

THE STRATEGIC STUDY  
ON  
LAOS PILOT PROGRAM  
FOR NARROWING THE DEVELOPMENT  
GAP TOWARD ASEAN INTEGRATION  
IN  
THE LAO PEOPLE'S DEMOCRATIC  
REPUBLIC

**FINAL REPORT**

February 2010

JAPAN INTERNATIONAL COOPERATION AGENCY

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INTERNATIONAL DEVELOPMENT CENTER OF JAPAN

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## Exchange Rates of Currency

US Dollar 1.00	=	Lao Kip 8,455.00
US Dollar 1.00	=	Japanese Yen 89.90
Lao Kip 10,000	=	Japanese Yen 105.45

(As of February 15, 2010)

Source: OANDA.com

## Map of Lao PDR





**The Strategic Study  
on  
Laos Pilot Program  
for  
Narrowing the Development Gap toward ASEAN Integration  
  
Final Report**

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## Abbreviations

ACFTA	ASEAN-China Free Trade Area
ACMECS	Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AICO	ASEAN Industrial Cooperation Scheme
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
APSC	ASEAN Political-Security Community
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of South East Asian Nations
BHNs	Basic Human Needs
CEPT	Common Effective Preferential Tariff
CLMV	Cambodia, Laos, Myanmar, Vietnam
EU	European Union
EWEC	East-West Economic Corridor
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
HDI	Human Development Index
IAI	Initiative for ASEAN Integration
JAIF	Japan-ASEAN Integration Trust Fund
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
LECS	Lao Expenditure and Consumption Survey
LPP	Laos Pilot Program
Lao PDR	Lao People's Democratic Republic
MDGs	Millennium Development Goals
NDG	Narrowing the Development Gap
NEDA	Neighboring Countries Economic Development Cooperation Agency
NGPES	National Growth and Poverty Eradication Strategy
NSDP	National Strategic Development Plan (Cambodia)
ODA	Official Development Assistance
TICA	Thailand International Cooperation Agency
WTO	World Trade Organization



## EXECUTIVE SUMMARY

*Narrowing the development gap (NDG)* is one of the most important tasks for ASEAN who committed the building of an ASEAN community by 2015. Tripartite Cooperation is proposed as a new modality for ASEAN Secretariat (ASEC) and Japan International Cooperation Agency (JICA) jointly to support development of CLMV countries and acceleration of NDG programs.

A pilot program is proposed to support the development of Lao PDR through the tripartite cooperation as *Laos Pilot Program for Narrowing the Development Gap toward ASEAN Integration (LPP)*. It is meant for establishing a mechanism of the tripartite cooperation, which will be applicable other CLMV countries.

The Strategic Study on LPP has been undertaken during the period from August 2009 to March 2010 to design a framework of the program. A proposed framework of LPP is as follow:

### BASIC CONCEPT IN LAO CONTEXT

Strategic Vision, a future image of the country beyond the current development goal, is proposed as making a “*Clean, Green and Beautiful Laos*”.

*Inclusive and sustainable development*, a Strategic Direction of Development toward the strategic vision, will be directed by creating a balanced cycle among i) economic growth, ii) sharing the benefits of growth, and iii) sustaining economy, society and the environment. For functioning this cycle, **Strategic pillars for development** are proposed as “balancing environment and development with efficient utilization of natural resources”, “diversifying industries with labor-intensive for inclusive development” and “strengthening capacities of human resources”.

Areas of Cooperation for LPP are proposed as “*Clean Environment*” and “*Green Economy*” to address the challenges “balancing environment and development” and “diversifying economies” proposed as the strategic pillars.

### PROGRAM FRAMEWORK

**Goals of LPP** are: i) harmonizing ASEAN initiative and Lao national development; contributing to poverty eradication; and ii) contributing to NDG and promoting ASEAN integration.

**Objectives of LPP** are: i) strengthening the capacities of Laos to effectively respond to ASEAN integration in the national development context; ii) strengthening the capacities of ASEC to facilitate NDG programs and activities; and iii) developing a mechanism of tripartite cooperation to support

CLMV countries’ efforts to NDG.

**Program components** are:

**A) Awareness building, information sharing and outreach** includes awareness building training and promoting information sharing in and out of the country.

**B) Strategic action plan and policy support.** A multi-year plan up to 2015 and annual rolling plans of action are formulated. ASEAN-related indicators of development gap can be developed as policy indicators of Laos, which link the development of Laos and ASEAN integration.

**C) Priority projects** are prepared and implemented.

**D) Program assessment and feedback.** Evaluation results give its feedback to Lao PDR and ASEC.

**Potential priority projects** will be screened by criteria set forth in the program implementation process. Indicative criteria are i) consistency with priority areas, ii) projects with maximizing advantages of tripartite cooperation. Examples of priority projects, related to roadmap for ASEAN community, were tentatively screened as: G1) Green triangle development, G2) Eco-tourism and tourism standards, G3) Clean agriculture promotion, G4) Regional sustainable forest management, C1) Eco-development & networking, C2) Environmental management for low emission, and C3) Human resources development.

**Implementation Arrangements:** Lao PDR hosts the tripartite cooperation supported by ASEC and JICA. Tripartite Steering Committee (TSC) shall be established to approve and monitor the activities of Tripartite Cooperation Strategy Planning & Evaluation Office (LPP Platform Office). LPP Platform Office shall be the secretariat for TSC, as a team for tripartite cooperation organized by MPI, ASEC and JICA experts. Expert Teams for Clean Environment and Green Economy, participated by a wide range of experts, shall be organized to provide with advices to Platform as well as TSC. Priority Projects will be managed directly by LPP Platform Office or outside implementation bodies. Outside implementation bodies shall be responsible for planning, implementing and monitoring priority projects under the supervision by LPP Platform Office.

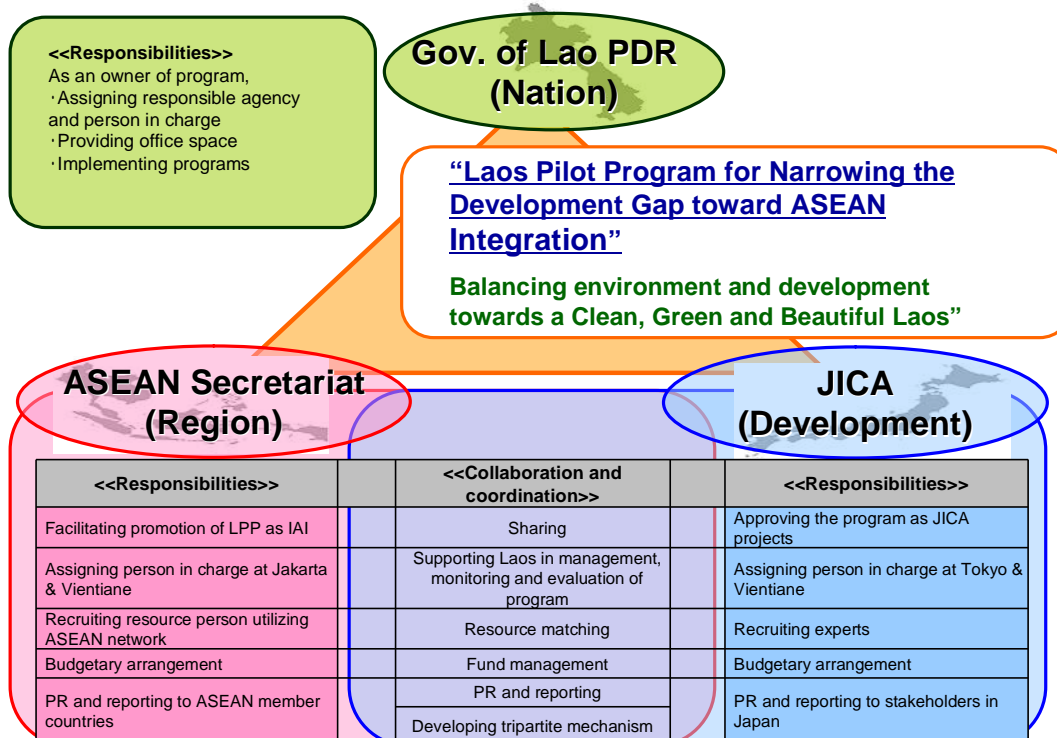
The program is prepared and implemented in Phase I includes needs assessment and designing program from February to March 2010; Phase II includes designing program details and its implementation from April to September 2010; and Phase III includes full implementation of the program from October 2010 to September 2015.



## SUMMARY

Laos Pilot Program for Narrowing the Development Gap toward ASEAN Integration (LPP) is proposed as a pilot program to develop tripartite cooperation mechanism supporting initiative of ASEAN new member states for narrowing development gap toward ASEAN integration. The LPP is a program to contribute to the development of Lao PDR through the cooperation among Lao government, ASEAN Secretariat (ASEC) and Japan International Cooperation Agency (JICA). It is to be implemented under the ownership of Lao PDR and with the necessary funds and staff to be allocated by ASEAN Secretary and JICA. It also makes a full use of other various resources available in ASEAN countries as well as Japan. The LPP is the first attempt to verify the effectiveness of this new tripartite cooperation mechanism. Based on this verification, a possibility shall be explored to apply the tripartite cooperation mechanism to other CLMV countries.

### Tripartite Cooperation Mechanism



Source: JICA

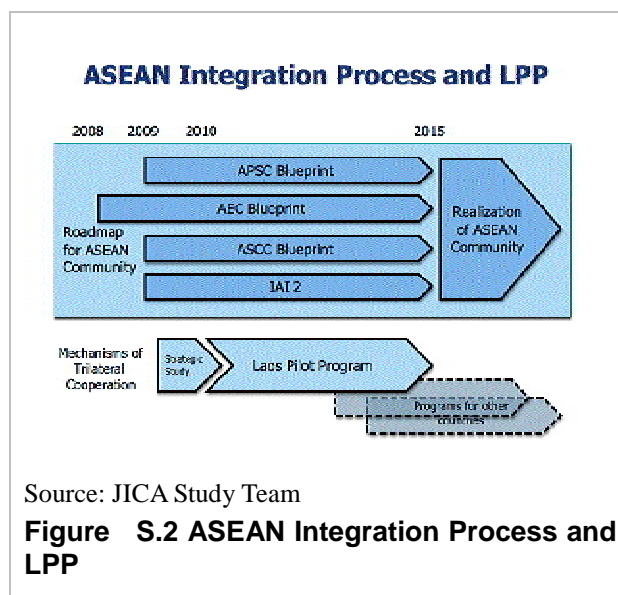
**Figure S.1 Tripartite Cooperation Mechanism**

The followings explain the background of the strategic study on LPP, and the study results including analysis and proposed design of LPP.

