



YOUR LOGO



Reform and Economic Growth

FACULTY OF ECONOMICS
THAMMASAT UNIVERSITY

Outline

01 Economic Reform

02 Economic Reforms in CLMV

03 Individual Country Experiences

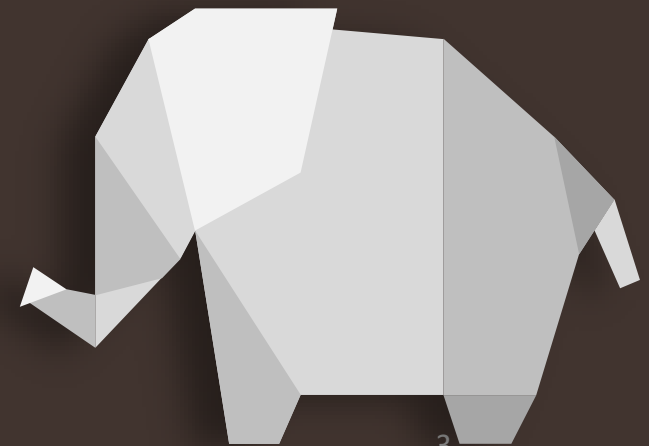
04 Drivers of Economic Growth

05 Conclusion

ECONOMIC REFORMS

Are government policies to:

- **Lessen government restrictions**
- **Enable greater private sector participation**
- **Improve economic competitiveness and performance**



Rationale

- During periods of uncertainty or economic downturns, government budget deficits increase due to inflation, lack of currency reserves
- Production becomes inefficient, people cannot afford to buy their needs
- There is pressure for change; Government takes action
- In the 1980s Cambodia, Lao PDR and Vietnam faced severe economic hardships that necessitated reforms



Exodus to the countryside - Cambodia



Collective farming – Viet Nam

War and social conflict – Viet Nam





Civil war - Laos

Ethnic conflict - Myanmar



Reform measures

Short term: macroeconomic stabilization

Medium term: open economy to foreign capital/investments

Long term: structural adjustment



Short and medium term actions

Short term: macroeconomic stabilization

- 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

Structural adjustment

Objective: ensure long-term economic sustainability which requires changes in regulations, institutions and accepted norms:

- 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

Bottlenecks to sustainability

Poor
infrastructure
– roads, water
supply, power,
sanitation

Lack of human
resources-
especially skilled
labor –
management and
technical

Institutional
weaknesses –
governance,
regulations,
coordination

ECONOMIC 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



Similarities in experiences

- CLMV gained independence in the 1950s, followed by prolonged war, social conflict and isolation
- Political and economic conditions deteriorated, causing economic hardships
- 1980s: towards the end of the cold war, and with no aid from the Soviet Union, CLMV countries embarked on political and economic changes



Similarities in experiences

- The State as main driver for economic reform; gradual shift from command- to a market based economy
- Economic reforms and led to rapid economic growth and poverty reduction
- Improved economic performance helped the political elites to consolidate and expand their power/influence
- Global and regional factors provided further impetus for further economic growth



Differences in experiences

- Cambodia, Lao PDR and Vietnam inherited the French system; Myanmar the British
- Cambodia is a democratic state; Lao PDR and Vietnam are socialist states; Myanmar is authoritarian
- Myanmar embarked on economic reforms much later than C,L and V
- Poverty rate is Cambodia, Lao PDR and Myanmar are still relatively high; Vietnam's has substantially decreased



