

Chapter 9

ASEAN Small Less Developed Economies: Need for a New Approach

Larry Strange

Cambodia Development Resource Institute (CDRI)

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CHAPTER 9

ASEAN Small Less Developed Economies: Need for a New Approach

LARRY STRANGE

Cambodia Development Resource Institute (CDRI)

Cambodia, Laos and Myanmar, the three ASEAN 'low incomes countries' (LICs), all aspire to progress to middle income countries over the next decade. This chapter presents a political economy perspective on possible new approaches to development and regional cooperation for these ASEAN small low income and least developed economies, with some reference also to Vietnam which, although having recently graduated to lower middle income country status, still shares many of the domestic development policy challenges facing the other three. It argues that, despite their differences, these countries share some common development challenges that must be met if the 'development gap' in ASEAN and East Asia is to be bridged or narrowed. These include - hard and soft infrastructure for connectivity; economic diversification and private sector development; agricultural development diversification and productivity; trade, transport and trade facilitation; regional integration and the cross-border movement of goods and people; human resource development particularly education and labor market responsive skills development; institutional capacity development and systems of governance; improved aid effectiveness and graduation from aid dependency. This will require a new approach directly linking domestic policy, development cooperation and regional economic integration in the Greater Mekong Sub-region, the Association of Southeast Asian nations (ASEAN) and broader East Asia. Various policy recommendations are made to achieve this including the use of ASEAN's Regional Comprehensive Economic Partnership (RCEP) initiative as its primary vehicle.

Keywords: Cambodia; Laos; Myanmar; Vietnam; CLMVs; ASEAN; Greater Mekong Sub-region (GMS), East Asia: regionalism; sub-regionalism; regional integration; regional economic cooperation; development gap; low income countries; middle income countries; overseas development assistance (ODA); development cooperation; aid effectiveness; ASEAN Regional Comprehensive Economic Partnership (RCEP)

JEL classification: F02, F15, F35, O19, O53

1. Introduction

Cambodia, Laos and Myanmar, the three ASEAN ‘low income countries’ (LICs), all aspire to progress to the status of middle income countries over the next decade. This chapter presents a political economy perspective on possible new approaches to development and regional cooperation for these ASEAN small, less developed economies, with some reference also to Vietnam which, although having recently moved from less developed country (LDC) to lower middle income country status, still shares many of the domestic development policy challenges facing the other three. These ‘ASEAN 4’ countries, the CLMVs as they are known from their initials, with their diverse peoples, societies, economies and political systems, share a significant geo-political and economic place in ASEAN and the broader East Asian region. They are located in the Greater Mekong Sub-region (GMS), and have a unique sub-regional integration and development model driven by both national political leadership and the GMS program of the Asian Development Bank (ADB). They lie in close proximity to China, the region’s economic powerhouse, and in Myanmar’s case, also to India. Significantly, they also clearly reflect the quite extreme ‘development divide or gap’ between the nations and economies of ASEAN and East Asia, and the challenge this poses for future regional integration and economic convergence.

Along with analysis of the development challenges of these countries, the chapter addresses the three broad policy research questions posed in the project’s original concept note:

- (i) What kind of policies would be necessary and effective for East Asian economies to re-orient the export led growth model and to create dynamic internal demand?
- (ii) Are East Asian countries ready to rethink and readjust development strategies to move to a new and sustainable development model, and what are the kinds of policies and actions these East Asian countries could and should take?
- (iii) What role could and should regional cooperation play in these policy initiatives?

This chapter also explores two further questions specific to these three CLM nations and economics -What can these ‘latecomers’ learn from the development experiences of other East Asian development success stories, the Newly Industrialized Economies (NIEs) of East Asia, particularly Singapore, South Korea and Taiwan; and what can they also learn from the experience of their GMS neighbor, Vietnam, given its recent graduation to lower middle income status, and its strengths and weaknesses. What were the main factors that led to the success of these economies that could inform CLM growth and development strategies?

The analysis that follows assumes the desirability of high levels of inclusive, more equitable growth, driven by pro-active and responsible government policy-making and planning, and the dynamic role of the private sector, as necessary conditions for further poverty reduction and sustainable socio-economic development. It also assumes the positive role of an economically integrated GMS and ASEAN, already in train, and eventually an integrated East Asia¹ in achieving this. It begins with a brief overview of the CLMVs and their major development challenges, as they move from low to middle income status, and in Vietnam’s case, from lower to upper middle income status. It identifies their development aspirations and needs, commonalities and differences. Cambodia is dealt with in more detail reflecting the author’s location.

The second section considers the changing regional context - recent developments and trends in the GMS, ASEAN and broader East Asia, and the roles and linkages of these countries in current regional and sub-regional integration and cooperation processes and institutions. It discusses their strengths and weaknesses in contributing to inclusive growth, sustainable socio-economic development, and strategies for narrowing or bridging the ‘development gap’ in the region. This is followed by a discussion of the role of official development assistance (ODA) in these countries in the context of a changing global and regional ‘development paradigm’. This now involves traditional and more recent non-traditional ODA donors. The chapter outlines the challenges and opportunities this raises for the CLMVs, as both

¹‘East Asia’ for the purposes of this discussion refers to the ASEAN 10 countries plus China, Japan and South Korea, or ‘ASEAN+3’, without any assumption as to what an integrated East Asia or eventual East Asian Community might comprise.

recipients and managers of ODA in their development strategies, and describes how a new approach to ODA in East Asia might be more effective in meeting their needs.

The final section explores what the CLMVs, particularly the three low income economies - Cambodia, Laos and Myanmar -can learn from the development experiences and successes of other East Asian economies, and what they would need from any new development and regional cooperation model for East Asia. It concludes with some observations on the nature and feasibility of a new development model, its prospects and priorities, and the domestic and regional policy issues it raises for these smaller transition economies in ASEAN and East Asia, with some associated policy recommendations.

