



វិទ្យាស្ថានបណ្តុះបណ្តាល និង ស្រាវជ្រាវនយោបាយអភិវឌ្ឍន៍កម្ពុជា  
CDRI – Cambodia's leading independent development policy research institute

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# **Narrowing the ASEAN Development Gap: Making AEC Inclusive**

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# AEC in a nutshell

- By conventional regional integration yardsticks, AEC is a mongrel – not a PTA, customs union, a single market, or an economic union – but a bit of all these.
- Continues to be a work in progress and will continue to be so for many years beyond 2015.
- Consensus-based decision-making, weak institutional base, and very little delegation of authority from national to the regional level – major constraints - on first agreeing on issues and then implementing whatever has been agreed upon.
- Member countries are highly heterogeneous in terms of development – multiple tiers within the ASEAN but the development gap that is talked about the most is the one between the CLMV (P?) and the rest.
- Overall, then AEC is going to be a multi-track, multi-speed integration process.
- I focus on the issue of narrowing the development gap – Pillar 3 of AEC- Equitable economic development development - from the perspective of CLMV countries.

# Development convergence and divide within the ASEAN – CLMV and the rest

- Development has converged among the ASEAN countries in the last two decades or so, yet substantial development gaps exist: Myanmar's HDI today is about 55% of Singapore's, and 45% of Cambodia and Laos's, while that of Vietnam is about 69%. (Slides 7 and 8)
- The income gap is much larger – CLMV countries' GNI relative to Singapore (at ppp 2005 dollars) ranges from 3.5% for Myanmar to 5.6% for Vietnam. (Slide 10)
- Compared to Singapore, Cambodia's health indicators are much lower (Life expectancy at birth in 2012 for example is about 22 percent lower and comparable figures for Myanmar is 81%, 84% for Myanmar, 84% for Laos and 93% for Vietnam) – (Slide 11)
- Compared to Singapore, educational attainments of CLMV countries, once again are much lower (Mean years of schooling is only about 39% in Myanmar, 45% in Laos and about 57% in Vietnam, although the comparable figures on expected years of schooling is somewhat higher) – (Slide 12)
- CLMV's gaps in access to basic services such as sanitation, safe drinking water, clean cooking fuels, electricity and other infrastructure - are even higher.
- Similarly, vulnerabilities of population to small changes in income, climate change, and natural disasters are much higher for CLMV countries than the rest of ASEAN.

# Scope for narrowing the CLMV development gap

- Most model-based studies on the quantification of the benefits of an AEC to ASEAN member countries show substantial gains to most of the CLMV targets
- Indeed such gains are generally higher for the CLMV countries than to the rest of ASEAN.
- Similarly, if the CLV countries could maintain their potential progress in development, in the next two decades or so, most of them could reach the middle income status by early 2030s – something Thailand achieved in 2010 and Indonesia is on the verge of achieving.
- All these indicate that there are potentials for the CLMV countries to narrow their development gaps with the rest of the ASEAN and the AEC could further give a boost to such continued development convergence.
- The fact that a major portion of the manufacturing sectors in the CLMV countries still consist of labor-intensive and resource-based industries indicate that they still have substantial catch-up growth to realize in the next two decades or so.
- Share of labor-intensive and resource-based industries in manufacturing is for 90% in Myanmar, 82% in Cambodia, 75% in Laos, and 60% in Vietnam – compared to 35% in Thailand.

# Narrowing the development gap – onus on CLMV countries

The overarching task here is to better integrate the CLMV countries in East Asia's production network and supply chains – nest them in “Factory Asia”.

