Reform and Economic Growth

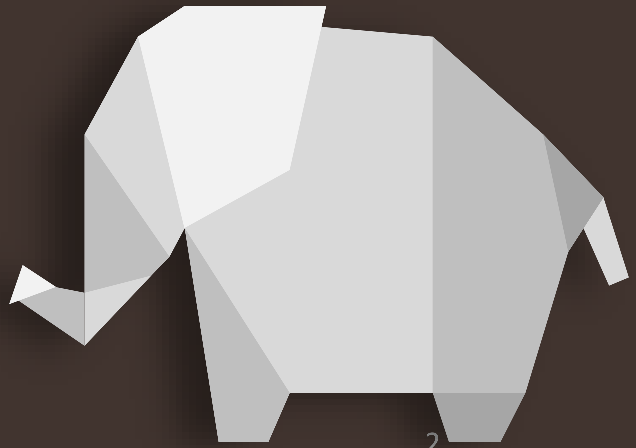
FACULTY OF ECONOMICS

THAMMASAT UNIVERSITY

ECONOMIC REFORMS

Are government policies to:

- **Lessen government restrictions**
- **Attract private sector participation**
- **Improve economic performance**



Rationale

- 1970s: Period of war and social conflict
- 1980s: CLMV faced political and economic hardships; Soviet Union unable to supply goods
- Large government budget deficits due to inflation, lack of currency reserves
- Inefficient production; people cannot afford to buy their needs
- There is pressure for change from within the country and outside

Exodus to the countryside - Cambodia

Collective farming – Viet Nam

War and social conflict – Viet Nam

Civil war - Laos

Ethnic conflict - Myanmar

Bottlenecks to economic growth

Poor infrastructure – roads, water supply, power, sanitation

Lack of human resources–skilled labor, management financial and technical

Institutional weaknesses – governance, regulations, coordination

Reform measures

Short term: macroeconomic stabilization

Medium term: open economy to foreign capital/investments

Long term: structural adjustment for long term sustainability requires changes in regulations, institutions and accepted norms

Short and medium term actions

Short term: stabilize macroeconomy

- control inflation
- stabilize exchange rates
- ensure adequate foreign currency
- could be done through borrowing

Medium term: open up economy
to foreign capital/investments. This will require creating a conducive business climate

Long term: structural adjustment

- Rationalize state-owned enterprises
- Decentralize state functions
- Build human resource capacity
- Better manage the environment
- Increase productivity

Benefits and risks of economic reforms

Benefits

- Generate foreign exchange
- Enable the country to compete internationally
- Further socioeconomic development
- Strengthen government institutions