2. The ASEAN CLMVs - Cambodia, Laos, Myanmar, and Vietnam: Their Development Status, Challenges, Priorities and Needs²

The Asian Development Bank (ADB) and ADB Institute (ADBI)'s initiative *ASEAN 2030: Toward a Borderless Economic Community* (ADBI, 2012a) provides an analytical overview of the prospects and challenges for the CLMVs in ASEAN integration and future prosperity. It discusses their implications for regional cooperation and national policy making, in achieving a 'RICH ASEAN' by 2030 – an ASEAN that is resilient, inclusive, competitive and harmonious. (ADBI, 2012a). In its draft highlights, the ADBI states bluntly '*the income gap between ASEAN countries is severe*', demonstrating that, even excluding Singapore, and Brunei, Malaysia, the next richest ASEAN country in 2010, had per-capita GDP (USD 8,260) of nearly 12 times that of Myanmar (USD 714). While CLMV growth rates have been higher than that of the ASEAN 6 over the past decade, this has been from a very low base. The CLMVs also remain poorer in relation to other socio-economic indicators. On the United Nations Development Programme (UNDP)'s 2010 Human Development Index, Singapore is ranked 27, and Malaysia 57, while Vietnam is at

²The overviews of the CLMVs presented here summarise key aspects of the final draft country background papers produced by local CLMV country authors for the ADBI Cambodia 2030 project which is currently nearing completion, focusing on their major development challenges and policy needs. However these papers, referenced at the end of this paper, have not yet been published and may be further amended prior to publication in late 2012.

108, Laos at 122, Cambodia at 124 and Myanmar at 132. This section provides a brief overview of the strengths, weaknesses, opportunities and threats faced by the CLMVs in achieving more sustainable and inclusive growth and socio-economic development, and, in the case of the CLMs, moving from low to middle income country status., Despite their differences, it identifies some shared development needs and priorities that would need to be addressed in any new regional economic development and regional cooperation approach.

2.1. Cambodia (CDRI 2011)

Cambodia, with an open economy and more than a decade of high levels of GDP growth, averaging 7.8% between 1994 and 2010, has some unique challenges in human resource development to support national development goals. As background one must remember the nation's loss of a generation of educated professionals and skilled labor as a result of the Khmer Rouge genocide in the 1970s, and the decade-long embargo that followed through the 1980s. Its priorities are now focused on quality universal primary and secondary education, building its institutional capacity, the quality and labor market responsiveness of vocational education and training, tertiary education quality and governance, and the building of a professional, adequately remunerated, civil service.

Despite significant poverty reduction, from 39% in 1994 to around 25% in 2010,³ more inclusive and equitable growth that further reduces poverty and inequality is a priority. This is to be achieved through implementation of national development strategies fostering growth of the rural economy and small and medium-scale enterprises (SMEs). There will also be increased public investment in rural infrastructure, public works and transport, agricultural development, health, education and local service delivery, and vocational education and training linked to labor market needs, so as to create employment opportunities for a young population. Significant improvement is also needed in the governance and management of natural resources. The aim is to ensure sustainable productive rural development, the

³ The poverty line in Cambodia is based on a World Bank benchmark of a per capita calorie requirement of 2,100 calories per day, with the composition of an underlying food bundle chosen to be representative of typical consumption patterns in Cambodia, and taking into account geographic price variations in the cost of the same food basket

attainment of livelihoods and poverty reduction goals, especially in land management policy and the administration of social and economic land concessions and exploitation of forests, fisheries and minerals. Government investment and development assistance are needed to invest in the long term capacity development and strengthening of government institutions in sectors crucial to the achievement of inclusive growth, economic diversification and poverty reduction goals. These sectors include agriculture, forests and fisheries, rural development, water resource and land management and agencies responsible for cross-border transactions in the movement of goods and people. There is also a general need for adequate remuneration of, and increased professional skills in the civil service.

In facing these development challenges Cambodia has particular strengths and weaknesses, opportunities and threats (CDRI, 2011). Its strengths include a sustained period of peace, political stability and security; high growth rates over the past fifteen years due to structural policy transformation from a planned to an open market economy; effective macroeconomic management in response to crises; strong government-private sector consultation and responsiveness; its geo-political location in GMS-ASEAN-East Asia; a relative abundance of natural resources; a steady inflow of foreign direct investment; an adaptable and open export-oriented economy; and a young, growing population and middle class. Its weaknesses include significant human resource capacity constraints and low education/skills level of the workforce; pronounced dependency on foreign aid, and uneven aid effectiveness; a complex 'hybrid democracy' with weak democratic institutions; a high degree of dollarization; a low degree of economic diversification and high vulnerability to shocks; increasing inequality among income groups and an urban-rural divide; underdeveloped economic infrastructure; diffused corruption across sectors; highly concentrated land ownership and community conflict over land management and the administration of economic land concessions; and the lack of a mature and effective civil society.

Cambodia's opportunities include its privileged ASEAN status as a CLMV country; sustained development prospects as part of GMS and the benefits of sub-regional and regional economic integration in ASEAN and East Asia; the strong presence of Chinese investment and earmarked infrastructure development projects;

increasing investment from Japan, South Korea and Vietnam, particularly in agribusiness and light industry; the prospects of serving huge neighboring Asian markets, especially China, and enlargement of export markets due to realization of an ASEAN Economic Community. There are also opportunities for further expansion of the tourism industry based on increasing income levels in neighboring countries. In the longer term there are potential revenues from oil and gas exploitation. However Cambodia also faces some potential threats. These include the prospect of political instability in neighboring countries with potential cross-border consequences; slow growth in Cambodia's major export markets due to double dip recession after the global financial crisis; the potential indirect impact of any significant slowing of China's growth and development; the impact of climate change, environmental degradation and the increased frequency and intensity of natural disasters, especially floods, all of which damage rural livelihoods and agricultural development; and the rising inequality and constraints on the absorption of young people into the labor market.