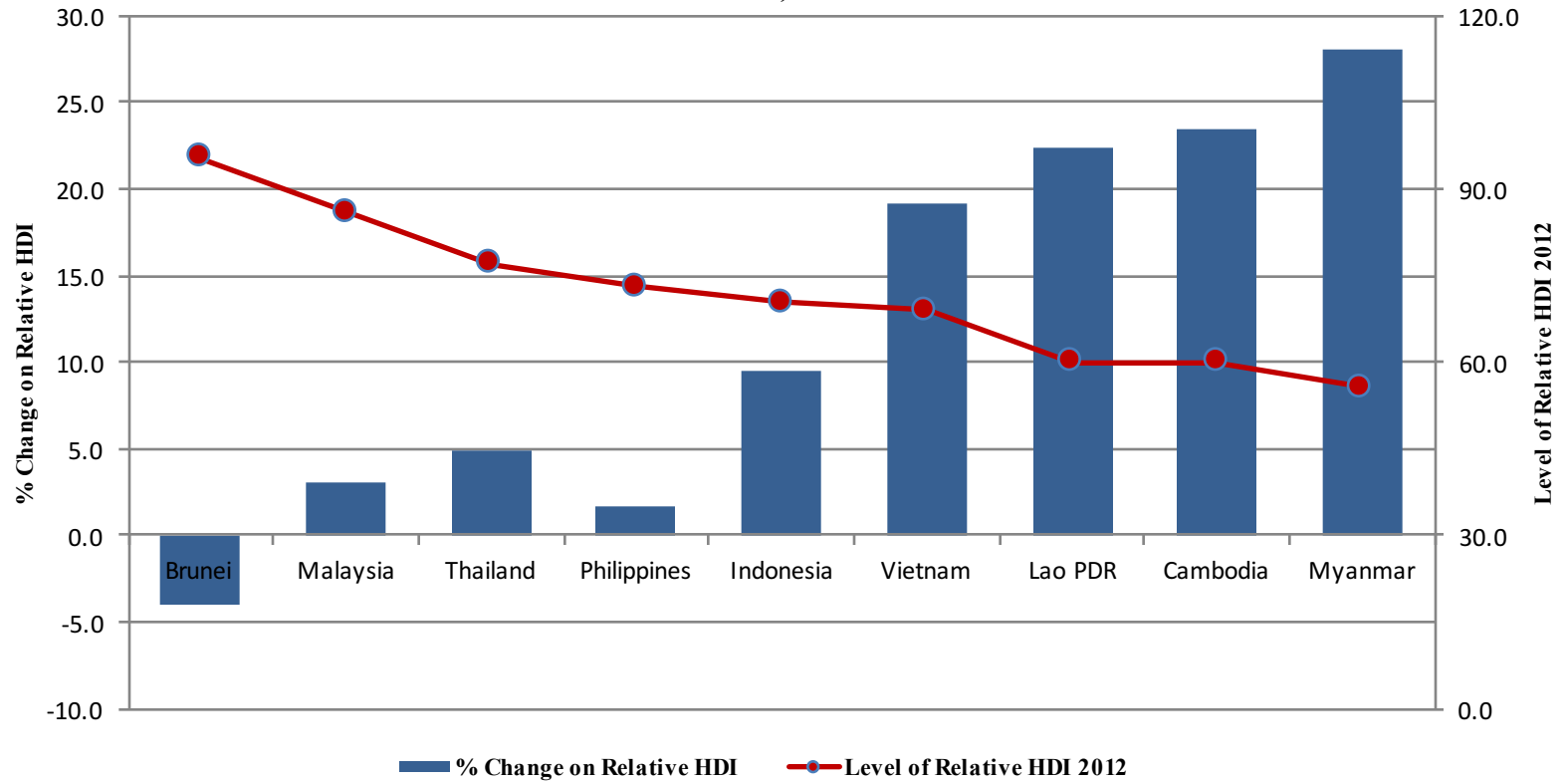
Key Challenges here are:

- Maintaining macro-financial stability (even as they focus on developing their nascent financial sectors)
- Building domestic infrastructure – electricity, roads, airports and sea ports
- Making the business climate investor-friendly
- Tackling the educational skill gaps
- Strengthening healthcare systems
- Connecting with countries -- among themselves, with the rest of the ASEAN and the plus four countries – China, Korea, and Japan (subregional connectivity programs have a big role).