Differences in experiences

- Although economic growth has been rapid, performance varies;
- Vietnam: achieved economic growth and development
- Cambodia and Lao PDR: rapid economic growth, but starting from a low base
- Myanmar: some economic growth, but lags behind C,L and V
- Key factor in economic outcome: governance and leadership
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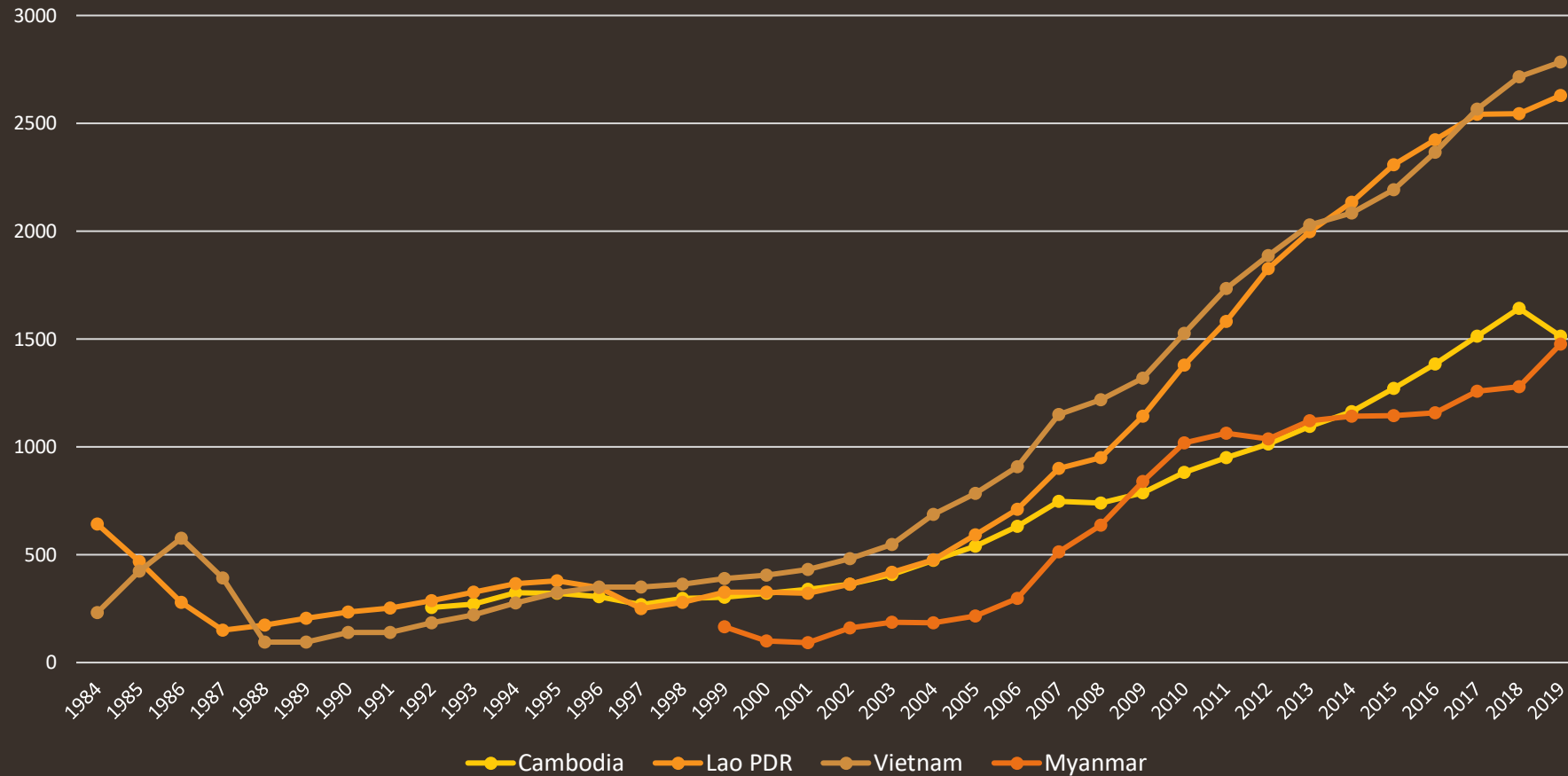


INDIVIDUAL COUNTRY EXPERIENCES

- **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**



Comparisons of GDP per capita, 1984-2019



Cambodia

- Reform policies and strategies: National Socioeconomic Development Plans, Rectangular Strategy
- With the introduction of reforms, foreign aid and foreign investments began to flow
- GDP growth averaged 10% (2000-2008) and 6% (2010-2016)
- Main income generating sectors: garment, construction, agriculture, tourism
- Challenges: natural disasters (flood and drought), 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 the macro-economy, deregulate private sector, stabilize food prices, decentralization
- Subsequent agricultural, enterprise and land laws issues
- GDP growth averaged 7% since 2004
- Main income generating sectors: 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

- Reform thrust: macroeconomic stabilization, adjustment of currency rate, 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 (mining, forest products, energy)

Key Milestones:

- 1948-1962: successive civilian governments followed by military coup d'état
- 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 the macro-economy, price liberalization, financial reform
- Agriculture law and policies to increase rice production; enterprise law and policies 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:

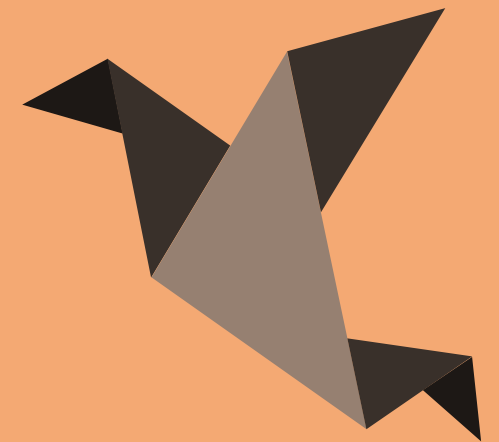
- 1975: Reunification of North and South Viet Nam
- 1986: 6th Congress passes the *Doi Moi* (renovation) policy
- 2008: Vietnam joins WTO

DRIVERS OF ECONOMIC GROWTH

- **Global trends**
- **Government policies and strategies**
- **Regional cooperation**
- **Transport and trade facilitation**
- **Foreign investment**
- **Rural-urban migration**



CONCLUSION



Conclusion

- CLMV have embarked on economic reforms since the 1980s, which have led to accelerated economic growth; however the pace and extent in all countries are not even
- The State has been a key driver of economic reforms; global; and regional factors have been “push” factors for economic growth
- All CLMV countries except Myanmar have experienced annual GDP growth of between 6-10% (except during the 2007-08 global financial crisis)

Conclusion

- Vietnam has a relatively high level of industrialization; Cambodia is in the process of moving from primary products to labor intensive manufacturing
- Economic reform focus: macroeconomic stabilization, opening up the economy to foreign capital and private sector deregulation; however structural adjustment is lagging behind
- The agricultural sector is still dominant in terms of employment; however productivity (except Viet Nam) is quite low

Conclusion

- Exports are increasing; however most are low value goods (extractive and labor intensive manufacturing); human skills, capital and technology are needed to produce higher value goods
- Government will need to focus on human development (education, vocational skills, management) and health programs (access to health facilities, improving health care quality) to increase productivity and ensure competitiveness

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