

Introduction

July 4, 2016: Economics of CLMV countries
Gyorgy Sziraczki

Thammasat - Gyorgy Sziraczki 1

Overview of the Presentation

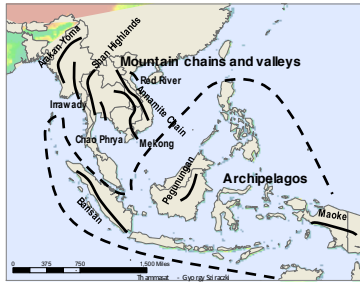
1. A survey of geography and history: South-East Asia
2. Economic development in South-East Asia
3. Outward-looking regional integration

Thammasat - Gyorgy Sziraczki 2

1. A survey of geography and history:
Southeast Asia
https://www.ted.com/talks/hans_rosling_asia_s_rise_how_and_when?language=en

Thammasat - Gyorgy Sziraczki 3

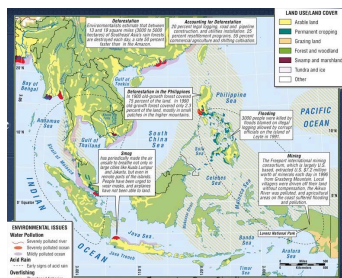
1.2. Geography, climate and environment



Agriculture in Southeast Asia



Land use and environmental issues



1.3. Human landscape

After Northeast Asia, China and India, Southeast Asia is the most populous region (640 million)

But wide differences among countries:

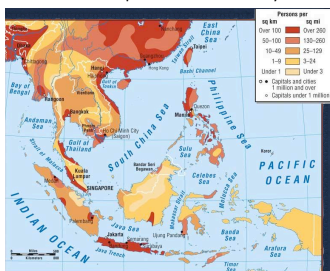
- Indonesia 255 m
- Philippines 102 m
- Vietnam 93 m
- Thailand 67 m
- Myanmar 54 m
- Malaysia 31 m
- Cambodia 16 m
- Lao PDR 7 m
- Singapore 6 m
- Brunei 0.4 m

- China 1404 m; India 1280 m; Japan 126 m

Thammasat - Geography Si-rachai

10

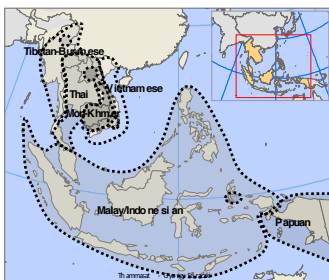
Population density



Thammasat - Geography Si-rachai

11

Major ethnic groups in Southeast Asia



Thammasat - Geography Si-rachai

12

Estimated share of ethnic population in CLMV countries

- Cambodia 10%
- Lao PDR 40%
- Myanmar: 32%
- Vietnam 15%



Thammasat - George Si-rasak

13

1.4. Recent history



Thammasat - George Si-rasak

14

- Second WW: Japanese occupation
- The immediate period following the war

Gaining Independence

- 1946 - The Philippines
- 1948 - Burma
- 1957 - Malaya
- 1963 - Singapore, Sarawak, North Borneo (Sabah); and incorporating them into a new Federal Malaysia
- 1965 - Malaysia and Singapore parted

Road to independence for Indonesia and Indochina was more difficult ...

- 1945 (-1949) - Indonesia
- 1945 (- 1954 - 1975) - Vietnam
- 1949 - Laos
- 1953 - Cambodia
- 1984 - Brunei
- 1984 (-2002) East Timor

Thammasat - George Si-rasak

15

The new States faced similar tasks

- Nation building
- Fighting revolutionary violence and separatist movements
- Establishing relationships with former colonial rules on the basis of sovereign equality
- Having access to aid, trade and FDI
- After long separated by history and imperialism, the states of SEA had to establish relations with each other. This was not an easy task given some historical antagonism and contested borders.

Thammar - George Siarak

16

The cold war era in Southeast Asia

- Following independence, SEA states were caught up in the dynamics of great power competition between the US and Soviet Union, with China joining after 1949
- US strategy: "containment" of communism
- First Indochina War, followed by the Geneva Settlement (1954)
- The Bandung Conference (1955) and the nonalignment movement
- The Second Indochina War (1961-1975)
 - spilled over to Cambodia and Laos
 - The creation of ASEAN (1967 Bangkok Declaration)
- The Third Indochina War (1978-1991)
- Following the Cold War period, CLMV countries introduced gradual economic reforms (first Vietnam, last Myanmar)

Thammar - George Siarak

17

2. Economic development in South-East Asia

Thammar - George Siarak

18

Average GDP growth rates by region (%)
(Only developing countries, with the exception, of Hong Kong, Japan, and Korea)