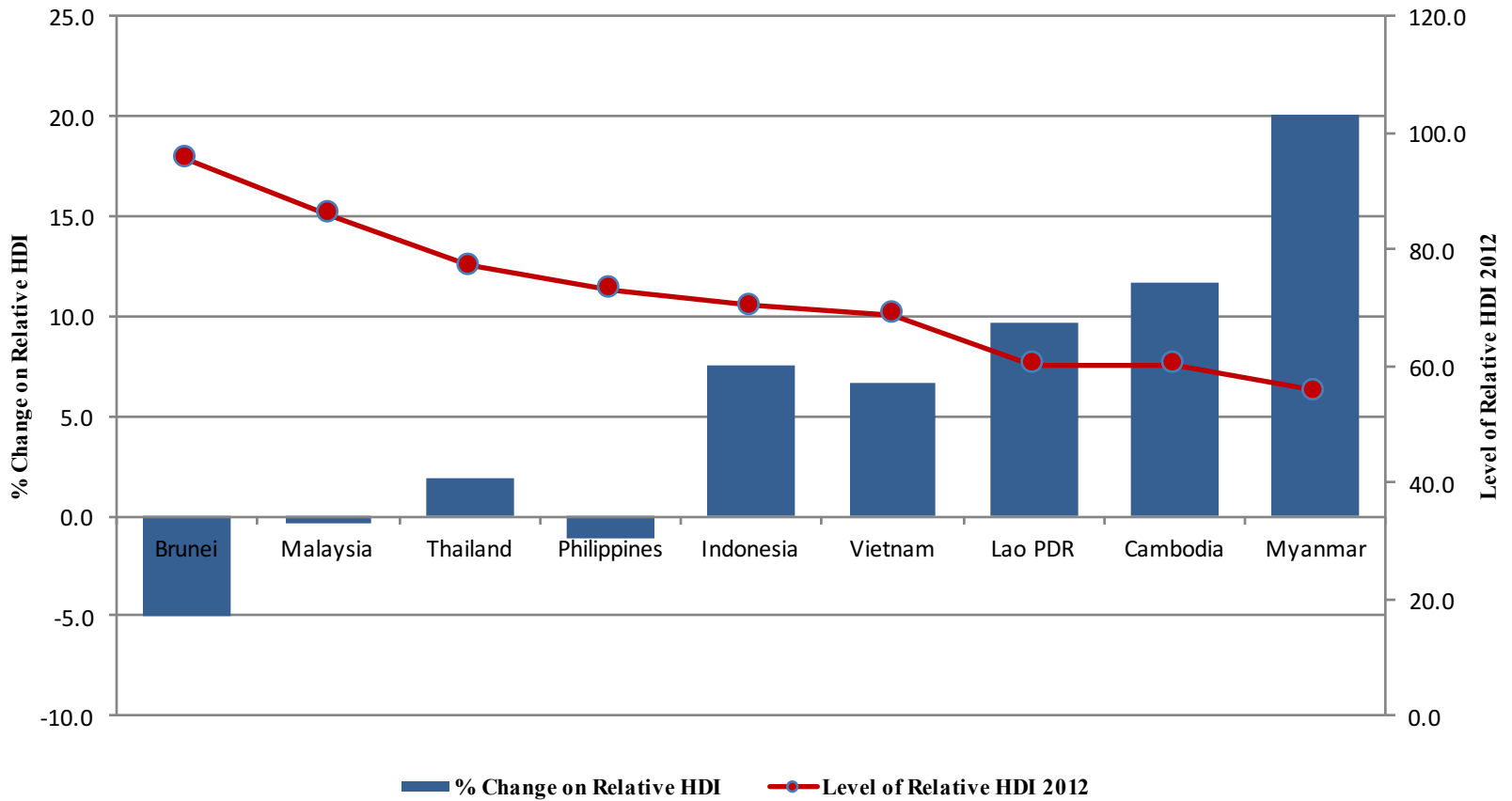
# Regional initiatives to play an enabling role

- Remove the remaining NTBs within the ASEAN – Core AEC-related NTM measures restrictiveness is the highest in Indonesia, followed by Malaysia.
- Introduce an ASEAN-wide system of freer but managed system of cross-border movement of labor, including skilled labor.
- Establish an ASEAN Convergence Fund (ACF) by enlarging the ASEAN Development Fund (ADF) – drawing on the lessons from the European Union’s Structural Funds and the Cohesion Funds.
- Strengthen the Regional financial safety net - Make AMRO and CMIM - (potentially the forerunner of an Asian Monetary Fund in due course) more user-friendly to CLMV countries - its poorest and weakest members - in time of need
- Design an ASEAN (or an East Asia-wide) capacity building program that could focus especially on building the technical capacity of the CLMV countries to enable them cope up and comply with the many legal, regulatory, and technical
- Regional Initiatives – Can the ASEAN walk the talk?