Broadly agreed policy priorities for the Cambodian government, the private sector and international development partners include; diversification of the economy through expansion of current sources of growth; further development of the agricultural sector; expansion of industrial manufacturing; diversification of export products and markets; and delivering more inclusive growth through national socio-economic development strategies that achieve growth and poverty reduction goals but reverse increasing inequality. The maintenance of a stable macroeconomic environment will continue to be critical through; reigning in inflation, ensuring cautious and disciplined use of any future revenue from oil and gas sectors; keeping close track on the evolution of the real estate and banking sectors; and ensuring the capacity of the economy to absorb the large pool of new entrants to the workforce every year. Increasing revenue collection is vital, and will require; strengthening the capacity of tax administration; expanding the current domestic tax base and encouraging private informal businesses to formalize and register. Strengthening government finances so as to reduce reliance on ODA is also a priority. In the future, there may need to be consideration of the feasibility of establishing a well-managed sovereign wealth fund, if significant national income potential from the

exploitation of off-shore oil and gas resources is realized. The country must also resource its national development priorities and stimulate private sector investment in support of economic diversification, learning from the experience of other ASEAN economies. Cambodia's development prospects also call for; expansion of public investment in access to quality healthcare, education, agriculture and rural development, and transport infrastructure; development of human capital through addressing both the quality of education at all levels and the urgent need for technical and vocational education and training; and the inclusion of research as one of the missions of higher education institutions, turning them into focal points for research and development (R&D) so as to assist policy making and general technological upgrading. Investment in hard and soft infrastructure through an increase in budget allocation is necessary for building and upgrading underdeveloped rural infrastructure, including rural roads and irrigation systems. Improving production capacity and the efficiency of power generation, in order to reduce costs and expand rural electrification, are also required. As a major agricultural producer, and a still predominantly rural society, the promotion of the agricultural sector is important. Cambodia must make the most of its factor endowments such as land and labor, lift agricultural productivity and diversify its agricultural base. The government needs to deliver on its commitment to the sustainable utilization of natural resources, improving the governance of natural resources to ensure sustainable use and increase value-added. In its sub-regional and regional context, a major priority is ensuring the complementarity, mutually supportive objectives and adequate resourcing of the GMS Program and the Initiatives for ASEAN Integration. The focus should be on regional cooperation to achieve long term human resource development and institutional strengthening to 'bridge the development gap' in ASEAN and East Asia. Promotion of deeper regional integration, and increased private sector engagement in regional and sub-regional integration are important, together with awareness of opportunities under regional Free Trade Agreements (FTAs) and 'connectivity' initiatives.

In all of this, Cambodia's economic and strategic location in the GMS, its membership of ASEAN and its proximity to China are major assets, offering prospects for integrated GMS production networks and markets in southern China.

Linkages through GMS to other ASEAN economies provide potential for growth. Private sector development, employment and poverty reduction are possible, and there are potential exports to China – rice, rubber, cassava, maize, soya beans, minerals, with agri-business and food processing investment. Cambodia’s trade and investment relationships with China, Vietnam, South Korea and Japan are deepening rapidly. It is a beneficiary of GMS and ASEAN infrastructure and ‘connectivity’ including major roads, railways, bridges, waterways and ports. Soft infrastructure is lagging behind hard infrastructure, however, with impacts on cross-border movement of people and goods, and problems in transport and trade facilitation.

There is strong commitment in the Cambodian system to formation of the Asian Economic Community (AEC) in 2015 but there are concerns that it will not be fully achieved. Cambodia is ranked 3rd in ASEAN on AEC ‘preparedness’ on key deliverables, but there are still unresolved issues on cross-border transactions and LDC-specific provisions. Preparedness for AEC is more associated with the general openness of the Cambodian economy and World Trade Organization (WTO) compliance than specific AEC compliance. However there is very uneven to poor private sector engagement in ASEAN processes, and a lack of awareness of the benefits and opportunities of ASEAN FTAs and of regional integration. Also, the complex set of initiatives to promote ‘connectivity’ and socio-economic development, and to reduce poverty in ASEAN and the GMS, are a challenge for the capacity of Cambodian institutions and its private sector.

Cambodia’s strong and deepening relationship with China is fundamental to its future socio-economic development. There has been significant recent expansion of trade, tourism, investment and development cooperation. China is now Cambodia’s leading source of both investment and development assistance, and there is a strong and deepening political, economic and strategic relationship, but Cambodia balances this key relationship with good relations with other major regional players such as Japan, South Korea, Vietnam, United States and Australia. The Cambodian government and private sector’s focus is now on building an economy more integrated into its region, while remaining open to international markets and trade and investment relationships. Cambodia’s deeper integration in the GMS, ASEAN and ASEAN+3 (China, South Korea and Japan, or East Asia), through regional free

trade agreements and development cooperation is providing opportunities for intra-regional trade and investment, production and market networks and value chains, and access for Cambodian exports to an increasingly prosperous regional consumer market.

2.2. The Other CLMVs – Laos, Myanmar, Vietnam

2.2.1. Laos (Leeber and Phoupet 2011)

Laos has also experienced recent rapid growth, at an average of 7.9% over 2006-10, with GDP per capita increasing from approximately USD 325 in 2000 to USD 1086 in 2010. GDP composition has changed, with a decline in agriculture, and increases in the industrial and service sectors. Laos aspires to further sustained high GDP growth, with graduation to middle income status over the next decade. It is aiming for significant reform of its economic structure; further progress in poverty alleviation; and improved quality of life for its people through better access to education, health care, social safety nets and public services; infrastructure development; political and socio-economic stability; and environmental sustainability.

Its strengths include a long term development strategy with a clear vision up to 2020; a clear action plan, the 7th National Social Development Plan (NSEDV-VII) until 2015; political stability; abundant natural resources such as minerals, water, forests, and arable land; its strategic location as the hub of the GMS and as a land-locked country between two big markets, China and ASEAN, and other large Asian neighbors. Its weaknesses include limited human resources and low institutional capacity; poor infrastructure development and high transportation costs; low domestic financial resources; and dependency on foreign direct investment (FDI) and ODA as major capital sources.

