

Study on the impact of accelerating the ASEAN economic community from 2020 to 2015 on Lao PDR

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Abstract

This study is intended to provide a broad overview of the study to measure the impact of accelerating the ASEAN Economic Community (AEC) from 2020 to 2015 and to provide specific policy recommendations on strategy approach, institutional, human and industrial capacity building requirements for Lao PDR to meet Laos' commitments under the AEC Blueprint.

The study has identified the status, problems and prospects of promotion by priority sectors that can be developed as part of the production networking. After studying the AEC Blueprint, the first part identifies a broad strategy approach and policy requirement for achieving the four objective elements of AEC. The second part of the study involves the quantitative analysis, the construction of dimension of AEC Scores index for Lao PDR and impact analysis of AEC integration of Lao PDR by using the results of Resource Development for a Market Economic (HRDME) enterprise survey, 2013.

Keywords: ASEAN Economic Community Blueprint, Lao Economic Assessment, Human Resource Development for a Market Economic (HRDME) Enterprises Survey 2013

1. Introduction

The ASEAN Economic Community (AEC) Blueprint for realizing the ASEAN Economic Community by 2015 was adopted and signed by the ASEAN Leaders in November 2007 in Singapore during their annual Summit Meeting and is one of the three pillars to achieve (ASEAN Community, political / security and social cultural pillars). Its Blueprint is a single comprehensive document, which identifies the characteristics and elements of the AEC with clear implementation targets and timelines for the various economic integration measures within ASEAN. The main objectives of AEC are building:

- (1) A single market and production base (promoting free flow of goods; free flow of services; free flow of investment; freer flow of capital; and free flow of skilled labor.
- (2) A highly competitive economic region (Enhancing cooperation in new areas for instance competition policy, consumer protection, intellectual property rights, infrastructure development, taxation and e-commerce).
- (3) A region of equitable economic development (enhancing and strengthening SME competitiveness; and narrowing development gap within ASEAN).
- (4) A region fully integrated into the global economy (making ASEAN a more dynamic region to compete in the global supply chain, an attractive base for foreign direct investment and maintaining "ASEAN Centrality" in its external economic relations, especially in its negotiations free trade areas (FTAs) and comprehensive economic partnership (CEPs) agreements).

The AEC remains vaguely defined and has been conceptualized as a FTA-Plus arrangement that covers a zero-tariff ASEAN free trade area and some elements of a common market. ASEAN officials opted for a pragmatic approach, essentially moving on a sectorial basis where eleven priority sectors have been selected for fast-track integration: wood-based products, auto motives, rubber-based products, textiles and apparels, agro based products, fisheries, electronics, e-ASEAN, healthcare, air travel, and tourism. A roadmap is

being drawn for each sector and what remains missing is the overall roadmap towards achieving AEC, although ASEAN has produced an internal document, Roadmap for ASEAN Integration, prior to the decision to move towards an AEC.

For a small and landlocked country like Laos, the AEC offers great potential by improving the access to this regional market. Its single production base increases the opportunities to become part of regional value chains. However, the opportunities of the AEC are accompanied by a set of challenges for both the public and private sector, and Lao government is confronted with the challenging task to implement all the necessary regulatory changes in coherence with ASEAN agreements. This does not only require extensive technical knowledge, but also the coordination of a large number of government actors from different sectors and agencies. In the face of the increasing liberalisation, the business sector will be confronted with growing competition from more advanced ASEAN economies^[1, 2, 5].

2. The Scope and Method of Study

The quantitative analysis of industrial development in Lao PDR is conducted for focusing on ASEAN twelve priority sectors in the context of regional competitiveness incorporating the parameters under AEC strategies. These priority integration sectors (PIS) include (1) electronics, (2) e-ASEAN sector including information and communication technology (ICT) equipment, (3) healthcare, (4) wood-based products, (5) automotive, (6) rubber-based products, (7) textiles and apparel, (8) agro-based products, (9) fisheries, (10) banking, (11) insurance and (12) tourism. This section attempts to examine the macroeconomic performance focusing on trade and investment among ASEAN countries and the share of priority integrating sectors and structural changes in manufacturing sector, integration in trade and foreign direct investment as well as the role of trade in goods and services from the PIS. Moreover, recent developments in ICT, health care and tourism sectors are examined. And focusing on

Resource Development for a Market Economic (HRDME) enterprise survey 2013 (ES2013) nineteenth priority sectors (see table 2).

Methodology includes constructing AEC score indexes for Lao PDR (table 1) and some internal problem analysis results of HRDME enterprise survey, 2013 of Lao (table 2).