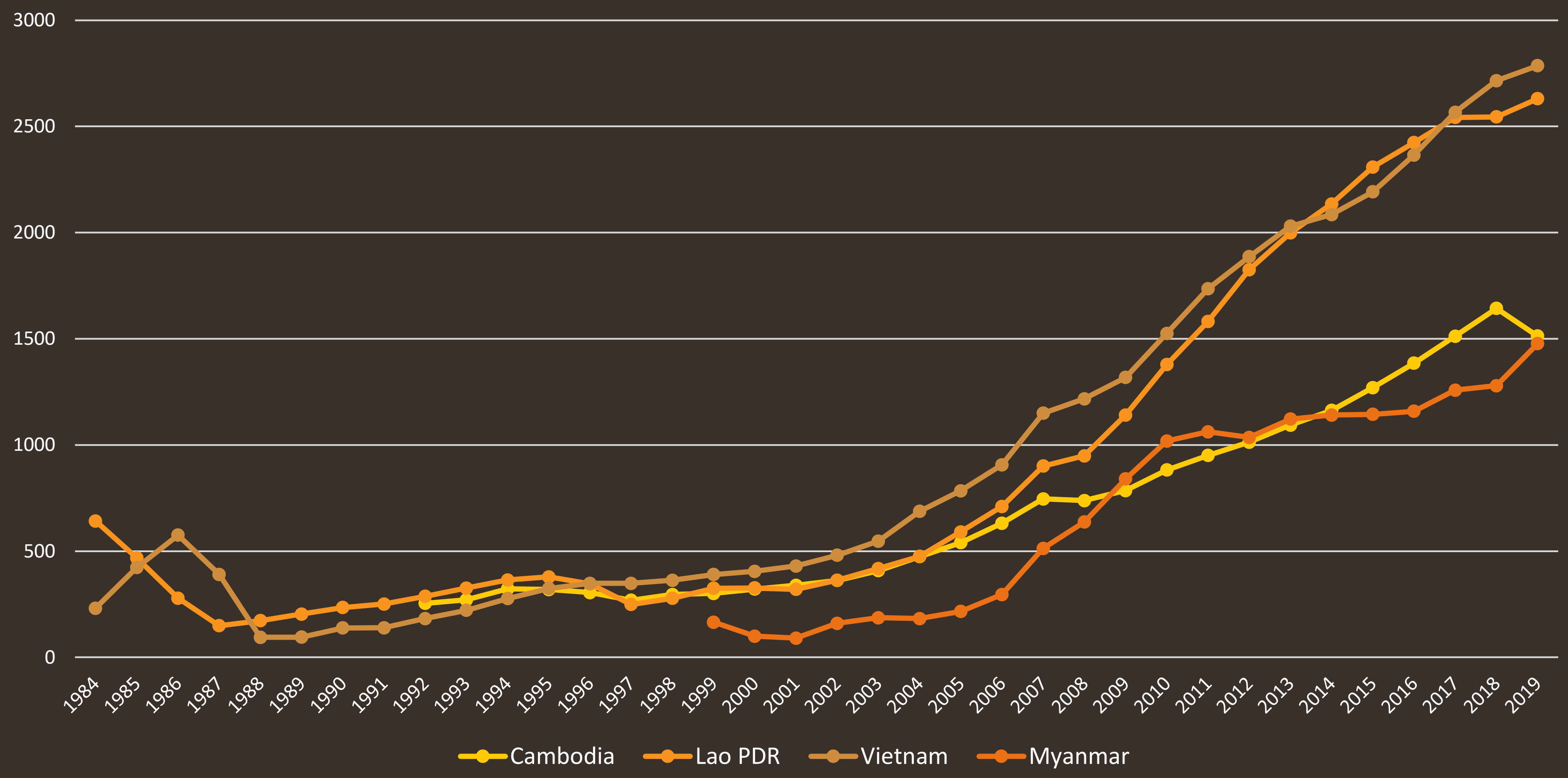
Risks

- Crowd out domestic investors
- Financial sector instability – vulnerable to external shocks
- Risk of environmental degradation
- Increase inequality