Laos's opportunities in meeting its development challenges include the strong support of multilateral and bilateral development partners for the government's long term development strategy framework; initiatives for regional cooperation (ASEAN and the GMS), which promote regional economic integration and diversification; expanding markets in neighboring countries, particularly Thailand, Vietnam, China and other ASEAN countries; and the globalization of relatively free flows of trade,

investment capital, labor, and technology transfer. Its threats include the over-reliance of government budgets on ODA, and the likely reduction of ODA following its graduation from LDC to middle income status; the narrow base of the economy and its vulnerability to external shocks; the challenge of competition pressures with members of the ASEAN Free Trade Area (AFTA), ASEAN+1+2 +3...+6 and the WTO after 2015; and the potential impact of climate change and the need for adaptation.

In achieving its development aspirations Laos's major policy challenges include how to sustain rapid economic growth; how to foster human capital; how to ensure environmental sustainability; how to modernize economic infrastructure and reduce transportation costs; how to increase firm competitiveness and labor productivity; and how to ensure more equitable socio-economic development and strengthen social safety nets.

2.2.2. Myanmar (Verbiest and Tin 2011)

Myanmar, despite its enormous economic potential, remains the poorest country in ASEAN with a per capita GDP estimated at around USD 821, a national poverty incidence estimated at around 32%, complex ethnic diversity and tensions, and a ranking of 132 out of 169 on the UN's Human Development Index. While the rapid pace of political change and reform in recent times, and the associated easing or lifting of economic and other sanctions, provides optimism for Myanmar's future development, major challenges remain. They include; the maintenance of peace and stability; fundamental strengthening of institutions and governance systems; diversification and development of the agriculture sector; fostering human capital, particularly in terms of education and health; economic diversification, beyond agriculture and natural resource exploitation, to the industrial sector; and maximizing growth prospects through ASEAN and broader regional integration.

Myanmar's strengths include abundant natural resources – agriculture, gas, oil, minerals, and precious stones; significant foreign exchange reserves; limited population pressure on land with a relatively high land-population ratio, and half of arable land currently fallow; an abundant and trainable labor force with basic education; its excellent connections to major Asian markets – ASEAN, China and India; its strategic location and geo-political importance for regional connectivity as

a ‘tri-junction’ of East, Southeast and South Asia; and the benefits of being a latecomer in development with the potential to ‘leapfrog’ development stages. Its weaknesses include macroeconomic instability associated with weak institutions and policy inconsistency; low savings and investment rates; lack of implementation of institutional capacity building and governance; an underdeveloped banking and financial system; high dependency on natural resource extraction and agriculture; poor infrastructure, and institutional and business environment; high poverty rate, low HDI and high out-migration rate; lack of comprehensive approach and appropriate funding to human capital formation; and the absence of accurate and reliable economic data to provide diagnostics of the economy.

Myanmar does, however, have significant opportunities, including its potential role as a regional hub for multi-nodal transportation and a potential supply route by-passing the Straits of Malacca; its position as the sole land-bridge between the two giant economies of China and India; high potential to be a ‘food basket’ and energy source for Asia; and huge industrial potential for FDI from ASEAN and global supply chains. Threats include the lack of balance between economic growth and environmental sustainability; the danger of ‘Dutch Disease’ in managing the benefits of natural resource exploitation without currency appreciation leading to lack of competitiveness in other sectors of the economy; social and spatial inequality; increased corruption; political instability and ethnic insurgency; international pressures and renewal of economic sanctions; and managing the strong influence of China.

Along with the other CLMVs, but to a more significant extent, Myanmar’s development policy priorities focus on; institutional and legal reform and associated capacity development; sound macroeconomic management based on the establishment of reliable national socio-economic data; specific industry sector policies; infrastructure and ‘connectivity’; social policy on education, health and social protection; and ethnic reconciliation.

2.2.3. Vietnam (Vo and Nguyen 2011)

Since the 1980s, Vietnam has undergone major economic reform, enjoyed high levels of growth averaging around 7% per annum and very significant poverty reduction from 37.4 % in 1998 to just over 12% in 2010. Its HDI ranking, however,

is still only above Cambodia, Laos and Myanmar in ASEAN. Its major development challenges include; the inadequacy of institutions; inadequate infrastructure; inadequate human resources; the consequences of rapid urbanization; environmental degradation; the development of sustainable social safety nets; and its successful ASEAN and broader East Asian integration.

Vietnam's strengths include; its stable socio-political environment; favorable investment and business climate; a large pool of human resources; its geographical location in Southeast and East Asia – dynamic regions favorable for growth and development; deepened regional development cooperation; high savings rates; GMS, ASEAN and East Asian integration; and its integration in regional production networks. Its weaknesses include; a shortage of institutional capacity; underdeveloped infrastructure; insufficient human resource quality and development; state owned enterprise (SOE) inefficiency; inefficient public investment; and an under-developed financial system.

Vietnam's opportunities include; global and regional trade expansion; regional economic integration; its relatively small adjustment costs in response to climate change and adverse environmental impacts; and the rise of China and India as impetuses for domestic reforms to enhance competitiveness. Its threats include; the risk of macro-economic instability; rising inflation; bad debts in relation to finance and property speculation; the possible impact of the current wave of FTAs in the region on its comparative advantage, There is also the risk posed by the current structure of Vietnam's exports to China which rely heavily on natural resource and labor intensive products. A deeper engagement in a production network with China may mean that Vietnamese enterprises fall into lower production nodes with limited value-adding and the prospect of Vietnam falling into a middle income trap with negative economic and social consequences.

Vietnam's development policy priorities focus on; domestic reforms in response to regional economic integration; improving the quality of institutions and human resource development; private sector development; the formulation and implementation of industrial policy to create domestic value and build comparative advantage; harmonization of economic development across the regions of Vietnam; and the enhancement of social progress and environmental protection.