## The Study

The Association of South East Asian Nations (ASEAN) committed to building an ASEAN Community by the year 2015. For its realization, ASEAN adopted ASEAN Charter that entered into force in December 2008, and a Roadmap for an ASEAN Community 2009-2015 in March 2009. However, there exist gaps in the development among ASEAN member states where new member states have been left behind. The critical challenge for ASEAN is to resolve these disparities since shared prosperity will promote integration. Thus, **narrowing the development gap (NDG)** is an important task for realizing the ASEAN Community where the benefits of ASEAN integration shall be fully realized. NDG should be addressed by effective implementation of the Initiative for ASEAN Integration (IAI) and other initiatives. NDG efforts should be accelerated and strengthened addressing the needs of the respective countries.

In this regard, the *“Laos Pilot Program for Narrowing the Development Gap toward ASEAN Integration (LPP)”* was proposed and its concept was agreed on by the Government of Lao PDR, ASEAN Secretariat (ASEC) and Japan International Cooperation Agency (JICA) in February 2009. The program aims at narrowing the gap between Lao PDR and ASEAN goals through “tripartite cooperation”; and contributes to narrowing the development gap among ASEAN member states and promoting ASEAN integration. The program could be spread out to other ASEAN member states as a model case of narrowing the gap.



Source: JICA Study Team

**Figure S.2 ASEAN Integration Process and LPP**

“The Strategic Study on Laos Pilot Program for Narrowing the Development Gap toward ASEAN Integration” has been undertaken during the period from August 2009 to February 2010 to design a framework of the program. **The objectives of the study** are: i) preparing a Basic Concept of LPP; and ii) identifying a direction and fields of cooperation.

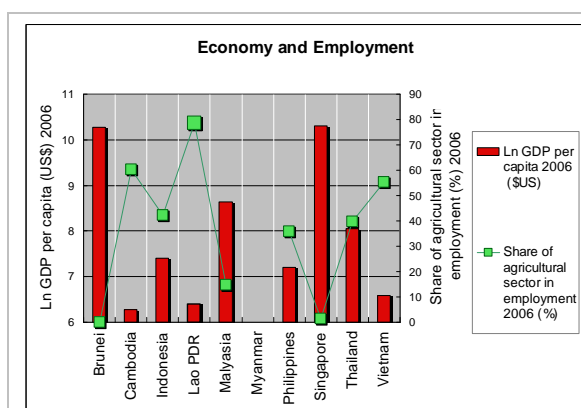
**The Study Process:** At the initial stage of the study, Inception Workshop was held on August 28, 2009 in Vientiane to explain the study framework. The Study has been undertaken, based on literature review, through interview surveys and exchanging ideas with relevant stakeholders mainly in Lao PDR and ASEAN Secretariat. The results of the study were compiled as Draft Final Report and explained in the second workshop “Inaugural Workshop” held on 1 February 2009 in Vientiane. In receipt of the comments on this Draft Final Report, the Study Team has submitted the Final Report in February 2010.

## I. Analysis

Analysis is made on ASEAN region, Lao PDR, efforts for ASEAN integration and existing cooperation as shown below.

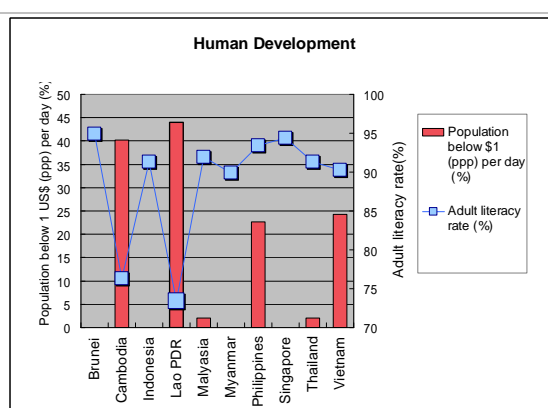
**ASEAN Region:** Analysis of socio-economic situation of ASEAN region, aiming at building the ASEAN Community, identifies the following issues.

- 1) Large development gaps exist within ASEAN member states. New member states such as Cambodia, Lao People’s Democratic Republic (Lao PDR), Myanmar and Vietnam (= CLMV countries), are left behind in terms of the development level and readiness to the integration.
- 2) The gaps also exist within CLMV countries. **Lao PDR is the lowest level** among ASEAN countries in the employment share of the agriculture sector, poverty gap, and education attainment, as shown in the following figures.



Source: ADB

**Figure S.3 Development Gap: Economy**



Source: ADB

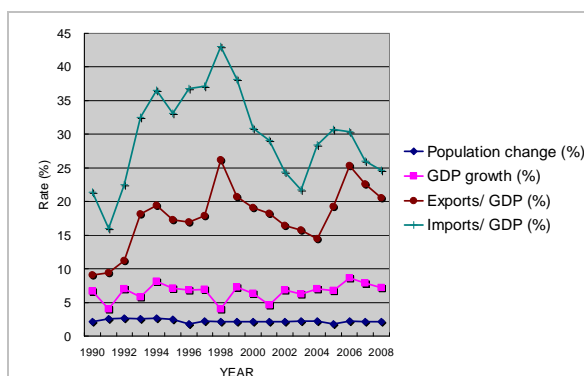
**Figure S.4 Development Gap: Human Development**

- 3) The experience of ASEAN shows that agriculture sector can employ larger number of labor force.
- 4) In ASEAN, under the process of economic integration and globalization, regional specialization in the manufacturing industries and triangular trade within the region could give the development opportunities to CLMV countries.

**Lao PDR:** Analysis of Lao PDR in the context of ASEAN identifies following issues.

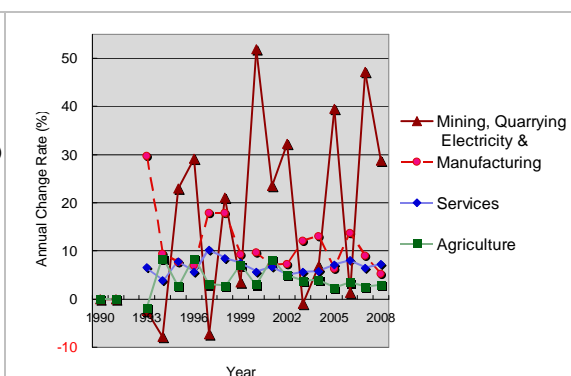
- 1) High rate of population increases and population pressure in rural areas reveal a growing need for employment creation. Poverty incidence prevails in mountainous provinces.

2) Economic growth after introducing New Economic Mechanism in 1980s has been lead by agriculture, manufacturing, and especially, natural resource exploiting industries such as mining and hydro-electricity. In spite of high growth rate of natural resource exploiting industries, its contribution to share and growth of GDP has been limited. In addition, these industries have localized social development impacts. Meanwhile, the agriculture sector has been still important in its share in GDP and contribution to GDP growth (See the following figures).



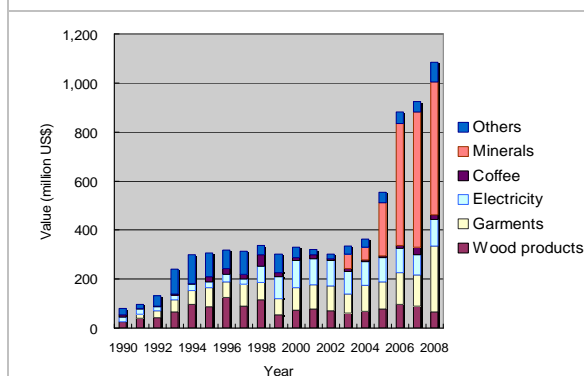
Source: ADB

**Figure S.5 Development Process of Laos**



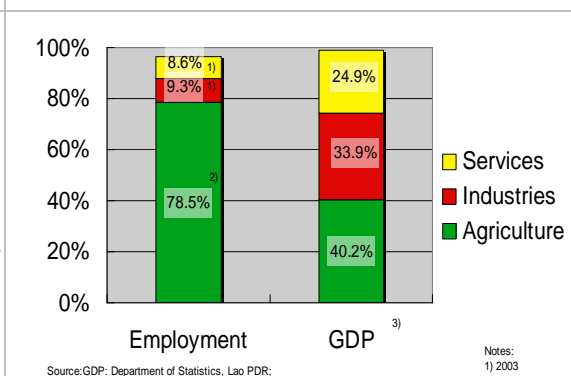
Source: Dept. of Statistics, Lao PDR

**Figure S.6 Growth Rate by Sector**



Source: ADB

**Figure S.7 Value of Export by Commodities**



Source: GDP: Department of Statistics, Lao PDR; Employment: ADB, Key Indicators 2009

Notes:  
1) 2003  
2) 2005  
3) 2007

**Figure S.8 Employment-mix and GDP-mix Compared**

3) Eradicating poverty is its **development goal** of Laos as stated in National Growth and Poverty Eradication Strategy (NGPES) and National Socio-economic Development Plan (NSEDP). Those development plans along with new NSEDP aim at high rate of economic growth, achieving MDGs by 2015, graduating from LDC status by 2020, and linking economy with social development and environment protection.

4) The analysis of the situation of Lao in the ASEAN identifies **challenges** as: i) **Job creation and distribution of the benefit** of economic development by promoting labor intensive industries such as manufacturing, value added agriculture and tourism-related industries; ii) **Balancing development and environment** for sustaining the environment



that constitutes strength as a source of competitiveness of the country, which also sustains economy of the country; and iii) **Capacity development**, especially capacities of human resources which is a key to the future development.

**Efforts towards the ASEAN Community and the existing cooperation to Lao PDR and ASEAN** are also analyzed. The analysis identifies following issues.