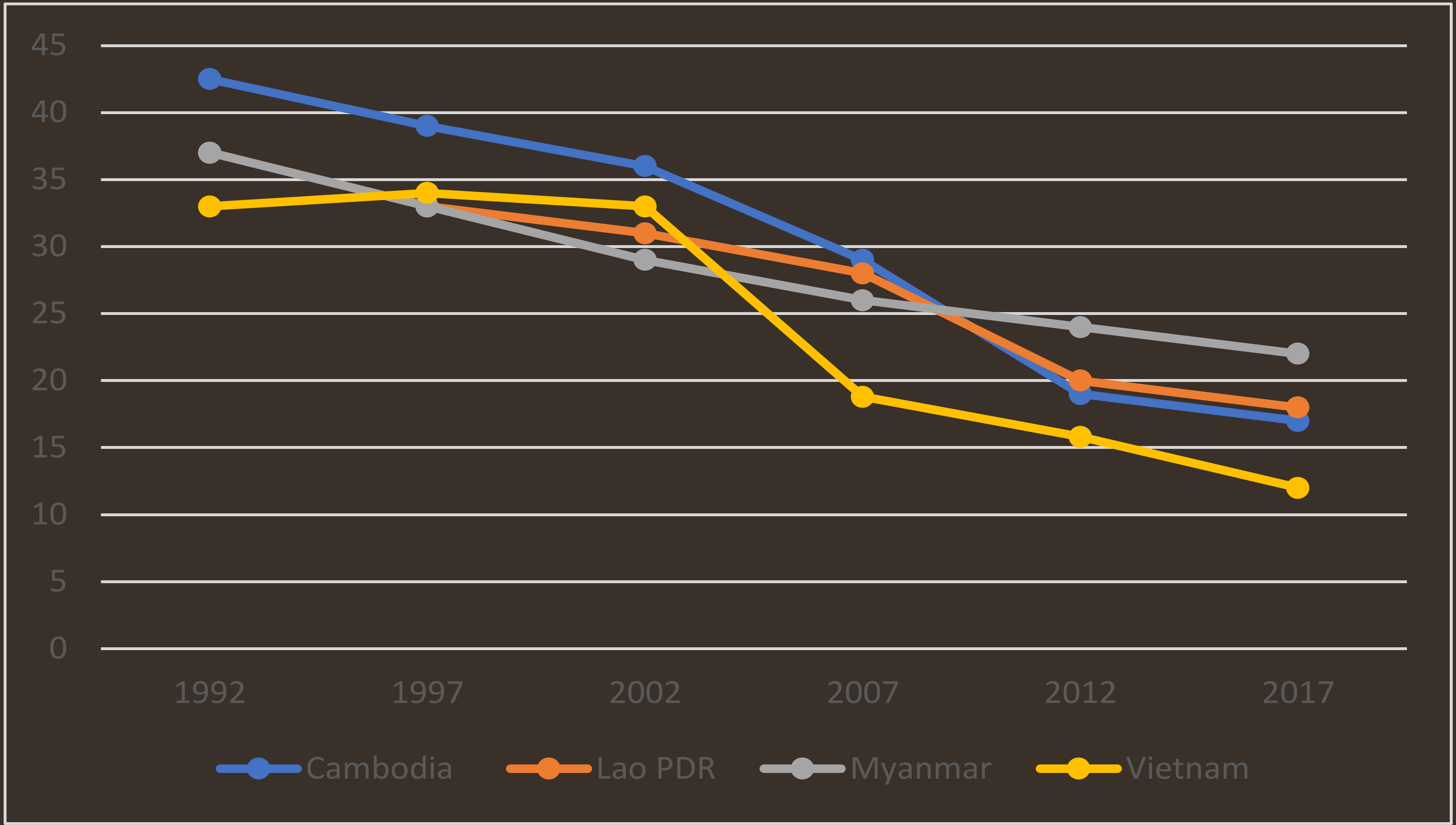
Reforms in CLMV

- Initiated in the mid 1980s after periods of prolonged war and conflict
- After 1990s CLMV experienced rapid economic growth and poverty reduction
- Global and regional factors helped “push” economic development

Comparisons of GDP per capita, 1984-2019



Poverty Reduction, 1992-2017



INDIVIDUAL COUNTRY EXPERIENCES

- **Cambodia and Lao PDR: rapid economic growth, but from a low base**
- **Vietnam: economic growth and development; demonstrated strong leadership**
- **Myanmar: authoritarian government, economic performance lags behind CLV countries**

Cambodia

- Economic reforms; Rectangular Strategy and National Socioeconomic Development Plans
- Foreign aid and foreign investments began to flow
- GDP growth averaged 10% (2000-2008) and 6% (2010-2016)
- Economic base: garment, construction, agriculture, tourism
- Challenges: natural disasters, widening gap between rich and poor; narrow economic base; weak governance

Key Milestones

- 1979: End of Khmer Rouge, bringing more stability to Cambodia
- 1991: Paris Peace Talks unites conflicting parties to form coalition
- 1993: UN aids Cambodia towards peaceful political and economic transition

Lao PDR

- **New Economic Mechanism**: transition from central planning to market-based; stabilize macroeconomy, deregulate private sector, stabilize food prices, decentralization
- Agricultural, enterprise and land laws issues
- GDP growth averaged 7% since 2004
- Economic base: hydropower, natural resources and tourism
- Challenges: weak human capacity and governance, environmental degradation, low agricultural productivity; low volume of exports

Key Milestones

- 1975: Monarchy was abolished and Pathet Lao comes to power
- 1986: 4th Congress passes the New Economic Mechanism (NEM)
- 1997: Lao PDR joins ASEAN, joins AFTA in 2008

Myanmar

- Reforms: macroeconomic stabilization, currency adjustment, relaxed import restrictions
- Restructuring of state-owned enterprises (telecom, finance, energy)
- Revaluation of the Myanmar Kyat resulted in large inflows of capital
- Reforms of state-owned enterprises not forthcoming; limited inflow of capital
- Challenges: lack of skilled workers, technology, skepticism from foreign investors, over reliance on extractive industries

Key Milestones:

- 1948-1962: successive civilian governments followed by military coup d'etat
- 1987: reorientation towards market economy; however reform not carried out
- 2011: civilian government returns and pursues economic reform

Vietnam

- **Doi Moi**: shift from central planning to market-based; stabilize macroeconomy, price liberalization, financial reform
- Agriculture law and policies to increase rice production; enterprise law and polices to attract foreign investment and private sector
- GDP growth increase: 2.7 times (2000-2019); infrastructure has much improved
- Poverty reduction: 26% in 1990 to 12% in 2017
- Challenges: widening inequality, environmental degradation and pollution, balance between rural and urban development

Key Milestones:

- 1975: Reunification of North and South Viet Nam
- 1986: 6th Congress passes the *Doi Moi* (renovation) policy
- 2008: Viuetnam joins WTO

Why different experiences?

Cheang and Wong:

- Political will and structure to implement reforms and leadership (pull factors)
- Ability of economic reforms to tie in political and institutional reforms
- Regional and global market forces (push factors)

Conclusion

- CLMV economic reforms were followed by economic growth; the extent in all countries are not even
- Economic reform focus: macroeconomic stabilization, opening economy to foreign capital; private sector deregulation; however structural adjustment is lagging behind
- The State has been a key driver of economic reforms; external factors contributed to economic growth
- CLMV countries experienced annual GDP growth of between 6-10% (except during the 2007-08 global financial crisis)

Conclusion

- Agricultural still dominates employment; however productivity (except Viet Nam) is low
- Need to develop human capital to increase productivity to produce higher quality goods
- Exports are mostly low value goods
- Vietnam is rapidly industrializing; Cambodia moving from primary products to labor intensive manufacturing; Lao PDR still dependent on hydropower and extractive industries; Myanmar has not much developed

THANK YOU!