**Development Convergence Within The ASEAN: Country HDI Relative to Singapore HDI (1995-2012)**

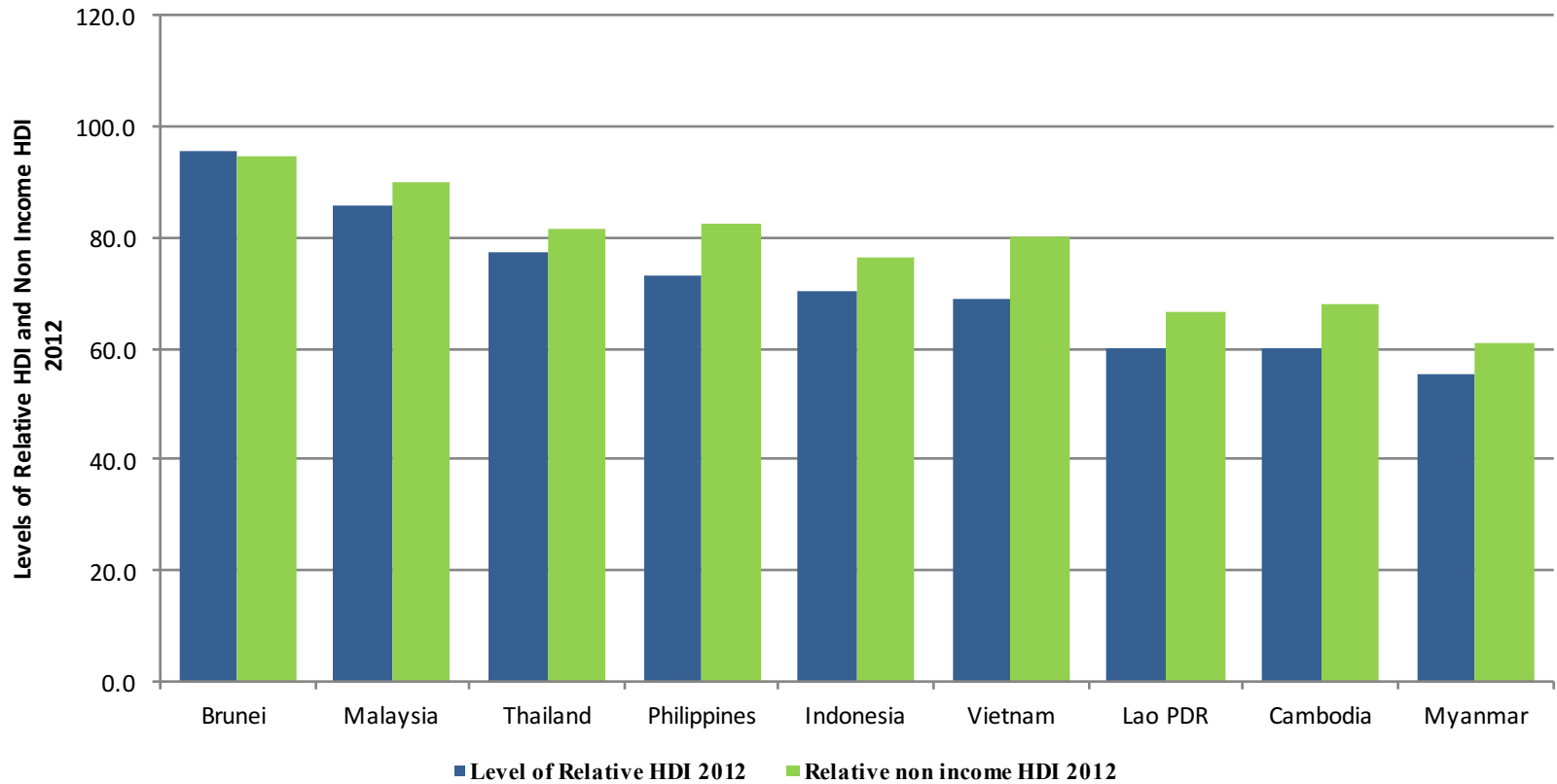