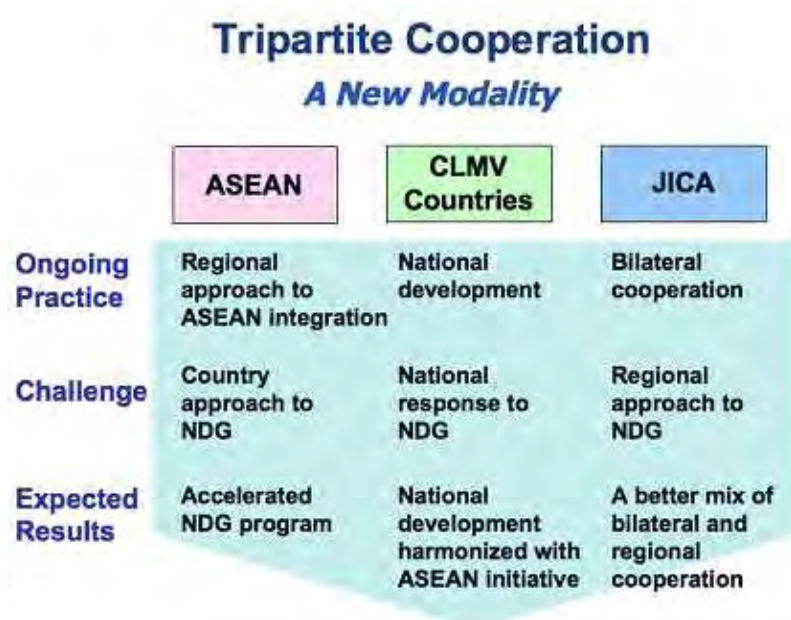
- 1) Mid-term review of IAI in 2006 identified the following issues to be addressed: i) **IAI projects should meet the needs of the respective countries** in terms of their role in the national development, effectiveness in capacity building for preparing ASEAN programmes, and absorptive capacity; ii) **CLMV countries' ownership should be enhanced** by full involvement throughout the project process; and iii) **improving coordination is necessary** within/ among CLMV countries, IAI Task Force and Unit, and ASEAN-6.
- 2) Although narrowing development gap is identified as one of the most important tasks, the terminology of development gap is not clearly defined in ASEAN. Vientiane Action Plan in 2004 mentioned that gaps were per capita GDP and other human development dimensions such as life expectancy, literacy rate and poverty incidence. ASEAN Community progress monitoring system in 2007 raises 46 indicators for ASEAN community building. However, definition and indicators of development gap are not clearly defined. Thus, it is difficult to tell how development gap has been narrowed. It needs to define the development gap and to set frame in which one can assess whether NDG is achieved or not.
- 3) There is a little coordination between ASEAN's efforts for ASEAN integration and national development efforts at each country level supported by development partners. **Cooperation needs exist in bridging ASEAN NDG and national development** of CLMV countries.
- 4) There is a need for **capacity building of CLMV countries to respond to ASEAN integration at the national level** through enhancing their ownership of NDG efforts in the context of country's development agenda. CLMV countries have to close socio-economic gap with national development context as well as to move faster for responding to ASEAN integration

## II. LPP Design

### II.I Basic Concept

#### (1) Tripartite Cooperation

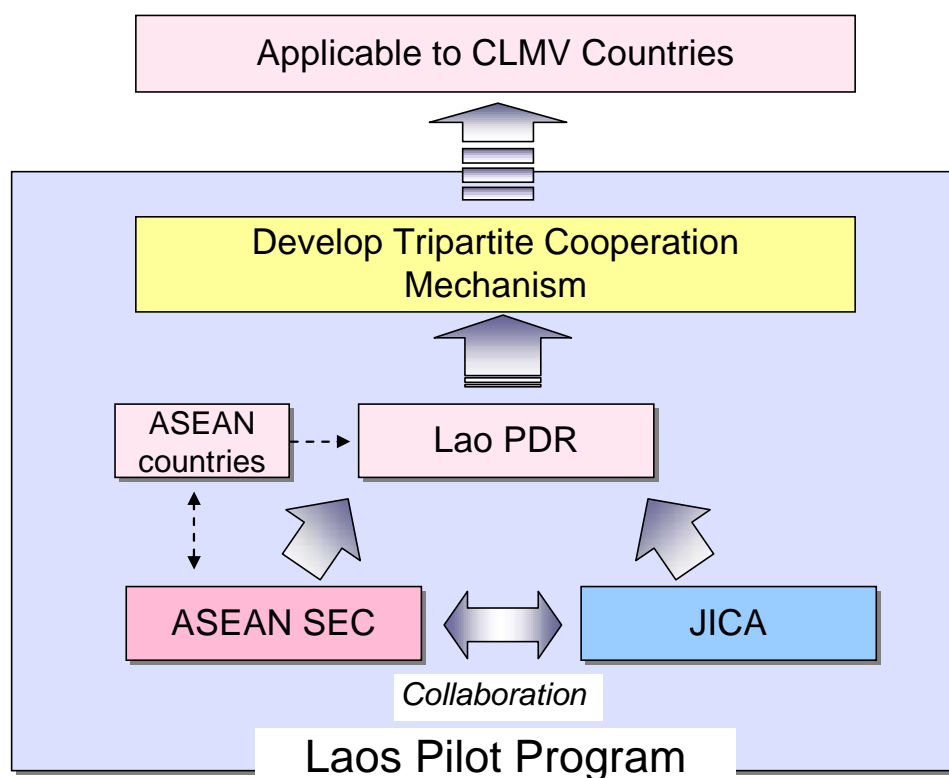
Tripartite cooperation is proposed as a **new modality of cooperation for NDG**. Tripartite cooperation is a tailor-made approach to meet the specific needs of CLMV countries at national level. It can bridge ASEAN and CLMV countries; harmonize ASEAN initiative and national development agenda of CLMV countries at national level; and strengthen CLMV countries’ capacities to effectively respond to ASEAN integration as well as ASEAN Secretariat’s capacities to facilitate development at national level of CLMV countries.



Source: JCIA Study Team

**Figure S.9 Tripartite Cooperation as a New Modality**

Laos Pilot Program for Narrowing Gap towards ASEAN Integration (LPP) is a pilot program of tripartite cooperation to develop a tripartite cooperation mechanism, which will be applicable to other CLMV countries. LPP will start in Lao PDR. Lao PDR is selected because of its the least developed nature in terms of poverty gap, educational attainment, and its outstanding share of the agriculture sector in the economy among CLMV countries. This idea is conceptualized as shown in the following figure.



Source: JICA Study Team

**Figure S.10 Pilot Program to Develop Tripartite Cooperation Mechanism**

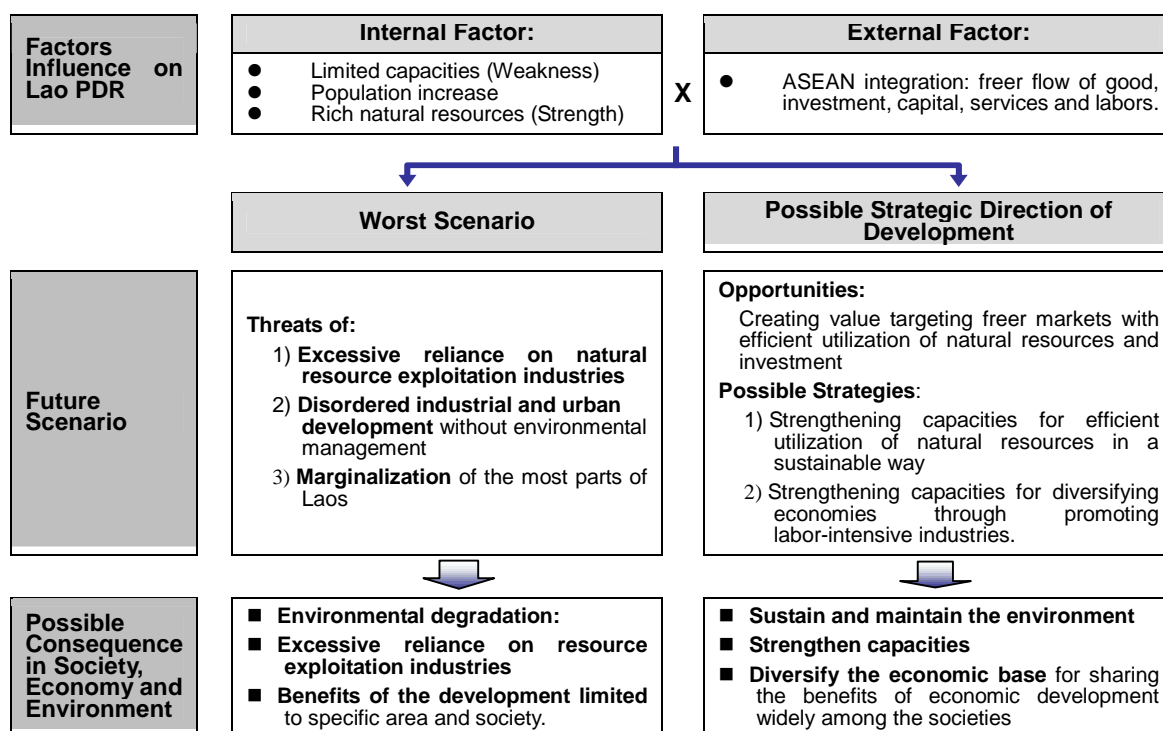
## (2) Basic Concept in Lao Context

Lao development goal is eradicating poverty under the current development strategies. Main idea of Lao development strategies consists of rapid economic growth, sharing its benefit, and balancing economy, society and environment.

The opportunities and threats of Laos in the context of the ASEAN integration are analyzed as follows:

- 1) Lao economy has a tendency of reliance on natural resource exploitation industries which have limited impacts on society. Excessive reliance on these industries accelerated by a larger foreign direct investment combined with limited management capacities would give **threats** to environmental and economic sustainability in the future.
- 2) Lao strength lies in her rich natural resources and the environment which have supported most of the people to live on agriculture and provide strengths and a source of competitiveness of Laos. **Opportunities** lie in creating added value targeting the freer markets with efficient utilization of natural resources, differentiating herself with her strength from other countries.

This analysis is shown in the following figure.