	1970-1989	1990-2010	1970-2010
South-East Asia (excl. Brunei, East Timor and Myanmar)	4.01	3.77	3.89
Europe and Central Asia	n/a	1.34	n/a
Middle East and North Africa	1.46	2.25	1.85
Latin America and Caribbean	1.49	1.65	1.57
Sub-Saharan Africa	0.31	0.78	0.55
Hong Kong, Japan, Korea	4.09	2.02	3.03
China	6.76	9.22	8.02

Thammasat - George Si-rasak 19

2.1 What have been the drivers of growth and development?

The **“Commission on Growth and Development”**, World Bank

- What can be learned from the experience of countries that achieved rapid and sustained growth in the post-war period?
- Keeping in mind that growth is not an end goal, rather a means of achieving inclusive development
- What are the policy ingredients of sustained growth?
- Growth challenges in specific country context

The **“Asian Century”**, ADB report

Thammasat - George Si-rasak 20

High Growth in the Post-War Period

- 13 economies sustained high growth -- defined as 7% per year for 25 years or longer in the post WW II
- 9 from countries from Asia (China, Indonesia, Hong Kong, Japan, Korea, Malaysia, Singapore, Taiwan, Thailand) and 4 others (Botswana, Brazil, Malta, Oman)
- India and Vietnam are close be on the list because of growth acceleration in the past 10-15 years

Thammasat - George Si-rasak 21

Common Characteristics of the Sustained High Growth Cases

- ✓ Fully engaged and exploited the opportunities that the global economy offers
- ✓ Mustered high rates of saving and investment
- ✓ Maintained macroeconomic stability
- ✓ Let markets allocate resources
- ✓ Had committed, credible and capable governments and institutions

Thammasat - George Siirazi

22

Long Time Horizons

- It takes about 50 years to make the transition from low to advanced income levels
- Persistence and a determined focus on the objective is critical
- Major crises will halve the growth rate or worse
- Bottlenecks (unanticipated blockages) are the norm in high growth environments – rapid responses are an important dimension of policy and effective government

Thammasat - George Siirazi

23

One policy ingredients: Engagement with the Global Economy

- Learning and technology import to catch-up
- Channels of transmission:
 - FDI
 - Trade (and global production network)
 - Exposure and experience
 - Foreign education, training and experience, networks
- Making use of comparative advantage
 - Surplus labor
 - Expanding global demand
 - Investment in areas of comparative advantage

Thammasat - George Siirazi

24

2.2 FDI patterns

- Foreign direct investment
 - Long-term investment in which a non-resident exerts significant management control over an enterprise in the host country
- Most FDI is undertaken by MNEs
- FDI is aimed at:
 - To get access to raw materials (resource-seeking)
 - To produce for export (export-oriented)
 - To produce locally (market-seeking)

Thammarat - George Si-rachit

25

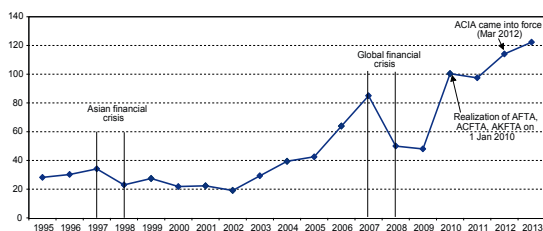
Benefits of FDI to host country

- **Source of capital** that adds to total investment
- **Access to world markets**
- **Transfer of technology, skills, and ideas**
- Help increase specialization
- Spillovers (productivity, employment, wages - vertical and horizontal)
- Policies towards FDI
 - improving the investment climate, information, EPZs, tax holidays, local ownership requirement, domestic content requirement etc

Thammarat - George Si-rachit

26

FDI flow to ASEAN exceeding \$120 billion in 2013



Thammarat - George Si-rachit

27

Three Determinants of FDI Flow in Southeast Asia

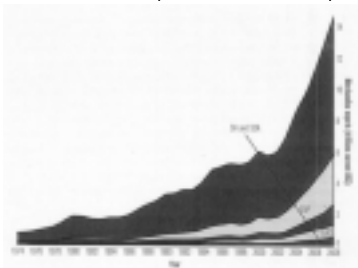
- **Technology as enabler**
 - Declining transportation costs, improved communication technology
- **Location**
- **Political and macroeconomic stability**

• Note: One main reason for the start of FDI inflow to Southeast Asia was domestic politics in Singapore and Malaysia

Thammasat - George Si-rasak

28

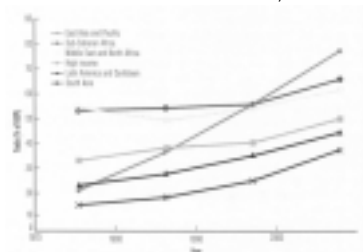
2.3. Patterns in trade: Growth in world export by region 1974-2008 (trillion current \$US)



Thammasat - George Si-rasak

29

The importance of trade to economies, 1970-2008 (trade as % of GDP)



Trade openness ratio, 2012
Total exports and imports as a ration of GDP

- ASEAN: 107.1
- World: 50.5

Thammasat - George Si-rasak

30

The benefits of trade (cont.)