2.3. The CLMVs: Some Shared Development Aspirations and Priority Needs

This brief overview of the major socio-economic development issues, challenges, strengths, weaknesses, opportunities and threats, and resulting policy reform priorities for each of the CLMVs, despite their significant country-specific differences, helps identify some shared development aspirations and priority needs. These priorities include:

- Hard and Soft Infrastructure for Connectivity;
- Economic Diversification and Private Sector Development;
- Agricultural Development, Diversification, and Productivity
- Trade, Transport and Investment Facilitation;
- Regional Integration and the Capacity to Effectively Implement Related Domestic Policy in relation to the Cross-Border Movement of Goods and People
- Human Resource Development, particularly education and labor market responsive skills development
- Institutional Capacity Development and Systems of Governance
- Improved Aid Effectiveness and Graduation from Aid Dependency.

2.4. Learning from East Asia’s Newly Industrialized Economies and Vietnam – Key Factors That Could Inform CLM Growth and Development Policies and Strategies to Narrow the Development Gap

As regional development ‘latecomers’, the CLMs can learn valuable lessons from other more developed East Asian economies and national systems, including Vietnam, in achieving their aspirations high levels of inclusive sustainable growth, to progress from low to middle income economy status, and to greatly improve HDI outcomes over the next decade. Several key factors can be identified that would be useful to the CLMs in creating effective development strategies and priorities:

- (i) The openness of their economies, and a focus on creating an enabling private sector environment. This will encourage entrepreneurialism, SME development, competitiveness, and trade and investment facilitation in sectors where there is the greatest potential for comparative advantage;
- (ii) Priority investment in human resource development from national budgets and ODA - education (at all levels but with a particular emphasis on labor market responsive vocational education and training) and health;

- (iii) Investment in agricultural development, diversification and agribusiness that creates and takes advantage of sub-regional and regional value chains;
- (iv) Governance of natural resources - land, forests and minerals - to support national development goals, promote economic value adding and attract productive investment;
- (v) Investment in hard and soft infrastructure to support national and cross-border economic activity and access to affordable energy;
- (vi) Institutional strengthening in key areas for socio-economic development, including macro-economic management, trade and investment, education and health;
- (vii) Assertive national ownership and coordination of development assistance clearly linked to priority national development goals and priorities, with transparency and accountability but limited conditionality; and
- (viii) A commitment to sub-regional and regional economic cooperation, and integration priorities, while remaining open to global trade and investment opportunities.

The ADB's lead economist, Jay Menon, in his forthcoming paper on narrowing the development divide in ASEAN, will emphasize that national development policy-making and reform, rather than an over-reliance on development assistance, will be critical to both the prospects for sustainable and equitable growth in the CLMVs, and also to any real prospect of narrowing the divide.

Members have committed to realizing an ASEAN Economic Community (AEC) by 2015. The third pillar of the AEC Blueprint is on Equitable Economic Development, which aims to 'address the development divide and accelerate integration of Cambodia, Laos, Myanmar and Vietnam (the CLMVs) through the Initiative for ASEAN Integration (IAI) and other regional initiatives'. (para 7). The reality is that neither the IAI nor other regional initiatives will have the resources, or the ability, to address the development divide. While aid can play a part, the solution must come from within the countries themselves. This will necessarily involve the adoption of policies that promote rapid economic development and economic convergence (Menon, 2012)

He cites three critical factors, based on the experience of Asia's 'Newly Industrialized Economies' (NIEs), that hold important lessons for the CLMVs and their reform policy priorities and institutional strengthening, and which need to be in

place before the economic ‘convergence with cohesion’ that must underpin effective regional integration is possible:

- (i) Human capital formation – investing in access to quality primary and secondary education, combined with effective vocational and on-the-job training facilities, to enhance workforce productivity and labor market responsiveness;
- (ii) A conducive investment climate and sound macroeconomic fundamentals – exploiting comparative advantage and benefiting from opportunities arising from labor-intensive light manufacturing;
- (iii) The distribution of land ownership and asset inequality – ensuring a land reform policy and administration to achieve a fairer distribution of land for increasing agricultural productivity, the prevention of deforestation and elite ‘land grabbing’, and enhancing labor market flexibility during structural transitions.

Along with these three fundamentals, Menon also stresses the role of ‘behind the borders measures’ if regional economic convergence is to be achieved. These would reduce trade costs through transport and trade facilitation, ensure effective labor migration, and stimulate healthy capital flows through improvements in the investment climate. All these factors rely on human resource development, governance and institutional strengthening for effective policy making and implementation.

3. The CLMVs in a Changing Regional Context: GMS, ASEAN, East Asia Roles and Linkages with Regional and Sub-regional Integration and Cooperation Processes and Institutions: Their Current Strengths and Weaknesses

3.1. The Greater Mekong Sub-region and ASEAN: Integration, Infrastructure and Connectivity

The complex but potentially very beneficial set of multilateral and bilateral initiatives and processes to promote ‘connectivity’, achieve socio-economic development, reduce poverty, and bridge the development gap in the GMS and

ASEAN continues to provide challenges for the CLMVs. Many elements of the ‘soft’ infrastructure, the legal and regulatory framework and associated institutional capacity to support cross-border movement of goods and people and promote regional economic integration, is lagging well behind the ‘hard’ infrastructure. The latter is progressing well, with the construction of roads, bridges, dams for hydro-power generation, and the development of sub-regional economic corridors to promote connectivity, trade and investment.

An imperative for the CLMVs are; the strategic coordination of ASEAN-GMS integration initiatives; more realistic time frames for implementation of complex reforms; and associated investment in long term institutional capacity building. The capacity building measures needed include the range of AEC 2015 plans and agreements, particularly those on transport, connectivity, trade facilitation, and customs reform. Customs reform includes elements of the ASEAN Trade in Goods Agreement (ATIGA), and the GMS Cross Border Transport Agreement. There must also be synchronicity of the Master Plan on ASEAN Connectivity with GMS connectivity initiatives and processes, and a greater awareness of and engagement in ASEAN Economic Community mechanisms and opportunities by the private sector.