Table 1: Type of Business under Survey and Degree of Importance of sector under integration, Lao PDR

| Type | Number of companies | percent | Average scores | S.D |
|-----------------------|---------------------|---------|----------------|------|
| Electronics | 8 | 7.34 | 6.61 | 2.74 |
| IT services | 7 | 6.42 | 6.18 | 2.66 |
| Healthcare | 10 | 9.17 | 6.08 | 2.69 |
| Wood-based products | 11 | 10.09 | 6.77 | 2.70 |
| Auto motives | 5 | 4.59 | 5.31 | 2.64 |
| Rubber-based products | 6 | 5.50 | 5.16 | 2.65 |
| Textiles and apparels | 12 | 11.01 | 6.82 | 3.24 |
| Agro-based products | 9 | 8.26 | 6.55 | 2.72 |
| Fisheries | 3 | 2.75 | 4.65 | 2.89 |
| Banking | 5 | 4.59 | 6.61 | 2.93 |
| Insurance | 1 | 0.92 | 5.56 | 2.85 |
| Business services | 11 | 10.09 | 5.86 | 2.78 |
| Transport services | 9 | 8.26 | 6.19 | 2.19 |
| Tourism | 10 | 9.17 | 7.14 | 2.45 |
| Other | 2 | 1.83 | - | - |
| Total | 109 | 100.00 | - | - |

Source: Calculations based on the survey data, 2014

Table 2: Analysis of Internal Problems, Lao PDR

| Items | Business internal problems | | | | | | | | | |
|---|----------------------------|--------------------|-----------------------------------|--------------------|-------------------------|----------------------------|-----------------|-----------------|-----------------------------|---------|
| | Lack of management | Lack of accounting | Lack of technically skilled labor | Lack of management | Low level of technology | Lack of market information | Lack of capital | High labor cost | Low productivity/efficiency | Average |
| Gender of owner-manager | | | | | | | | | | |
| Male | 3.74 | 3.88 | 3.71 | 3.86 | 3.66 | 3.72 | 3.17 | 3.73 | 3.81 | 3.70 |
| female | 3.75 | 3.89 | 3.95 | 3.91 | 3.88 | 3.79 | 3.13 | 3.89 | 3.92 | 3.79 |
| Education of owner-manager | | | | | | | | | | |
| No schooling | 3.41 | 3.59 | 3.88 | 3.75 | 3.40 | 3.53 | 2.24 | 3.82 | 3.35 | 3.44 |
| Some primary | 3.56 | 3.78 | 4.33 | 4.38 | 3.75 | 3.75 | 2.22 | 4.11 | 4.33 | 3.80 |
| Completed primary | 3.63 | 3.72 | 3.73 | 3.83 | 3.70 | 3.76 | 2.94 | 3.72 | 3.76 | 3.64 |
| Lower secondary | 3.89 | 3.97 | 4.00 | 3.94 | 3.77 | 3.73 | 2.97 | 3.99 | 3.85 | 3.79 |
| Upper secondary | 3.70 | 3.83 | 3.96 | 4.01 | 3.86 | 3.65 | 3.24 | 3.86 | 3.90 | 3.78 |
| Vocational | 3.97 | 4.10 | 3.88 | 3.83 | 3.65 | 3.81 | 3.10 | 3.90 | 4.19 | 3.83 |
| Technical | 3.52 | 3.83 | 3.63 | 3.62 | 3.74 | 3.76 | 3.07 | 3.73 | 3.93 | 3.65 |
| Higher | 3.70 | 3.88 | 3.66 | 3.82 | 3.77 | 3.78 | 3.30 | 3.65 | 3.78 | 3.70 |
| Post graduated | 3.87 | 4.06 | 3.52 | 3.79 | 3.66 | 4.08 | 3.60 | 3.73 | 3.81 | 3.79 |
| Owner-manager and AEC, AFTA, WTO | | | | | | | | | | |
| Don't know AEC, AFTA, and WTO | 3.78 | 3.95 | 4.02 | 3.97 | 3.92 | 3.89 | 3.22 | 3.91 | 4.00 | 3.85 |
| Know AEC | 3.72 | 3.85 | 3.59 | 3.81 | 3.61 | 3.63 | 3.04 | 3.67 | 3.72 | 3.63 |
| Know AFTA | 3.59 | 3.69 | 3.45 | 3.62 | 3.47 | 3.47 | 2.84 | 3.48 | 3.52 | 3.46 |
| Know WTO | 3.60 | 3.67 | 3.45 | 3.67 | 3.47 | 3.48 | 2.99 | 3.57 | 3.53 | 3.49 |
| By Sector | | | | | | | | | | |
| Agriculture, forestry and fishing | 3.50 | 3.50 | 2.60 | 2.80 | 2.20 | 3.00 | 2.33 | 2.60 | 1.75 | 2.70 |
| Mining and quarrying | 1.50 | 1.50 | 1.50 | 1.50 | 2.00 | 2.00 | 100 | 200 | 2.00 | 167 |
| Manufacturing | 3.64 | 3.93 | 3.65 | 3.93 | 3.56 | 3.88 | 3.11 | 3.62 | 3.69 | 3.67 |
| Electricity, gas, steam and air conditioning supply | 4.33 | 4.67 | 4.00 | 5.00 | 4.00 | 4.33 | 3.33 | 3.67 | 4.00 | 4.15 |
| Water supply; sewerage, etc. | 3.40 | 3.40 | 2.40 | 2.60 | 2.50 | 3.20 | 1.40 | 4.40 | 2.80 | 2.90 |
| Construction | 3.71 | 3.82 | 3.50 | 3.79 | 3.29 | 3.88 | 2.44 | 3.12 | 3.59 | 3.46 |
| Wholesale and retail trade; repair of motor, etc. | 3.86 | 3.98 | 4.03 | 4.01 | 3.97 | 3.80 | 3.25 | 3.99 | 4.03 | 3.88 |
| Transportation and storage | 3.41 | 3.67 | 3.52 | 3.88 | 3.15 | 3.38 | 2.85 | 3.64 | 3.67 | 3.46 |
| Accommodation and food service activities | 3.51 | 3.61 | 3.69 | 3.63 | 3.91 | 3.63 | 3.13 | 3.75 | 3.81 | 3.63 |
| Information and communication | 3.50 | 3.38 | 3.38 | 3.29 | 3.33 | 3.67 | 3.29 | 4.00 | 3.14 | 3.44 |
| Financial and insurance activities | 3.75 | 3.88 | 3.63 | 3.50 | 4.13 | 3.75 | 3.88 | 3.13 | 3.57 | 3.69 |
| Real estate activities | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 2.00 | 4.00 | 4.00 | 3.78 |
| Professional, scientific and technical activities | 4.50 | 4.25 | 4.00 | 4.17 | 3.71 | 3.67 | 4.00 | 3.71 | 4.14 | 4.02 |
| Administrative and support service activities | 3.70 | 4.07 | 3.93 | 4.00 | 3.59 | 3.83 | 3.72 | 4.25 | 4.15 | 3.92 |

| | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|
| Education | 4.40 | 4.40 | 3.70 | 4.40 | 3.78 | 4.10 | 3.20 | 3.30 | 3.89 | 3.91 |
| Human health and social work activities | 4.50 | 4.50 | 4.50 | 4.50 | 4.00 | 4.50 | 4.50 | 4.50 | 4.00 | 4.39 |
| Arts, entertainment and recreation | 4.75 | 5.00 | 4.75 | 4.50 | 3.67 | 5.00 | 3.75 | 4.75 | 5.00 | 4.75 |
| Other service activities | 4.20 | 4.30 | 3.88 | 3.78 | 3.11 | 3.50 | 2.89 | 3.90 | 3.67 | 3.69 |
| Activities of extraterritorial organizations and bodies | 4.00 | 4.33 | 4.00 | 4.40 | 3.25 | 3.67 | 2.50 | 3.50 | 4.17 | 3.76 |

Source: HRDME Enterprise Survey 2013

Note: ASEAN = Association of South East Asian Nations; AFTA = ASEAN Free Trade Area; WTO = World Trade Organization. Perceptions of problem severity were coded as follows: 1 = “very big”, 2 = “big”, 3 = “medium”, 4 = “small”; and 5 = “no problem”.

Analysis of internal problems of the nine internal constraints included in the survey, the following had the lowest average score and are marked yellow in table 2 (i.e., were perceived to be the most severe): (1) Lack of capital; (2) Low level of technology; (3) Lack of technical skilled labor; and (4) Lack of management skills.

3. Economic Development Policy

The 7th Five-Year Socio-Economic Development Plan (NSED7), the main development strategy of the Lao Government, was formulated in order to set out policy directions for the socio-economic development of Laos from 2011 to 2015 (GoL, 2011). The NSED7 was a research-driven plan that comprehensively reviewed both external and internal conditions in order to identify development

opportunities and challenges during the five-year period it covered. The vision of the Lao government as articulated in the NSED7 included moving the country towards being a modern and industrialized society, enjoying rapid economic growth with stability, visibly improving the living standards of the people, achieving the Millennium Development Goals (MDG) by 2015 and making significant progress towards the ultimate achievement of graduating from Least Developed Country (LDC) status by 2020.