- **Gains from exchange** (due to the difference in autarky and world prices)
- **Gains from specialization**
- **Gains that arise from increased competition** (trade exposes domestic firms to competitions)
- Trade embodies **new technology** that boots productivity
- Trade increases not just the amount but also **quality and variety of goods**
- Backward and forward **linkages**, fiscal linkages

Thammasat - George Si-rakol

31

The rise of Global production sharing/networks

- Facilitated by revolution in transportation and communication technology
- Enabled by **breaking up production to task performed in different locations** (dispersion of production) in an integrated way
- In Southeast Asia, started in the early 1970s (Singapore)
- Today, "network products" account for a large share of export in the region: close to 70% in Singapore and Malaysia, 50% in Thailand
- Vietnam and Cambodia are catching up
- Over the past four decades, rapid export growth in the region has been accompanied by substantial **shift in the structure of trade** away from primary products and towards **manufacturing goods (72% in 2012, up from 11% for decades before)**—electronics, automotive ...

Thammasat - George Si-rakol

32

Why has South-Asia has grown faster than other regions?

- Its growth mechanism does not differ from the rest of the world, except in one respects
 - East Asian growth booms (Japan, four tigers, China) had a significantly greater impact on growth in South-East Asia than in other works regions.
- ----> **Location, location, location** "lucky countries"?

McKinsey: Seven things to know about ASEAN
<http://www.brazilsotheastaasia.com/bsea/video/s/asean.html>

Thammasat - George Si-rakol

33

3. Outward-looking regional integration

Thammarat - George Si-rasak 34

3.1 The evolution of ASEAN

1967 Bangkok Declaration (Thailand, Malaysia, Indonesia, Singapore and Philippines)

- **Background:**
 - The escalation of the Vietnam war and its uncertain consequences; and
 - The need to integrate the post-Sukarno Indonesia into a regional order in which it could collaborate but not dominate
 - In addition, each country has its own particular interest
- **The twin goals** promote regional cooperation and ensure stability

Thammarat - George Si-rasak 35

Phases of Economic Integration in SEA

1. **The early years: 1967-1975**
 - proposed trade liberalization through selective (product-by-product) negotiations and package-deal arrangements for large industrial projects and financial cooperation
 - These recommendations formed the basis for economic cooperation measures in the 1980s
2. **The Pre-AFTA period: 1976 -1991**
 - Little impact
3. **The AFTA period: 1992-2002 (AFTA)**
 - Regional economic integration moved to the top of the agenda, so that ASEAN countries can compete effectively for global markets and international investment
 - Free trade the become an objective. (gradual tariff reductions)
 - Trade, service, investment liberalizations, and harmonization of customs etc started

Thammarat - George Si-rasak 36

Phases of Economic Integration in SEA

3. The AFTA period: 1992-2002 (Cont.)

In sum:

- Increasing the intra-ASEAN trade share was not the main reason for the ASEAN integration (intra-ASEAN trade only 30%)
- The main reason was **to maintain ASEAN's competitiveness in attracting FDI from external sources** and from within the ASEAN – success!
- Outward-looking regional integration

4. 2003-2015: towards the ASEAN Economic Community

Thammasat - George Si-rachol

37

Towards the ASEAN Economic Community 2015



Thammasat - George Si-rachol

38

Phases of Economic Integration in SEA

- Concern over the weakened ability of ASEAN countries to attract foreign direct investment (FDI) in the aftermath of the Asian Financial Crisis as well as the rise of China and India as competing destinations for FDI
- Tiered ASEAN (ASEAN-6 and CLMV); closing the development gaps and searching for identity
 - Increasing focus on functional cooperation and bridging the development gaps between the core and the CLMV (infrastructure, human resources, ICT, regional economic integration)
- Fragmented production and trade in tasks

Thammasat - George Si-rachol

39

Phases of Economic Integration in SEA

AEC 2015 – Four Pillars

- Single market and production base, with free flow of goods, services, investment and a freer flow of capital
- Competitive economic region
- Equitable economic development
- Fully integrated region into the global economy

Thammasat - George Siirakul

40

What are the expected benefits of the AEC?

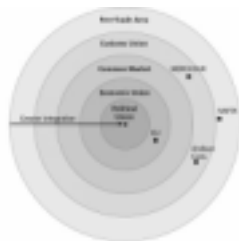
- Enlarged market with economic scale and scope
- Improved resource allocation with free movement of factors of production
- Improved resource pools with inflows of capital and labour, and
- Competition leading to improved efficiency and innovation

Thammasat - George Siirakul

41

What is AEC and what is not?

- Free trade in goods – part
- Free trade of services - part
- Capital mobility – part
- Labour mobility – no
- Competition law converging – no
- Monetary union – no
- Unified fiscal policy - no



Thammasat - George Siirakul

42

Thank You

<https://www.youtube.com/watch?v=zKTlqVeSPoU>

Thank you - George Siirazi 43