### Development Convergence Within The ASEAN: Country HDI Relative to Singapore HDI (2000-2012)

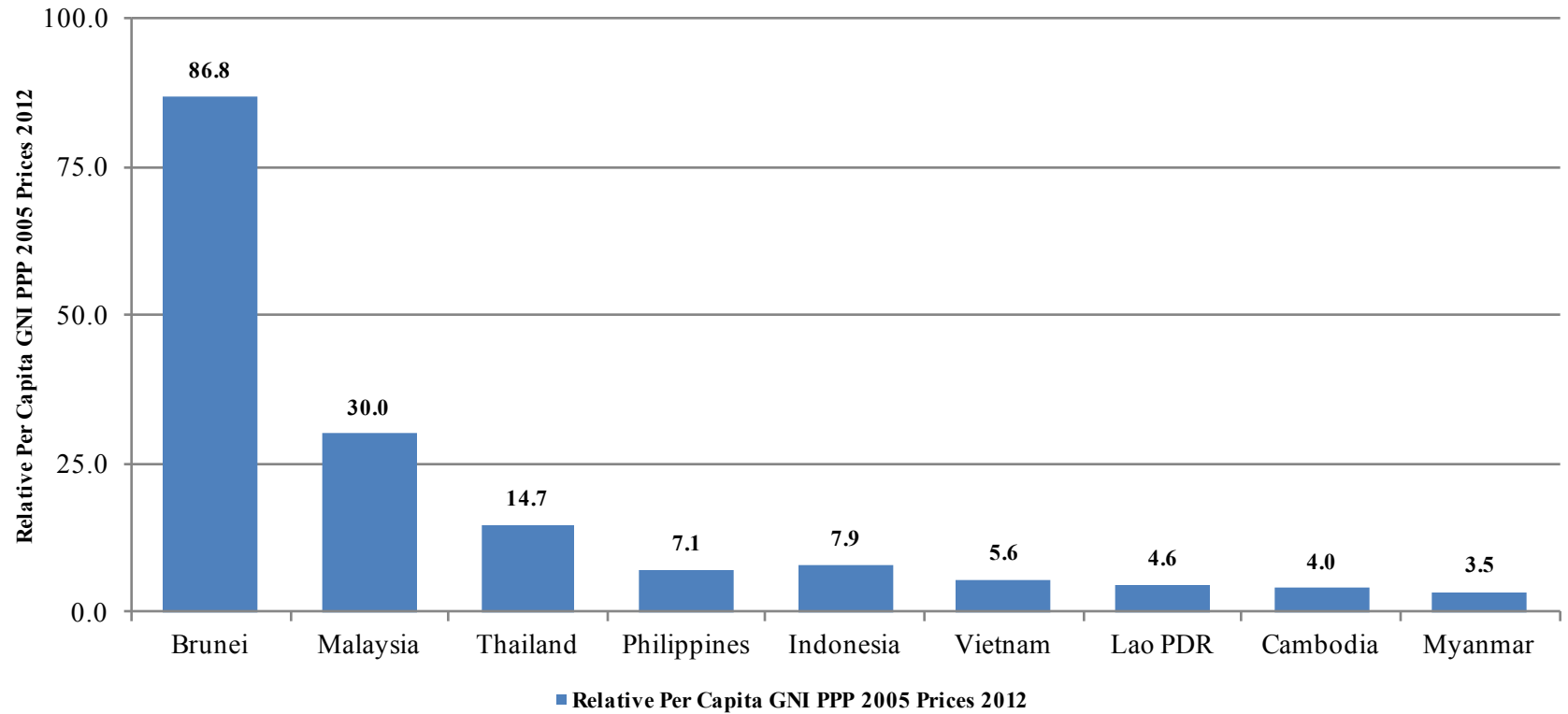