The range and complexity of ASEAN-GMS institutional arrangements has serious implications for the pace and effectiveness of regional integration, and on the ‘absorptive capacity’ in CLMV GMS countries where institutional capacity is still building. The strategic coordination of ASEAN-GMS integration initiatives is important for these GMS countries. There do, however need to be more realistic time frames for implementation of complex reforms, and associated investment in long term institutional capacity building. Examples are the GMS Cross Border Transport Agreement and the synchronicity of the Master Plan on ASEAN Connectivity with GMS connectivity initiatives and processes. A greater awareness of, and engagement in, ASEAN Economic Community mechanisms and opportunities is also required.

3.2. ASEAN: An ASEAN Economic Community 2015 and Beyond

The ASEAN 2030 study, found that there exists a severe development divide. An analysis of its nature, and suggested strategies for its narrowing, have led to the

conception of a new ADB-ADBI-ASEAN initiative on *Supporting Equitable Economic Development in ASEAN*, which could form the basis for a broader long-term regional initiative (ADBI, 2012b). As the concept note for this initiative points out, while the CLMVs have the potential to grow faster than other ASEAN members over the next two decades, they also suffer from low or uneven institutional capacity. This affects their ability to design and implement the necessary policy reforms to transform growth potential into reality. They also need assistance with associated human resource development. Even if potentially rapid GDP growth is achieved, and their per-capita income is brought closer to the ASEAN average, a substantial development ‘gap’ or ‘divide’ will remain. This has negative implications for progress towards an ASEAN Economic Community, for intra-ASEAN competitiveness, trade and investment, and for progress towards the associated socio-cultural and political-security communities.

The ADB-ADBI-ASEAN initiative reflects the findings of the ASEAN 2030 study on CLMV priority needs, focusing on programs geared to the structuring of macroeconomic policy frameworks, increasing productivity and competitiveness of their primary, secondary and tertiary sectors, and improved effectiveness of institutions and governance frameworks. Underpinning all this is the imperative of substantial skills upgrading. Human resource formation is a critical factor in achieving the necessary policy reforms and socio-economic development outcomes.

4. ODA and the ‘Development Paradigm’: The Case for Change

Official Development Assistance (ODA) has made a significant contribution to the socio-economic development of many of the countries of East Asia, from the ‘success stories’ of the NIEs to the CLMVs. While the CLMVs all aspire to graduation from aid dependency, putting greater emphasis on private sector development, trade and investment as drivers of growth and development, realistically they will remain to varying degrees significantly dependent on ODA to achieve their development goals for the foreseeable future. The issue of aid effectiveness is critical to their development success.

Despite the commitment of ODA recipient countries and their development partners to The Paris Declaration on Aid Effectiveness (OECD, 2005) there is still very uneven progress in donor harmonization and coordination, and the elimination of competition, duplication, and waste. Although there has been some progress in the achievement of ‘sector-wide approaches’ to ODA delivery, there has been less discernible change in ODA delivery practice and very limited progress on achievement of the 2005 Paris Declaration on Aid Effectiveness. A recently published study on the impact of the Paris Declaration (Nunnenkamp, *et al.* 2011), analyzing the programs of 19 major international donors (17 major OECD members, the EU and the World Bank) found that, contrary to donor commitments to better harmonize and specialize their country and sector priorities, the degree of specialization for the majority of donors had hardly changed at all and the degree of overlap actually rose for all 19 donors. Three factors were held responsible for this lack of progress. These were; the politics of development aid and the need to demonstrate involvement in projects that are highly visible and whose value can be ‘sold’ to domestic political constituencies; self-interest and foreign policy concerns, with reluctance to accept an international agenda that limits national room to maneuver on ideological or policy issues; and the growing number of actors or ‘non-traditional donors’ involved in development cooperation. Significant new development partners like China are not involved in existing coordination regimes, which raises questions as to the likely future viability and influence of existing development coordination mechanisms such as the OECD’s Development Advisory Committee (DAC), and even the possibility of an alternative multilateral institution to the World Bank mooted by Brazil, Russia, India and China (the BRICs).

Cambodia was chosen as a case study for the global evaluation of the implementation and impact of the Paris Declaration, to be reported to the Busan High Level Forum in South Korea in November 2011. The evaluation study, undertaken in 2010, provided useful and sobering evidence of the development results achieved, and any improvements in development practice as a result of the Declaration and its implementation. (CDC-CRDB, 2011).

On the positive side, the study found; that the Declaration had contributed to setting a useful context for development priorities and strategies at the policy level

and in securing development partnerships; that the Cambodian government had increased its leadership capacity and ownership of development cooperation efforts; that the Declaration had generally contributed positively to improving aid effectiveness in Cambodia; that the style of development cooperation embodied in the Declaration which already existed in Cambodia had been strengthened by the Declaration; and that there were positive aspects to Cambodia's engagement with non-traditional and emerging donors, particularly China.

However the study also found many continuing negative or challenging features that constrained improved aid effectiveness. these included; incomplete and uneven progress on donor alignment of programs and resources, especially on country systems, with few development partners prepared to raise their fiduciary risk tolerance levels; aid coordination mechanisms, although established, remained fragmented with donor headquarter requirements dominant over local harmonization incentives; increasing managing for results at sector program level but few donor programs showing evidence of linking work to outcome-level results; progress in mutual accountability at the national level but limited at the sector and project investment level; achievement of country ownership, which remained very uneven, depended on the country's capacity and the willingness of development partners to support capacity building in any systematic way; limited progress in reduction of the burden of aid management for all concerned, with the burden remaining high; the need for government to continue to assert its leadership and for civil society organizations (CSOs) to increase their involvement and participation in national networks; and a continuing imperative for donor countries and agencies to work more effectively together in sector-wide approaches with shared accountability for the achievement of development results.