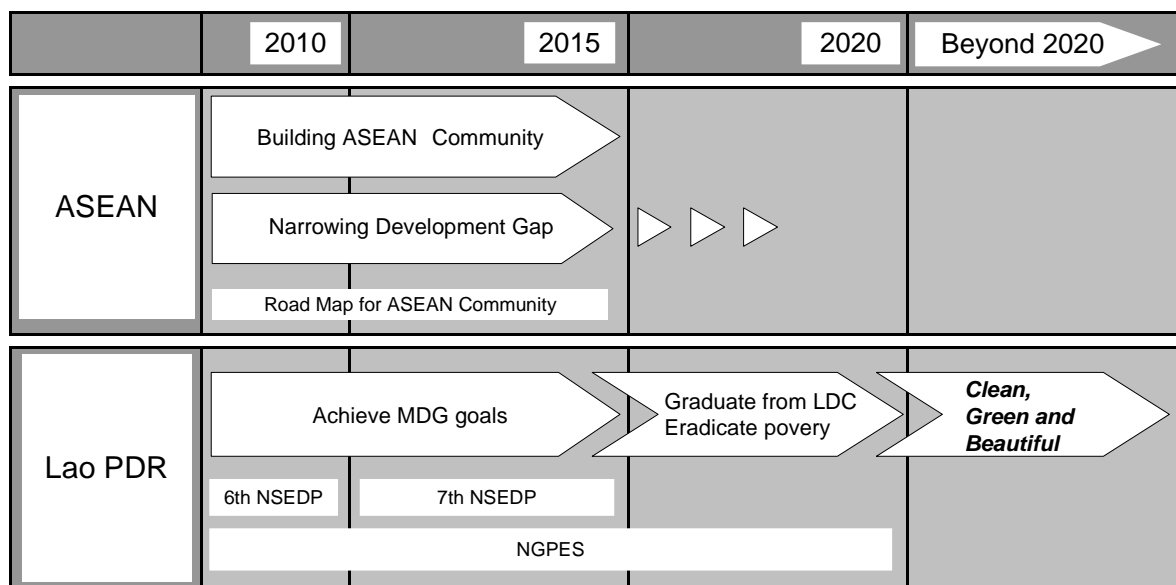
Source: JICA Study Team

**Figure S.11 Analysis and Possible Development Direction**

**Strategic Vision** is proposed as making a *“Clean, Green and Beautiful Laos”*. This is the future image of the country beyond the current development goal, in other words, a sustained goal after achieving poverty reduction and graduation from LDC in 2020. The strategic vision is an indicative vision to guide the development of Laos on the track toward sustainable development in the context of ASEAN integration.

Most of ASEAN countries have developed through industrialization by utilizing plenty of labor force as a source of competitiveness. However, Lao’s source of competitiveness lies in not labor force but in rich and beautiful natural resources and environment. Laos can differentiate her development path from other ASEAN countries. This development path can be a unique one as Laos model.

By setting and pursuing the strategic vision, Laos is able to seize growth opportunities in the ASEAN region, create a brand image of the country, and eventually achieve Narrowing Development Gap.



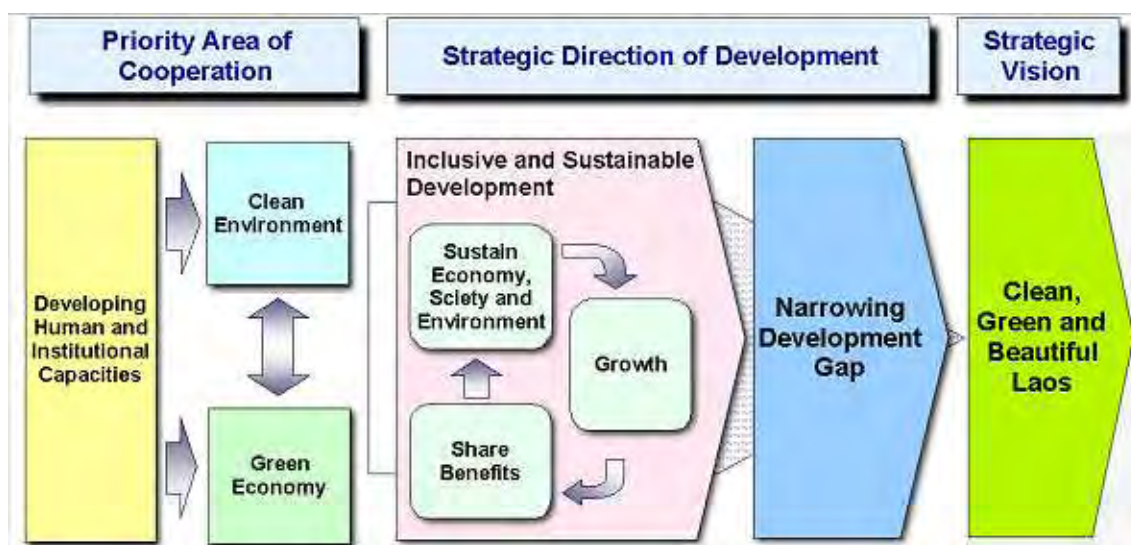
Source: JICA Study Team

**Figure S.12 Strategic Vision “Clean, Green and Beautiful Laos”**

**Strategic Direction of Development** toward the strategic vision is *Inclusive and sustainable development*. It will be directed by creating a balanced cycle among i) economic growth, ii) sharing the benefits of growth, and iii) sustaining economy, society and the environment. If this cycle works well, poverty will be reduced and eventually the development gaps with ASEAN countries will be narrowed. To construct this balanced cycle, the three *strategic pillars for development* are proposed; i) balancing environment and development with efficient utilization of natural resources, ii) diversifying industries with labor-intensive ones for inclusive development, and iii) strengthening capacities of human resources.

**Areas of Cooperation** proposed for LPP are “*Clean Environment*” and “*Green Economy*”. These are indicative areas to concentrate the efforts of LPP. Clean Environment is the area to address the challenge to “balancing environment and development” proposed as the first strategic pillar. Green Economy is the area to address the challenge to “diversifying industries with labor-intensive ones for inclusive development” proposed as the second strategic pillar.

In sum, **The Basic Concept** in Lao context is shown in Figure S.13.



Source: JICA Study Team

**Figure S.13 Basic Concept in Lao Context: Lao Model**

## II.II LPP Framework

### (1) Goals, Objectives and Components

**Goals of LPP** are: i) harmonizing ASEAN initiative and Lao national development; contributing to poverty eradication; and ii) contributing to narrowing development gap and promoting ASEAN integration.

**Objectives of LPP** are: i) strengthening the capacities of Laos to effectively respond to ASEAN integration in the national development context; ii) strengthening the capacities of ASEAN Secretariat to facilitate NDG programs and activities; and iii) developing a mechanism of tripartite cooperation to support CLMV countries' efforts toward narrowing development gap.

**LPP** consists of four **Program Components**.

**A) Awareness building, information sharing and outreach** includes ASEAN Charter training, awareness building training, networking of key stakeholders in ASEAN integration, organizing working group for selected issues, and promoting information sharing in and out of the country.

**B) Strategic action plan and policy support.** One sub-component is preparing strategic action plan. The strategic action plan is multi-year plan of actions up to 2015. Based on this plan, annual rolling plan of action is to be formulated. Its preparing process includes screening issues on integration, assessing their significance for Laos, prioritizing actions, necessary studies on priority issues, and participatory workshop and consultation with stakeholder. Another sub-component is identification of the development gap. ASEAN-related indicators of development gap can be development policy indicators of Laos. These indicators also link the

development of Laos and ASEAN integration. The results of this activity will give policy implications to Laos and ASEAN Secretariat. It includes identifying the indicators of gap in ASEAN and MDG framework; figuring out a framework for narrowing development gap using identified indicators in ASEAN framework; applying these framework of narrowing development gap into the Lao context; setting indicators of the gap; conducting baseline survey to measure the gap if necessary; setting target and framework to narrow the gaps; designing monitoring and evaluation plan; and scoping parts of the framework of narrowing development gap applicable to priority projects.

**C) Priority projects** are prepared and implemented based on strategic action plan and annual rolling plan, screened and selected by criteria. This process includes preparing and implementing priority projects, calling for proposals for priority projects, and managing, monitoring and evaluating the priority projects.

**D) Program assessment and feedback.** The whole process of the program and results are evaluated and feedbacks are provided to Lao PDR and ASEC.

**Potential priority projects** will be screened by criteria set forth in the program implementation process. Indicative criteria are i) consistency with strategic pillars: priority areas such as clean environment and green economy, ii) linking Lao resources and ASEAN market, and ii) projects maximizing advantages of tripartite cooperation, e.g., those targeting the needs of Lao PDR, related to ASEAN community building, utilizing ASEAN network and resources, replicable as a model to other CLMV countries, and beneficial to other ASEAN member states.

Priority projects will be selected in the implementation process. Examples of priority projects were tentatively screened, for indicative purpose, by JICA Study Team based on the project long list consisting of projects indicated by the government of Laos and identified by JICA Study Team. These are: G1) Green triangle development, G2) Eco-tourism and tourism standards, G3) Clean agriculture promotion, and G4) Regional sustainable forest management for the area of Green Economy; C1) Eco-development & networking, C2) Environmental management for low emission, and C3) Human resources development for clean environment. These potential priority projects are related to the roadmap for ASEAN community.

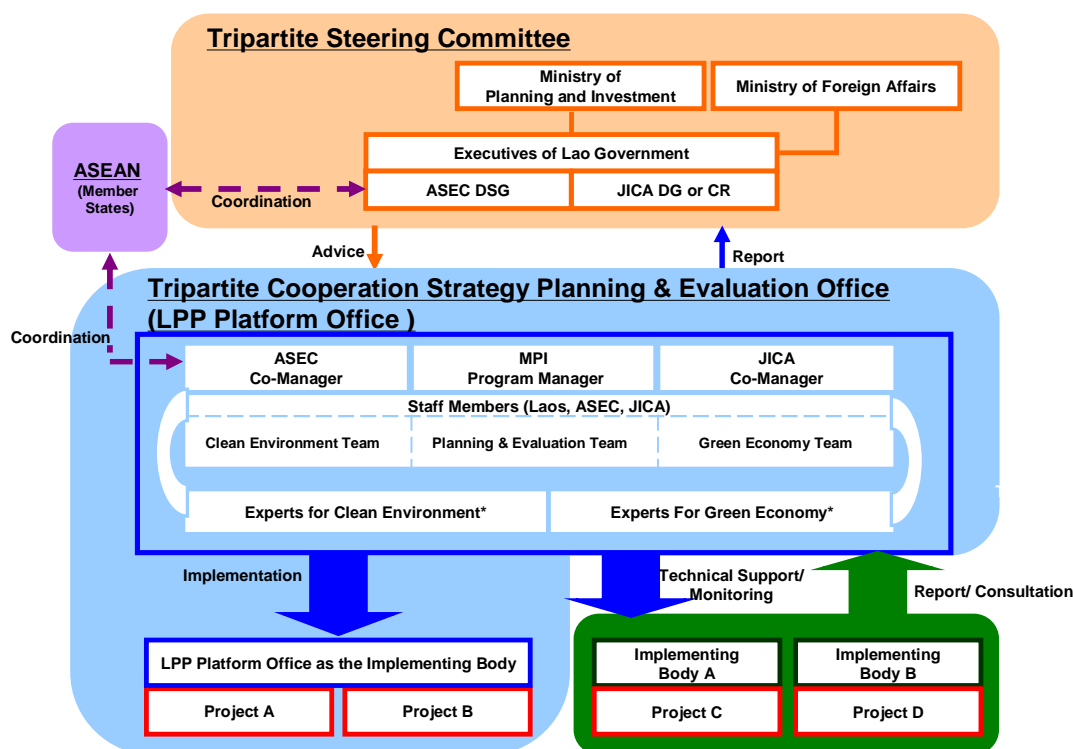
## **(2) Implementation Arrangements**

Implementation arrangements are as follows. Lao PDR hosts the tripartite cooperation for LPP. It shall be supported by ASEC and JICA. Within the Lao government, Ministry of Planning and Investment is the owner of LPP, and ASEAN Department of Ministry of Foreign Affairs is committed to it as a facilitator. Ministry of Industry and Commerce is responsible for the issues related to ASEAN Economic Community. Ministry of Information and Culture is responsible for the issues

related to ASEAN Socio-cultural Community.