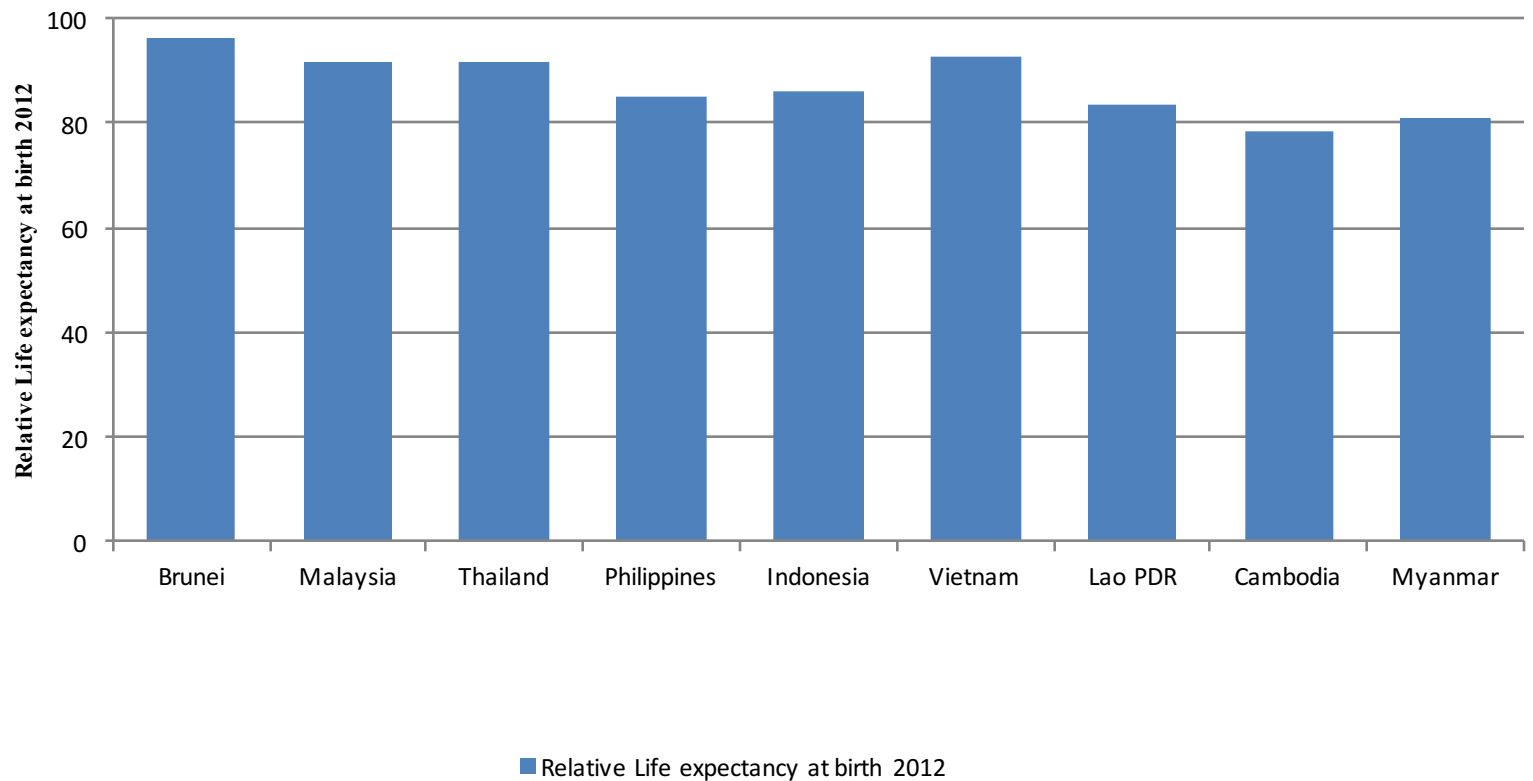
## Development Convergence Within The ASEAN: HDI and Non-income HDI Relative to Singapore 2012