In recent years there has been much talk, process and paper generated in response to the Paris Declaration and the aid effectiveness agenda. However, from the vantage point of an aid-dependent country like Cambodia, it is difficult to discern real fundamental changes in practice by the major traditional multilateral and bilateral development partners, Competition, duplication and variance in policy and practice remain features of the complex aid landscape. However there are some emerging signs of change. The mixed outcomes of the Busan High Level Forum

demonstrated the changing international development paradigm since the global financial crisis and during continuing economic uncertainty in Europe and the United States, and the increasing role of powerful emerging economies and ‘non-traditional donors’, particularly China, India and Brazil. While the ‘BRICs’ endorsed the forum’s final statement - the ‘Busan Partnership for Effective Development Cooperation’- they negotiated an exemption for emerging markets from some of the previously defined obligations of earlier agreements. The statement included a provision that ‘the nature, modalities and responsibilities that apply to South-South cooperation differ from those that apply to North-South cooperation’ while inviting emerging market governments to apply the earlier principles voluntarily. The statement defines four laudable principles for development cooperation, namely; ownership of development priorities by developing countries; a focus on results; transparency and accountability between donors, recipients and other stakeholders such as civil society and the private sector; and inclusive development partnerships.

In general, over the past decade, in the CLMVs and elsewhere, much of the ODA delivered to less developed nations has been too ‘supply driven’ rather than ‘demand driven’, and not reflective enough of local initiative and ownership. ‘Short-termism’ in ODA commitments and delivery, with associated country program design, remains a constraining factor in aid effectiveness. Too often we see a failure or incapacity to invest in the long term strengthening of local institutions, and examples of ideological and institutional ‘favoritism’ in the choice of institutions where major investment is to be made. There remains an over-reliance on expensive international consultants and technical advisers, and often short-term, rather than long term, investment in building capacity and ownership of local institutions. This practice constitutes capacity substitution rather than capacity development, and entrenches dependency.

Many of the development cooperation management challenges, faced by aid-dependent least developed countries, flow from the fact that international development cooperation is a very large and powerful multi-billion dollar ‘industry’, until relatively recently dominated by the developed nations and the multilateral development agencies they control. Their own bilateral development agencies are also players, together with consulting companies and individual consultants, many of

whom are former employees of those development agencies, and the academic consulting arms of universities and research institutions facing income-generating imperatives. This development 'industry', as international development policy and fashion changes, also regularly creates lucrative sub-industries, including over the past two decades for example, sub-industries on governance, gender, capacity development and, most recently, aid effectiveness itself. Any new model for regional economic and development cooperation in East Asia, if it is to address the needs of the CLMVs, and contribute to narrowing the development divide, will need to address this fundamental issue, particularly in relation to long-term human resource and institutional capacity development.

5. Human Resource and Institutional Capacity Development: Fundamental Building Blocks for Economic Inclusion, Equitable Development and Regional Integration- Some Lessons Learned

As discussed above, one of the most pressing unresolved challenges in regional economic integration and development cooperation, particularly for the CLMVs, is the issue of 'institutional capacity building or development', what it really means, how it can be achieved, and what it means for development cooperation design. Other issues are its focus on priority institutions critical to the achievement of key national development goals, and its management and resourcing. These issues have very significant implications for how we see, for example, the role of technical assistance. They imply a move away from short-medium term technical assistance or training, to deeper longer term institutional capacity building, more selectively utilizing experts who actually have a demonstrated capacity and commitment to transfer skills and knowledge, to share relevant lessons learned elsewhere on the region, and to foster the talents of local populations in their local economic, political, social, and cultural contexts. This would involve quite radical change.

The Cambodian experience over the past two decades suggests that effective institutional capacity development involves a combination of at least the following elements:

- The integration of capacity development and training as one component, within the context of long-term institutional strategic planning and policy making, organizational development and continuous learning;
- Institutional needs analysis, design and strengthening;
- The upgrading of educational and professional qualifications and skills by means of postgraduate education, professional development and training programs;
- The provision of consistent high quality expert technical advice, knowledge and skills transfer by people with deep local knowledge, experience and sensitivity to local needs;
- The value of longer term institutional collaboration between weaker and stronger research institutions, particularly in the countries of our region (ASEAN, China, South Korea and Japan) where longer term economic and development relationships will lie, including long term collaborative research, technical advice and support, and professional development.

The challenge of capacity building for key local institutions in developing countries should be located within this broader institutional context, but particularly so in LDCs, where institutions are often weak, and one of the major objectives of development assistance is their strengthening. These principles, while often reflected in development partner policy statements, are seldom reflected in the design of donor-driven development programs and projects, particularly in relation to training initiatives. The recent OECD Development Cooperation Working Paper, *Training and Beyond: Seeking Better Practices for Capacity Development* (Pearson, 2011), demonstrated an emerging consensus in the international development community itself on this issue:

- Training should not be seen as synonymous with capacity development, even though it can be an important component if it is located in a broader capacity development strategy and context – individual, institutional and sectoral;
- Training individuals is rarely an adequate capacity development response in itself, but is most effective as only one component of institutional capacity development;
- Training must be located within the capacity development and strengthening of institutional processes and systems that support learning;
- Sustainable capacity development is long term; short term activities like training must be located in longer term capacity development strategies and goals if they are to be effective. They should ideally be long term programs

rather than short term projects, and be set within long term collaborative institutional relationships;

- Training by international development agencies has often been of poor quality, inappropriately used, and poorly implemented, with limited long term individual and institutional benefit.

Why focus on this issue of capacity development, in the CLMV's, and their broader East Asian context? Because it remains a critical issue for any more effective approach to development cooperation in East Asia. Better outcomes in institutional and human resource capacity development are needed, and these can best be achieved through a regional approach.