Implementation structure is shown in the following figure.

**Proposed Structure of Tripartite Cooperation Mechanism**



\*Experts for Clean Environment and Experts for Green Economy would be recruited by the ASEC and JICA in consultation with the Lao government.

Source: JICA

**Figure S.14 Institutional Setup of Tripartite Cooperation**

**Tripartite Steering Committee (TSC)** shall be established. TSC shall be held at least twice a year and represented by: Lao Ministers of Planning and Investments, and Foreign Affairs; Deputy Secretary General of ASEC; Director General (DG) in charge or Resident Representative to Lao PDR from JICA; and representatives from other relevant bodies.

It shall approve annual plan, semi-annual report of LPP. Accordingly, it shall monitor the activities of **Tripartite Cooperation Strategy Planning & Evaluation Office (LPP Platform Office)**. LPP Platform Office shall be the secretariat for TSC. Decisions made by TSC shall be informed to the organizations concerned in each part of the three parties; Lao government, ASEC and JICA.

Under TSC, LPP Platform Office as a team for tripartite cooperation shall be organized by the relevant DGs or equivalent from MPI, ASEC staff members and JICA experts. LPP Platform Office is responsible for planning, implementing and evaluation of the program. LPP Platform Office shall manage LPP at the operational level, draft annual plan and semi-annual report, and screen and



monitor pilot projects. It shall facilitate the exchange of information among line agencies of Lao government, ASEAN Secretariat and other development partners, including ASEAN member states and international organizations.

Under the Platform Office, **Teams of experts for Clean Environment and Green Economy** shall be organized to provide with advices to LPP Platform Office. It shall be participated by a wide range of experts in Lao PDR, ASEAN member countries and development partners, including Japan.

Priority projects will be managed directly by LPP Platform Office or other implementation bodies. Other **Implementation Bodies** shall be responsible for planning, implementing and monitoring priority projects under the supervision by LPP Platform Office.

The program is prepared and implemented in the following **phasing**: Phase I includes needs assessment and designing of the program from February to March 2010; Phase II includes designing of the program details and its implementation from April to September 2010; and Phase III includes full implementation of the program from October 2010 to September 2015. Work plan of LPP is shown in the following figure.

YEAR Month Phase	2010			2011	2012	2013	2014	2015
	2-3	4-9	10-12					
	Phase I	Phase II	Phase III					
<b>Phasing</b>								
I. Needs assessment and designing program	Phase I							
II. Designing program details and its implementation		Phase II						
III. Full implementation of the program					Phase III			
<b>Implementation setting-up and preparation</b>								
Institutional setting up	■							
Need assessment		■						
Detail designing the program		■						
<b>Component A: Awareness building, Information sharing and outreach</b>								
ASEAN Charter Training	■	■						
Awareness building		■	■	■	■	■	■	■
Information-sharing within country			■	■	■	■	■	■
Information-sharing among ASEAN			■	■	■	■	■	■
<b>Component B: Strategic Action Plan</b>								
Formulating strategic action plan	■	■	■					
Formulating annual rolling plan of strategic action		■	■	■	■	■	■	■
Identification of gap and its monitoring		■		■	■	■	■	■
<b>Component C: Priority Projects</b>								
Preparing and implementing projects			■	■	■	■	■	■
Monitoring and evaluation of the projects				■	■	■	■	■
<b>Component D: Assessment and Feedback</b>								
Development agenda of Lao PDR			■	■	■	■	■	■
ASEC facilitation					■	■	■	■
Tripartite cooperation mechanism							■	■

Source: JICA Study Team

**Figure S.15 Work Plan of LPP**

Examples of priority projects are summarized in the following table.

**Table S.1 Examples of Priority Projects**

No.	Title	Objectives	Possible Components	Responsible Organization	Potential Resources
G1	Green triangle development	Eco-friendly regional development in the south, contributing to generating income in communities	<ul style="list-style-type: none"> <li>• Tourism networking development</li> <li>• Pilot tourism competency upgrading</li> <li>• Regional Public-Private Partnership</li> <li>• Clean agriculture promotion</li> <li>• SME development for local products promotion</li> </ul>	Local Adm., NTA, MAF	ASEC, ADB
G2	Eco-tourism promotion and tourism standards	Upgrading tourism services and promoting eco-tourism to attract larger number of tourists	<ul style="list-style-type: none"> <li>• Tourism Professional Board</li> <li>• Introducing ASEAN common competency standards</li> <li>• Pilot project in the model area</li> </ul>	NTA	ASEAN-Japan center
G3	Clean agriculture promotion	Promoting environment-friendly agriculture targeting ASEAN market and contributing to rural income generation	<ul style="list-style-type: none"> <li>• Clean agriculture value chain development</li> <li>• Introducing ASEAN GAP</li> <li>• Cooperatives development</li> <li>• SME development for local products promotion</li> <li>• Environmental awareness in rural economy</li> </ul>	MAF, Local Adm.	Thai Min. Ag& Coop
G4	Regional sustainable forest management	Introducing forestry standard for sustainable forestry and forest management	<ul style="list-style-type: none"> <li>• Forestry standard introduction</li> <li>• Strengthening capacities of forestry and forest management</li> </ul>	M. Ind. and Com., MAF	ASEC
C1	Eco-development & networking	Development and networking of eco-friendly village and city for demonstration	<ul style="list-style-type: none"> <li>• Eco-friendly district development &amp; networking</li> <li>• Green City development &amp; networking</li> <li>• Introducing 3R: reduce, reuse and recycle</li> </ul>	Local Adm., WREA, MPWT	ASEC, ADB
C2	Environmental management for low emission	Environmental management in pilot areas through coordination	<ul style="list-style-type: none"> <li>• Developing mechanism for environmental management</li> <li>• Project in pilot areas</li> </ul>	WREA	CIDA
C3	Human resource development for clean environment	Developing human capacity for clean environment	<ul style="list-style-type: none"> <li>• Upgrading Faculty of Environment, Lao National University through ASEAN networking</li> <li>• Strengthening National Environmental Research Institute</li> <li>• Environmental education and awareness</li> </ul>	MOE, NUOL	ASEAN Univ. Network

Source: JICA Study Team

## **Introduction: Outline of the Study**

### **1. Background**

Ten member states of the Association of South East Asian Nations (ASEAN) adopted various action plans for the purpose of establishing an ASEAN Community by 2015 through the ASEAN Charter that entered into force in December 2008. Steady implementation of these activities becomes the key for the realization of the Community. Above all, engagement in tackling the development gap within the region is one of the most important issues for the regional integration.

In December 2003, the Government of Japan adopted the "Tokyo Declaration for Japan-ASEAN partnership" and emphasized the importance of the strengthening of collaboration and support for the realization of the ASEAN Community through the conclusion of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP). It was followed by the agreement between JICA and the ASEAN Secretariat on the JICA-ASEAN cooperation framework in June 2008.

Based on this background, JICA and the ASEAN Secretariat carried out preparation for the "**Laos Pilot Program for narrowing the development gap toward ASEAN integration (LPP)**". In April 2009 at the meeting among Lao PDR, ASEAN Secretariat and JICA, the three parties confirmed implementation of a strategic study for LPP. The basic idea of LPP is to start cooperation for narrowing the disparity within the region, with special reference to Lao PDR, which is facing the double handicaps of being land-locked and least-developed, as the pilot country. In the future, experience of the LPP is expected to be applicable to the development of other new ASEAN Member States such as Cambodia, Myanmar and Vietnam.

### **2. Objectives**

This study corresponds to the strategic study for LPP mentioned above. The objectives of the study have been set as follows:

- 1) To set up a basic concept of LPP;
- 2) To identify a direction and fields of cooperation under LPP for discussion on the platform to be formed by the experts and concerned parties of Lao PDR, ASEAN Member States and Japan; and
- 3) To call for possible participants on the platform

The starting point for establishing a basic concept was a broad recognition shared by the three parties that it would be imperative for Lao PDR to pursue a development by utilizing its rich

nature and resources in a sustainable manner minimizing environmental load, so that the LPP could become a development model of balancing environment and economic growth for other ASEAN countries and the world.

### **3. Study Process**

This study has been conducted from August 2009 to March 2010. It undertook literature reviews and interviews and exchanges of ideas with the relevant parties through the works in Japan and the on-site studies mainly in Lao PDR and Jakarta. Since LPP is based on the tripartite cooperation framework, one of the important tasks of the study has been to closely examine the opinions of the three parties and incorporate them into the basic concept and the direction of cooperation under LPP. As part of that, two workshops were held with the participation of officials from Lao PDR, ASEAN Secretariat and Japan, and resource persons from ASEAN countries. In the first workshop, namely “Inception Workshop” held on August 28, 2009, the study framework and work plan were proposed. The second workshop titled “LPP Inaugural Workshop” was held on February 1, 2010, where the study team presented a draft final report. Based on the study result, this final report was submitted to JICA in February 2010.