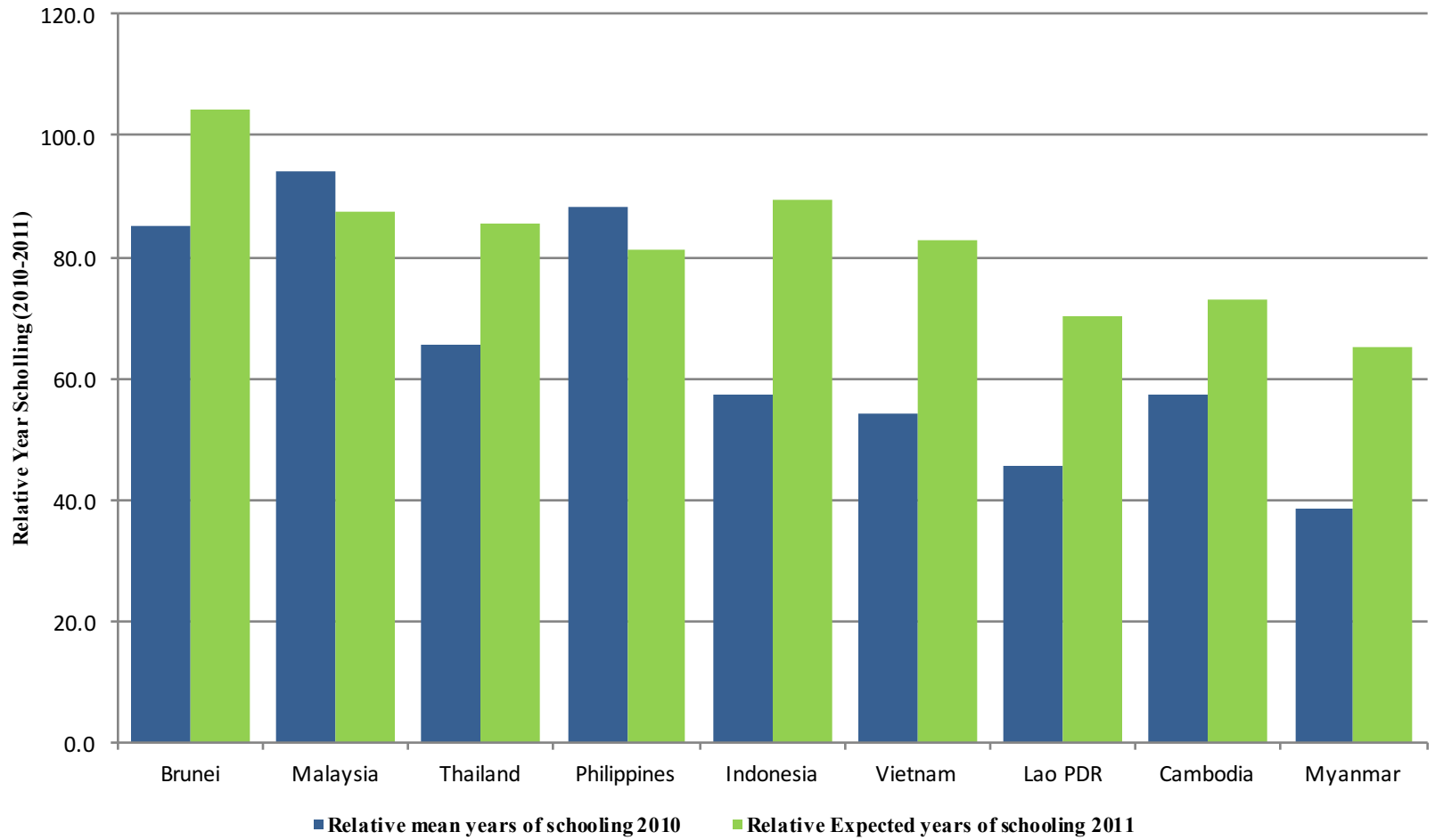
### Development Convergence Within The ASEAN: Per Capita GNI (PPP 2005 Prices) Relative to Singapore 2012



## Development Convergence Within The ASEAN: Relative Life expectancy at birth 2012



### Development Convergence Within The ASEAN: Relative Years of Schooling (2010-2011)



# Thank You

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