Thailand	0.01	0.00	0.00	0.01	0.05
Vietnam	0.01	0.00	0.00	0.00	0.05
China	0.01	0.00	0.00	0.00	0.05
Korea	0.01	0.00	0.00	0.01	0.05
Hong Kong	0.01	0.00	0.00	0.00	0.05
Japan	0.01	0.00	0.00	0.00	0.05
Germany	0.01	0.00	0.00	0.00	0.05
US	0.01	0.00	0.00	0.00	0.05
UK	0.01	0.00	0.00	0.00	0.05
Canada	0.01	0.00	0.00	0.00	0.05
Switzerland	0.00	0.00	0.00	0.00	0.05
Australia	0.01	0.00	0.00	0.01	0.05
New Zealand	0.01	0.00	0.00	0.01	0.05
India	0.01	0.00	0.00	0.00	0.05
RoW	0.01	0.00	0.00	0.00	0.01