The work items of the study are indicated in the table below.

Work Process	Work Item	2009					2010		
		Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
[ 1 ] Pre- paratory Works (Japan)	[ 1-1 ]	Preparing a study framework	□						
	[ 1-2 ]	Preparing a draft basic concept	□						
	[ 1-3 ]	Identifying fields of cooperation under LPP: Preliminary	□						
	[ 1-4 ]	Preparing Inception Report	□						
	[ 1-5 ]	Identifying important points to be discussed prior to the study	□						
[ 2 ] On-site Study 1	[ 2-1 ]	Presentation and discussions of Inception Report		■					
	[ 2-2 ]	Exchange of ideas with possible counterpart and other relevant parties		■					
	[ 2-3 ]	Requesting necessary coordination activities for the study by the Lao Ministry of Foreign Affairs and ASEAN Secretariat		■					
	[ 2-4 ]	Exchange of ideas with the ASEAN Secretariat and the concerned parties in Indonesia		■					
[ 3 ] Review 1 (Japan)	[ 3-1 ]	Review of the basic concept		□					
	[ 3-2 ]	Resource survey		□					
[ 4 ] On-site Study 2	[ 4-1 ]	Resource survey in ASEAN countries		■					
	[ 4-2 ]	Exchange of ideas with the Lao Government regarding the basic concept, fields and activities of cooperation		■		■			
[ 5 ] Review 2 (Japan)	[ 5-1 ]	Summary of Draft Final Report				□			
[ 6 ] On-site Study 3	[ 6-1 ]	Presentation and discussions of Draft Final Report						■	
	[ 6-2 ]	Undertaking a workshop for project formulation							■
Review 3 (Japan)	[ 7-1 ]	Preparing Final Report						□	
[ 8 ] On-site Study 4	[ 8-1 ]	Collecting and identifying information on proposal document prepared by Lao Government for LPP							■
	[ 8-2 ]	Survey on priority issues of NSEDP and Lao Government						■	■
	[ 8-3 ]	Collecting information on LPP agenda discussed in ASEAN						■	■
	[ 8-4 ]	Presentation and discussions of ASEAN Roadmap to be reflected in NSEDP						■	■
	[ 8-5 ]	Examining consistency between the result of [8-4] and proposed fields and activities of cooperation under LPP							■
	[ 8-6 ]	Supplemental survey on possible counterpart in Laos							■
[ 9 ] Review 4 (Japan)	[ 9-1 ]	Supplemental survey on possible resources in Japan							□
	[ 9-2 ]	Preparing draft of Final Report (annex)							□
[ 10 ] Wrap-up (Japan)	[ 10-1 ]	Preparing Final Report (annex)							□

■ : On-site Study □ : Work in Japan

Figure 0.1 Work Process

# **Part I      ANALYSIS**



## **Chapter 1 The Socio-economic Situations and Issues for Establishment of an ASEAN Community**

### **1.1 Introduction**

#### **(1) Globalization and ASEAN Community**

Since the Association of South East Asian Nations (ASEAN) was established in 1967, it relaxed tensions among its member countries and then aimed to attain peace and stability in the region by creating friendship and fostering reliance among them. When the cold war ended around 1990 and globalization of economy started, an individual economy of the member countries became more dependent on the other economies and the presence of ASEAN increased in global economy. As a next step, ASEAN tried to become one of the cores of global economy. For this purpose, it organized ASEAN Free Trade Area (AFTA) to promote international trade of goods and services among the original member countries in 1992 and, based on it, AFTA tariff reduction programs started in 1993. Then it adopted ASEAN Industrial Cooperation Scheme (AICO) in 1996 to encourage a stronger tie among the members. Along this scheme, individual member countries have been trying to specialize in their own stronger industries. In December 1997, as the final stage of AFTA, the leaders of member countries agreed to adopt ASEAN Vision 2020 which would lead to the establishment of the ASEAN Community by 2020.

#### **(2) Development Gap**

During the processes of development towards the ASEAN Community in the 1990s, new countries joined the original 6 member countries and altogether 10 countries became ASEAN members. Chronologically they were Vietnam in 1995, Lao People's Democratic Republic (hereafter, abbreviated as Lao PDR) and Myanmar in 1997, and Cambodia in 1999. Hereafter we will abbreviate the original 6 member countries as "ASEAN-6 countries" or simply "ASEAN-6" and the new member countries as "ASEAN CLMV countries" or simply "CLMV countries." Because the former attained rapid economic growth throughout the 1980s and in the first half of the 1990s, their per capita GDP went up above US\$1,000 level around 1990. On the other hand, the latter's economies were stagnated until 2000 and their per capita GDP were still below US\$1,000 level even in 2009. The gaps between ASEAN-6 and ASEAN CLMV countries are also very wide in other socio-economic indicators and have to be narrowed significantly before establishment of the ASEAN Community in 2015.<sup>1</sup>

#### **(3) Toward Establishment of the ASEAN Community**

The necessary steps and preparations which have to be taken by individual member countries and ASEAN Secretariat towards establishment of the ASEAN Community will be described in

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<sup>1</sup> For details, see ASEAN Secretariat (2009), *Roadmap for an ASEAN Community, 2009-2015*, Jakarta.



more detail in Chapter 3. In this chapter, we will show the present socio-economic situations of the member countries briefly, the issues and problems which have to be solved by 2015, and the reasons why we are planning to implement Lao Pilot Project in Lao PDR.

## **1.2 Economic Growth**

### **(1) Economic Growth in the 1970s and 1980s**

Singapore attained the highest GDP growth rate in the 1970s among ASEAN member countries. Although her growth rate slowed down in the 1980s, she kept it higher than other member countries did as shown in Table 1.1. A large amount of foreign direct investments started to flow into Thailand, Malaysia, and Indonesia after the Plaza Agreement on September 1985 and their GDP growth rates began to rise.<sup>2</sup> But they were still lower than Singapore's growth rate throughout the 1980s. On the contrary, GDP growth rates of Lao PDR, Myanmar and Vietnam were far lower than those of Thailand, Malaysia and Indonesia in the same time period.

### **(2) Financial Crisis in the 1990s**

Although Thailand and Indonesia kept their high GDP growth rates even in the first half of the 1990s, they were hit by the Asian financial crises severely in 1997 and their growth rate dipped into below zero temporarily. As a result, their average growth rates during the 1990s went down significantly compared with those in the 1980s. After facing with the crises, they started to reform their financial and political systems, but their economy did not regain momentum of their economic growth for many years.

### **(3) High GDP Growth Rate in CLMV**

On the other hand, ASEAN CLMV countries were affected little with the Asian financial crises and their GDP began to grow faster. Their GDP growth rates accelerated around the turn of the century and their average growth rates of the first seven year in this century were 9.45%, 6.38%, 9.16% and 7.50% for Cambodia, Lao PDR, Myanmar, and Vietnam, respectively. In addition to their good economic performance, a remarkable growth rate was attained by the Philippines. Even though the Philippines is one of the original ASEAN members, she had been struggling with low GDP growth rate for many years. But her growth rate picked up momentum around the turn of the century and exceeded those of Thailand, Malaysia and Indonesia in 2007.

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<sup>2</sup> An agreement reached in September 1985 by the G-5 countries (France, West Germany, Japan, the UK and US), on a need to adjust current exchange rates. The governments of these countries agreed that the \$US was overvalued, lectured foreign-exchange markets about the need to take account of economic fundamentals and directed markets to bring the \$US down.

#### (4) GDP Gap among the Member Countries

GDP growth rates in 2007 were 10.2%, 7.5%, 12.3% and 8.5% for Cambodia, Lao PDR, Myanmar and Vietnam, respectively, and they were remarkably higher than those of Thailand, Malaysia and Indonesia which ranged from 4.8% to 6.3% as shown in Table 1.1. But GDP per capita of CLMV countries were far lower in comparison with those of ASEAN-6 countries. Among the member countries, the highest GDP per capita, US\$38,000, was attained by Singapore and it was around 82 times bigger than Myanmar's GDP per capita, US\$465, which was the lowest in 2008. As shown in the difference between the two countries, there are huge gaps of socio-economic situations among the member countries to be closed as much as possible before the establishment of the ASEAN Community in 2015.

**Table 1.1 Population, GDP and GDP Growth Rate**

	Population (1,000) 2006	GDP (US\$10 <sup>6</sup> ) 2006	GDP per capita (US\$) 2006	GDP growth rate (annual %)			
				1980-89	1990-99	2000-06	2007
Brunei	0.4	11,562	28,904	-2.39	2.08	2.63	0.6
Cambodia	13.6	7,258	534	...	7.25	9.45	10.2
Indonesia	222.7	364,790	1,638	6.38	4.83	4.86	6.3
Lao	5.7	3,437	603	4.11	6.38	6.38	7.5
Malaysia	26.6	150,672	5,664	5.88	7.25	5.24	6.3
Myanmar	56.5	...	...	1.94	6.12	9.16	12.7 <sup>1)</sup>
Philippines	87.0	117,562	1,351	2.01	2.78	4.83	7.2
Singapore	4.4	132,158	30,036	7.54	7.55	5.46	7.7
Thailand	65.2	206,338	3,165	7.29	5.28	5.02	4.8
Vietnam	84.1	60,999	725	1.71	7.42	7.50	8.5
ASEAN	583,651	1,506,192	2,581				

Note: 1) 2006

Sources: The World Bank, *World Development Indicators 2008*; and ADB, *Key Indicators 2008*.

### 1.3 Structure and Employment by Sector

#### (1) Agriculture

GDP can be divided into three major sectors, agriculture, industry and services, for a more detail economic analysis as shown in Table 1.2. Except in Brunei and Singapore who have very small agricultural sector, the agricultural share of GDP declined sharply from 1995 to 2006 in ASEAN-6 countries. The Philippines who had the highest agricultural share in 1995 reduced it around 7.6 points by 2005, while the other countries lowered it around to 10 % level. Among CLMV countries, Cambodia, Lao PDR and Myanmar who produced 50% to 60% of GDP in the agricultural sector in 1995 reduced its shares around 20 points and they became 32%, 32%, and 44%, respectively, in 2006.