4. Impact Analysis of Accelerating the AEC Blueprint from 2020 to 2015 on Laos

Analysis of impact is positively or negatively to Lao PDR when accelerating the AEC Blueprint following:

Table 3: SWOT analysis of Lao PDR in AEC Blueprint

| | |
|--|---|
| <p>Strengths:</p> <ul style="list-style-type: none"> ▶ Located in the middle of GMS (A special, such strength is likely to be the country's shared border with China that is world's largest market and studies on what products China needs will be vital) ▶ Rich of natural resources ▶ Large area of fertilize agricultural land and forest ▶ Variety of tourism site ▶ Virtually no damaging disaster ▶ Politically stable ▶ Increasing GDP ▶ Inexpensive labor ▶ Special incentive for CLMV countries | <p>Weaknesses:</p> <ul style="list-style-type: none"> ▶ High cost of transportation ▶ Low population and competitiveness - Little purchasing power - Competition for labor - Lack of knowledge/skill labor - Seasonal shortage of labor ▶ Lack of a business- & investment-friendly legal & regulatory environment framework ▶ Lack of service-orientation of government agencies and related capacities. ▶ Lack of freight infrastructure ▶ Underdeveloped financial services sector, particularly for long-term credit for small & medium-sized enterprises; ▶ Low level of technology & small-scale of production ▶ Lack of Business Development Service capacities to provide, i.e., information on markets, standards & technology options, market opportunities and business strategies; ▶ Underdeveloped inter-business linkages and value chains. |
| <p>Opportunities:</p> <ul style="list-style-type: none"> ▶ Land lock to land link country ▶ Ability development of infrastructure ▶ Battery of ASEAN ▶ Poverty reduction strategy ▶ ASEAN member . Economic community . Education . Healthy, etc.... ▶ Better access to supply chain mean more business opportunities (among other equipment for hydro power plants, textile industry etc.). ▶ Little competition in many industries | <p>Threats:</p> <ul style="list-style-type: none"> ▶ More competition impacts to small business ▶ Declining of national culture and identity ▶ Over exploitation of natural resources . Environmental issue . Land concession . Etc. ▶ Disparities between urban and rural areas ▶ More rely on foreign currency ▶ Social issues: human trafficking, drug trafficking, etc. |

Source: ASEAN SME Regional Gateway-GMS SME BIZ Network, 2014

5. Conclusion and Recommendation

5.1 Conclusion

Laos is considered as the least developed among CLMV countries. It is a landlocked country and only recently started its domestic economic reform and structural policy changes.

With a small domestic market of more 6 million people (estimated 2015) and with no access to seaport and most of the country is in mountainous region, it is not feasible to develop large-scale manufacturing capabilities. Notwithstanding of its physical and economic limitation, Laos can benefit from

economic openness and regional integration through selected manufacturing production networking.

In pursuing AEC strategies, Lao PDR achieves higher scores in the areas of free flow of trade, free flow of services, free flow of investment and investment protection, free flow of capital, free flow of skilled labor, labor market conditions and regulations and competition law. Low scores are also obtained in the areas of use of ICT, Ecommerce in business, productivity and efficiency in priority integration sectors and IRP.

5.2 Recommendation

- (1) Developing the capacity of government institutions to provide demand-oriented technical vocational education and training (TVET) as well as to improve the skills of teachers, increase the number of skilled laborers by reforming the vocational education system, according to the market demand.
- (2) Developing and implementing upgrading strategies for promoting the FDI on sustainable agricultural and tourism.
- (3) Strengthening the capacity of the chambers of commerce and industry as well as local business membership organizations.
- (4) All stakeholders need to review the progress in the implementation of their commitments for the AEC, by focusing on the legal and institutional framework requirements and other measures needed for AEC integration.
- (5) At the same time, each sector is required to develop their own long-term strategy and work plans in order to anticipate and to cope with potential challenges and negative impacts.
- (6) All enterprises sectors, particularly the business sector, should focus on enhancing competitiveness in order to be able to expand their export to the AEC. Enterprises that produce goods and services to meet the domestic market also need to improve the quality of goods and services to compete with goods imported from ASEAN countries that are highly competitive (better quality and lower price).
- (7) Developing the rule of law, anti-the several persistent cronyism and corruption laws and enforcement is stringently.

6. Reference

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