Employment share of the agricultural sector is still very high in many ASEAN countries and its reduction from 1995 to 2006 was very small in comparison with reductions of agricultural GDP share as shown in Table 1.2. Among ASEAN-6 countries, employment share of the agricultural sector was 14.8% in Malaysia which was the smallest among ASEAN countries in 2006. As for the other countries, it was 42.2% in Indonesia, 39.7% in Thailand, and 35.8% in the Philippines. As these figures indicated, they were relatively high even though GDP shares of the agricultural sector were fairly small.

## (2) Agricultural Sector in CLMV Countries

Among CLMV countries, Vietnam had the smallest GDP share of the agricultural sector, 20.4%, but her employment share of the sector was still as high as 55% in 2006. In the case of Lao PDR who had a fairly high GDP share of the sector, its employment was estimated more than 70% in the same year. In every ASEAN CLMV country, the sector employed still more than half of labor force in 2006.

**Table 1.2 GDP and Employment Shares by Sector**

(%)

	Agriculture				Industry			
	GDP		Employment		GDP		Employment	
	1995	2006	1995	2006	1995	2006	1995	2006
Brunei	1.2	0.7	2.5	...	54.3	73.2	8.9	...
Cambodia	49.6	31.7	81.4	60.3	14.8	27.6	2.3	9.7
Indonesia	17.1	13.0	44.0	42.2	41.8	46.9	13.4	13.1
Lao	55.0	32.4	82.7 <sup>1)</sup>	78.5 <sup>2)</sup>	19.0	29.8	8.7 <sup>1)</sup>	9.3 <sup>3)</sup>
Malaysia	12.7	8.6	20.0	14.8	40.5	48.6	23.7	20.7
Myanmar	60.0	43.5	64.1	...	9.9	19.4	9.1	...
Philippines	21.8	14.2	43.4	35.8	32.1	31.7	10.6	9.7
Singapore	0.2	0.1	0.2	1.3	33.1	30.7	31.0	22.1
Thailand	9.5	10.7	46.7	39.7	40.7	44.4	15.1	15.6
Vietnam	27.2	20.4	71.3	55.4	28.8	41.5	8.6	13.9

Notes: 1) 2001

2) 2005

3) 2003

Source: ADB, *Key Indicators 2009*.

## (3) Industry

GDP share of the industry sector increased around 3 to 8 points in ASEAN-6 from 1995 to 2006 except the Philippines and Singapore, while it went up by more than 10 points in every ASEAN

CLMV countries. Namely, it increased to 27.6% in Cambodia, 29.8% in Lao PDR, 41.5% in Vietnam, and slightly small 19.4% in Myanmar. But its employment shares did not show impressive results especially for ASEAN-6 countries. Surprisingly, the shares declined slightly in Indonesia, Malaysia, the Philippines and Singapore. Although its share in Thailand went up, an increase was really slight. As for CLMV countries, the highest employment share, 13.9%, was attained by Vietnam and the shares were still less than 10% in Cambodia and Lao PDR in 2006. The result implies that employment expansion by the industry sector is not easy in ASEAN countries as its GDP share increases.

#### **(4) Importance of Agriculture for Employment Opportunity in CLMV Countries**

In sum, GDP share of the industry sector had been increasing in ASEAN CLMV countries, but the sector's employment share had not increased as expected. Based on this situation, it is very difficult to expect that employment of the industry will expand quickly in the foreseeable future. The agricultural sector will be an important in terms of employment opportunity for many years.

### **1.4 Trade Balance, Trade Direction and Current Account Balance**

#### **(1) Trade Balance**

Because the amounts of exports were greater than those of imports among ASEAN-6 countries, trade balance generally have been surplus except the Philippines as shown in Table 1.3. As for the Philippines not only three years shown in the table, it has been negative since 1975 except in a couple of years of the 1990s and does not show any sign of closing down. On the contrary, imports were greater than export and trade balance was the other way around in Cambodia, Myanmar and Vietnam. In Lao PDR, negative gap in trade balance had been getting smaller and a gap became positive in 2007. But a trend of closing gap could not be seen in other CLMV countries. Instead, negative gaps had been widening larger in Cambodia and Vietnam.

#### **(2) Remittances**

As for workers' remittances, the Philippines' figures were extremely large because she sent many labor forces to North America, the Middle East and Hong Kong regions. Her remittances made up her negative gaps in goods and services trade for many years. Among ASEAN CLMV countries, workers' remittances were very large and have been kept around 6% to 8% level to GDP since 2001. The trends of Cambodia and Lao PDR workers' remittances have shown completely opposite directions. The former remittances showed an increasing trend and became as large as 4.2% of GDP size, while the latter ones showed a declining trend and became almost 0% of GDP size.

**Table 1.3 Trade, Workers Remittances and Current Accounts (Ratio to GDP)**

	Trade balance			Workers' remittances			Current account balance		
	1995	2000	2007	1995	2000	2007	1995	2000	2008
Brunei	...	...	...	...	...	...	51.3	...	52.6
Cambodia	-5.5	-11.9	-8.9	0.4	3.2	4.2	-3.5	-2.7	-7.3
Indonesia	3.5	8.9	4.9	0.3	0.7	1.4	-2.7	4.8	0.1
Lao	-12.2	-3.7	1.3	1.2	0.1	0.0	-9.6	-0.3	2.7
Malaysia	0.4	19.2	20.2	0.8	1.0	1.0	-2.1	9.0	17.6
Myanmar	-1.7	-0.1	...	...	...	...	-1.8	-0.1	0.0
Philippines	-11.0	-10.4	-4.3	7.2	8.2	11.3	-5.8	-2.9	2.5
Singapore	-21.8	13.7	26.6	...	...	...	8.5	11.6	14.8
Thailand	-11.7	3.2	1.4	1.0	1.4	0.7	-8.4	7.6	-0.1
Vietnam	-5.4	-0.6	-15.9	...	6.1 <sup>1)</sup>	8.0	-4.0	3.6	-11.8

Note: 1) 2001

Sources: ADB, *Key Indicators 2009*.

### (3) Current Account

Current account consists of balance of trade, net factor income from abroad, and net unilateral transfer from abroad. The last transfer is not indicated in Table 1.3, because it is not results of individual countries' economic activities. Current accounts have been surplus in ASEAN-6 countries except the Philippines since 1990. In the Philippines, although workers' remittances have been large surplus, trade balances are huge deficits and cannot be covered with workers remittance. As a result, current account is consistently negative. As for ASEAN CLMV countries, their current accounts are usually negative, In Cambodia and Vietnam, it has been deficit since 2000 and the size of deficit has been getting bigger. On the contrary, its situation has been improving and has become surplus since 2006. As for Myanmar, current account has been zero since 2000.

### (4) Export Destination

As another side of international trade activities, export destinations have been analyzed by country as shown in Table 1.4. As a whole, the shares of exports to Asian countries are large for almost every member country. One of the reasons for this result is that they are located in the neighboring areas and demand structures of population are almost similar. Another reason is that their major trade partners are China, Japan, Korea and Taiwan. But a closer look shows that there are clearly different patterns between ASEAN-6 and CLMV countries. The shares of Europe and North and Central America declined from 1990 to 2008 for every former country. On the other hand, there are mixed changes of export directions for the latter countries. As for Cambodia, the share of Asia declined drastically, while that of North and Central America increased significantly. For Lao PDR, the share of Asia went down by around 20 points, while that of the Rest of the World increased by almost same points. For Myanmar, the share of Asia

increased by more than 20 points, whereas those of Europe and the Rest of the World declined significantly. For Vietnam, her export share of Europe went down drastically. Instead, her share of North and Central America increased significantly and almost made up a decline of exports to Europe. In other word, her exports shifted from Europe to North and Central America.

In sum, Asia as export markets became more important for ASEAN-6 countries, whereas North and Central America and Middle East as export markets became more important for ASEAN CLMV countries.

**Table 1.4 Shares of Export by Region**

(%)

	Asia		Europe		North & Central America		Middle East		Rest of the World	
	1990	2008	1990	2008	1990	2008	1990	2008	1990	2008
Brunei	91.6	82.8	0.2	0.3	3.4	1.2	0.0	0.3	4.8	15.4
Cambodia	90.9	11.0	7.8	18.9	0.4	47.8	0.1	21.3	0.8	1.0
Indonesia	64.4	63.5	12.8	12.7	13.8	10.9	3.0	3.7	6.0	9.2
Lao	85.2	64.8	11.1	11.4	1.7	2.8	0.0	0.1	2.0	20.9
Malaysia	58.0	60.9	16.6	11.7	18.1	15.0	2.5	3.5	4.8	8.9
Myanmar	67.4	88.7	10.3	3.9	2.5	0.1	1.5	1.0	18.3	6.3
Philippines	34.8	87.9	18.8	11.4	40.2	14.4	1.6	1.0	4.6	-14.7
Singapore	47.2	66.1	17.2	10.1	23.0	10.0	2.6	2.5	10.0	11.3
Thailand	37.9	54.7	25.3	14.9	25.3	13.2	5.4	5.4	6.1	11.8
Vietnam	39.1	39.8	48.1	20.6	0.6	22.0	0.9	0.6	11.3	17.0

Source: ADB, *Key Indicators 2009*.

## 1.5 Inflow of Foreign Direct Investment

### (1) Net Private Capital Flows

Net aggregated inflows of capital can be divided into two parts, private net inflows of capital and official net inflows of capital. Table 1.5 shows ratios of both net private capital inflows to GDP and net aggregated capital inflows to GDP ratios. The differences between those ratios are net official capital inflows. There was not distinct difference in private capital flows between ASEAN-6 and CLMV countries in 1995 as shown in Table 1.5. During the first half of the 1990s, net private capital inflows were positive because there were large amounts of direct investment by foreign private enterprises. However, they were negative in Brunei, Indonesia, and Thailand in 2000 and this situation was probably created from an aftermath of the 1997-98 Asian financial crises. It triggered capital flight from those countries and private capital did not come back for several years. In 2006, except for Thailand, ratios of private capital inflows to GDP for ASEAN-6 countries were smaller than those for CLMV countries. Especially a large amount of private capital inflow was observed and the ratio reached to as high as 14.2% for Lao PDR in 2006.

**Table 1.5 Net Flows of Capital (Ratio to GDP)**

	Net private flows			Net aggregated flows		
	1995	2000	2006	1995	2000	2006
Brunei	0.7	-1.6	0.0	0.8	-1.5	...
Cambodia	4.8	4.1	6.7	19.8	14.3	15.6
Indonesia	4.0	-6.4	3.1	5.0	-5.1	3.0
Lao	5.4	2.0	14.2	21.2	17.1	23.7
Malaysia	8.8	5.5	7.1	9.4	6.3	6.8
Myanmar	...	...	...	...	...	...
Philippines	3.2	5.0	3.8	3.0	5.4	4.1
Singapore	5.1	9.1	0.0	5.1	9.1	...
Thailand	6.0	-0.9	7.8	6.6	-0.3	7.6
Vietnam	10.3	1.9	6.0	13.4	6.8	8.9

Source: ADB, *Key Indicators 2009*.

## (2) Net Aggregated Capital Flows

The ratios of net aggregated capital inflows are usually larger than those of net private capital flows because net official capital inflows in ASEAN countries. But the former can be smaller than the latter if official capital inflows become negative. In other word, when repayments of official capital are larger than its inflows, net official capital inflows are negative. A typical example is the Philippines case in 1995 and the ratio of net aggregated capital inflows was slightly smaller than that of net private capital flows. Other examples were Indonesia, Malaysia and Thailand in 2006. Because they reached already at a level of middle income countries, official capital flows became smaller and instead they had to repay back previously borrowed official capital.<sup>3</sup> As a result, the ratio of net aggregated flows was smaller than that of net private capital flows. As for Singapore, the ratios of net aggregated capital flows were exactly same as those of net private capital inflows. It implies that there was not any net official capital inflow to the country.

## (3) Large ODA Inflows to Lao PDR

The countries which had large differences between net private capital flows and net aggregated capital flows are Cambodia, Lao PDR and Vietnam. The differences were the largest for Lao PDR and they were 15.8 points in 1995, 15.2 points in 2000, and 9.5 point in 2006. Following Lao PDR, the second largest differences were for Cambodia and they were 15.0 points in 1995, 10.2 points in 2000, and 9.50 points in 2006. These results were mainly due to large inflows of

<sup>3</sup> As for Indonesian case, see Kurnya Roesad (2001), "ODA in Indonesia: A Preliminary Assessment," *CSIA Working Paper Series*, WPE-058, the Centre for Strategic and International Studies.

official development aids (ODA) from donor countries.

## 1.6 Poverty and Income Disparity

### (1) Population below Poverty Line

As the last aspect, let us look into poverty and income disparity of ASEAN countries. Here, a share of population below 1 dollar a day is used as an indicator of poverty line.<sup>4</sup> There are large differences in shares between CLMV and ASEAN-6 countries as shown in Table 1.6. Although the Philippines' share was exceptionally large as a middle income country, shares of other ASEAN-6 were rather small and they were around 2.0%. On the contrary, those of CLMV countries were large and they were ranging from 24.2% for Vietnam to 44.0% for Lao PDR.

**Table 1.6 Poverty and Mortality**

	Population below \$1(ppp) per day  (%)	Poverty gap ratio  (%)	Population below minimum dietary consumption  (%)	Mortality under 5 years old per 1,000 births
Brunei		...		
Cambodia	40.2 (2004)	11.3 (2004)	26.0 (2004)	91 (2007)
Indonesia		2.2 (1996)	17.0 (2004)	31 (2007)
Lao	44.0 (2002)	12.1 (2002)	19.0 (2004)	70 (2007)
Malaysia	2.0 (2004)	0.5 (2004)	5.0 (2004)	11 (2007)
Myanmar		...	19.0 (2004)	103 (2007)
Philippines	22.6 (2006)	5.5 (2006)	16.0 (2004)	28 (2007)
Singapore		...		3 (2007)
Thailand	2.0 (2004)	0.5 (2004)	17.0 (2004)	7 (2007)
Vietnam	24.2 (2004)	5.1 (2006)	14.0 (2004)	15 (2007)

Note: Figures in the parentheses indicate year.

Source: ADB, *Millennium Development Indicators 2007*, MDG Tables

(<https://sdb.sadb.org/sdb/index.jsp>)

<sup>4</sup> The dollar is not US dollar, but purchasing power parity (ppp). Using a PPP basis is more useful when comparing differences in living standards among countries because PPP takes into account the relative cost of living and inflation rates of different countries, rather than just a nominal GDP comparison.



## **(2) Poverty Gap Ratio**

Next, let us look at the poverty gap ratio which is defined as the ratio of an average income of population below poverty line to poverty line income.<sup>5</sup> The ratio was very small even for Indonesia and it was 0.5 % for Malaysia and Thailand. The ratios were large for CLMV countries. The situation was serious for Lao PDR whose ratio was 12.1, the lowest among the countries. Following Lao PDR, the second lowest ratio was for Cambodia whose ratio was 11.3%. These figures indicate that poverty gaps between ASEAN-6 and CLMV countries are large and serious. Without closing the gaps, it might be difficult to establish the ASEAN Community in 2015.

## **(3) Minimum Dietary Consumption and Mortality**

As the first look, there seems to be no significant difference between ASEAN-6 and CLMV countries in shares of population below minimum level of dietary consumption. But a closer look indicates that the share for Cambodia is the largest, 26.0%, among ASEAN countries. Following Cambodia, the second largest shares, 19.0%, were for Lao PDR and Myanmar. Also mortalities under 5 years old per 1,000 births were very serious situations at levels of 91, 70, and 103 births for Cambodia, Lao PDR, and Myanmar, respectively.

## **(4) Human Development Index and Education**

Human development index (HDI) is an index used to rank countries by the level of human development. HDI usually implies whether a country is developed, developing, or underdeveloped. It is calculated from life expectancy index, education index, adult literacy index and GDP. The year 2006 indexes show that the differences between ASEAN-6 and CLMV countries are very clear and significant as shown in Table 1.7. Indonesian index was 0.726 which was the lowest among the former countries, whereas Vietnam index was 0.716 which was the highest among the latter countries. Their indexes seem to be not much different for both countries. However, indexes are 0.575, 0.585, and 0.608 for Cambodia, Myanmar, and Lao PDR, respectively, and they are distinctively lower than those for other ASEAN countries. In terms of country ranking, their ranks are 136, 135, and 133, respectively. As the level of educational attainment, two indicators, primary education completion rate and adult literacy rate, are shown in Table 1.7. Among ASEAN countries, Lao PDR was the lowest levels in both rates.

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<sup>5</sup> As for detail description, see UNDP, <http://hdr.undp.org/en/reports/global/hdr2010/>

**Table 1.7 HDI, Primary Education, and Adult Literacy**

	Human development index			Primary education completion rate (%)	Adult literacy rate (%)
	2000	2006	Rank in 2006		
Brunei	0.905	0.919	27	107.4 (2007)	94.9 (2007)
Cambodia	0.511	0.575	136	85.1 (2007)	76.3 (2007)
Indonesia	0.671	0.726	109	98.8 (2006)	91.4 (2007)
Lao	0.563	0.608	133	76.7 (2007)	73.4 (2007)
Malaysia	0.797	0.823	63	98.3 (2005)	91.9 (2007)
Myanmar	0.551	0.585	135	95.3 (2006)	89.9 (2000)
Philippines	0.725	0.745	102	93.8 (2006)	93.4 (2007)
Singapore	0.907	0.918	28	...	94.4 (2007)
Thailand	0.750	0.786	81	101.1 (2007)	91.4 (2007)
Vietnam	0.688	0.718	114	...	90.3 (1999)

Note: Figures in the parentheses indicate year.

Sources: ADB, *Key Indicators 2009*.

## 1.7 Major Obstacles for Establishment of an ASEAN Community by 2015

### (1) Three Economic Groups among ASEAN Countries

ASEAN countries are preparing for the establishment of the ASEAN Community by 2015. However, as indicated in the previous sections, there are great gaps among the member countries in terms of socio-economic aspects. Comparing their socio-economic aspects, we can divide individual economies into three groups, the low income, the middle income, and the high income countries.<sup>6</sup> Singapore is in the high income group without any doubt, whereas Malaysia, Thailand and Indonesia are in the middle income group. There are some difficulties for us to classify the Philippines and Vietnam either into the low income or the middle income group. They are in the middle income group for some indicators, whereas they are in the lower income group for other indicators. Lastly, Cambodia, Lao PDR and Myanmar are definitely in the low income group. Their socio-economic situations have to be improved and the socio-economic gaps among the member countries have to be narrowed down as small as possible before establishing the Community. Otherwise, they may create many conflicts among the countries and weaken their ties as a community.

<sup>6</sup> In the World Bank criteria case, economies are divided according to 2008 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, \$975 or less; lower middle income, \$976 - \$3,855; upper middle income, \$3,856 - \$11,905; and high income, \$11,906 or more. In our case, we include other socio-economic aspects in addition to GDP.

## **(2) Gaps within CLMV Countries**

Detail analysis shows that even among CLMV countries, Vietnam socio-economic levels are almost as high as those of Indonesian and the Philippines in some aspects. But those of Cambodia, Lao PDR and Myanmar are significantly lower than those of other ASEAN countries. Primarily, their socio-economic levels have to be improved mainly through their own efforts. In addition, the foreign assistance from advanced ASEAN members and other potential donors is also very important to close the gaps. Moreover, a close coordination between their own efforts and the foreign assistance is essential to close the gaps. Especially as for Myanmar, as seen in the previous sections, there are many missing data and information in relation to vital statistics. For this reason, it is strongly recommended that her data collecting system has to be reinforced and/or to be workable to obtain reliable economic data for better economic planning.

## **(3) Why LPP for Lao PDR**

Socio-economic situations of Cambodia and Lao PDR are almost at the same level. However, the levels of Lao PDR are definitely lower in the following three aspects. The first one is that employment share of the agricultural sector is extremely larger than that of Cambodia as shown in Table 1.2. Although GDP share of industry had been expanding rapidly, its share of employment has been hardly increasing. The second one is that Lao PDR's poverty indicators, such as share of population below \$1 a day and poverty gap ratio, are the lowest among ASEAN countries. The first and second aspects together indicate that her agricultural productivity is still very low and that income disparity is one of the serious issues in the country. Without improving productivity of Lao's agriculture, it will be very difficult to reduce poverty in the country. The last one is that primary educational indicators, such as primary education completion rate and adult literacy rate, are also the lowest for Lao PDR. Improvement in these aspects is very important for future development of Lao PDR. As preparation for establishing the ASEAN Community, we think that it is essential to enhance socio-economic levels of Lao PDR. For this reason, we will develop Lao Pilot Program which will be an indicative project to improve Lao PDR's socio-economic situations.