6. Toward a New Development Model for East Asia: What the ASEAN LDCs Need from It

If there is to be a new approach to regional economic and development cooperation, what would the CLMV's most need from it? As this writer argued in an earlier paper (Strange, 2006) presented to the 2006 Korea Institute for International Economic Policy (KIEP) East Asian Institutes Forum, such a regional approach should reflect the following features:

- a greater respect for and sensitivity to local needs and local ownership;
- a reduction in overt or covert conditionality in the provision of development assistance;
- a focus on long-term institution building and capacity development; a more sophisticated understanding of the complexity of anti-corruption and governance strategies in different systems, and their role in poverty reduction and sustainable development;
- 'long-termism' in ODA design and delivery; a more effective role for ODA-private sector partnerships;
- a greater respect for and mobilization of local experience and expertise, and the sharing and developing of solutions and regional models;
- and very importantly, the establishment of long-term collaborative institutional partnerships between governments, the private sector, education, policy and research institutions, and civil society organizations in the East

Asian region - all useful building blocks for regional development cooperation, but also all building blocks for a future regional community.

Of particular importance for the CLMVs would be; the more effective linkage of national, sub-regional and regional development strategies; cooperation with and assistance from ASEAN and ASEAN+ regional economic cooperation and integration mechanisms and initiatives; long term partnerships and investment in infrastructure, human resource development, education and health, and private sector development; a focus on the strengthening of key institutions; learning from other recent East Asian development success stories and not being driven by ideology; avoiding institutional design and development models imported from or imposed by Western-dominated agencies and institutions; and linked to regional integration, trade and investment facilitation and private sector development cooperation mechanisms and resources.

The already strong and deepening engagement of China in the GMS's LDCs is an increasingly important factor in the current and future character of regional integration and cooperation. China is now, for example, Cambodia's major source of both development assistance and foreign direct investment. China has a similarly deepening engagement and influence with Laos and Myanmar, both bilaterally, and through its significantly increased financial contribution to the ADB's GMS program. This will have fundamental implications for economic, political and security issues in ASEAN, given the possible role of the Greater Mekong Sub-region as the bridge between Southeast and Northeast Asia.

If ASEAN's regional integration aspirations, according to the ASEAN Charter, are to be realized, ASEAN LDCs need GMS, ASEAN & ASEAN + 3 partnerships; to deliver on the ASEAN charter commitment "to alleviate poverty and narrow the development gap within ASEAN through mutual assistance and cooperation"; as agricultural producers and potential food processors to better exploit the real and potential benefits of ASEAN + China/Korea/Japan FTAs, especially provisions like the Early Harvest Program in the ASEAN-China FTA,; and to promote awareness and engagement of the private sector in the ASEAN Economic Community, GMS and broader East Asian 'connectivity' and economic integration opportunities and processes. Related to this will be the importance of ensuring the coordination and

synchronization of GMS-ASEAN-East Asian development cooperation, and regional integration processes, to include a focus on sustained growth and ‘narrowing the development gap’. This will call for associated regional investment in long-term institutional capacity development in the LDCs (Cambodia, Laos and Myanmar. This could be ‘transformational’ for these economically and strategically important smaller ASEAN economies.

7. Conclusion: The Political Economy of a New Economic and Development Cooperation Model for East Asia and its Benefits for Smaller Less Developed Economies – Some Policy Priorities and Recommendations

Enhanced regional development cooperation, as a support for and compliment to regional economic growth and integration, provides a real opportunity for region and community building in East Asia, and real benefits for the ASEAN smaller less developed economies. Driven by the private sector through enterprise, investment and trade, within a supportive government policy environment, it would enable the developing nations of the region, particularly the LDCs, to genuinely drive their own development priorities and programs. The LDCs are the most aid-dependent economies in the region, but could develop away from aid in partnership with their more developed East Asian neighbors. , They would need to ensure real local ownership of development strategies and outcomes, whilst learning from the experiences of their neighbors, and drawing on regional technical and entrepreneurial expertise. This know-how would be sensitive and relevant to local conditions and politico-economic systems.

The 2009 Final Report on EAFTA Phase II Study: Desirable and Feasible Option for an East Asia FTA (Lee, *et al.* 2009), specifically addressed this issue. It pointed out that ‘For the efforts to narrow the development gap among East Asian countries, myriad development cooperation projects have either been implemented or are being carried out or have been agreed upon’ with wide sectoral coverage. It noted, however, that ‘The spatial and sectoral distribution of development cooperation in East Asia appears to be too widespread to produce meaningful effects on a lasting

basis'. To address this, the report recommended that an optimal EAFTA should be comprehensive in scope, including all the existing cooperation efforts in the region. In its early stages, however, it would need to include specific cooperation programs directly linked to Trade and Investment Facilitation (TIF), to ensure their effective implementation, so as to enable less developed countries to fully utilize an EAFTA. The recent commencement of negotiations between China, Japan and South Korea on a free trade agreement, which would then have the potential to 'dock' with ASEAN as the basis for an EAFTA, with the complex challenges it presents, will have major implications for the future feasibility and momentum of an EAFTA, and for its capacity to integrate regional economic and development cooperation provisions, commitments and resources.

While this focus on trade and investment facilitation remains a major priority, along with the promotion of intra-regional trade and investment following the GFC and its aftermath, if it is to be effective for the region and for the CLMVs, it will need to be supported by inter-related development cooperation initiatives on:

- Hard and soft infrastructure development and 'connectivity', particularly local institutional capacity strengthening of carefully targeted key national agencies involved in TIF, the cross-border movement of goods and people, and the creation of a positive environment for private sector development and employment creation;
- A greater investment in education at all levels. Priorities would be to improve retention rates at primary and secondary levels, to upgrade tertiary and vocational education and training in the light of local labor market needs, and to ensure the provision of effective health-care systems to enable the achievement of education goals;
- Intra-regional labor movement policy and administration;
- Land management policies to promote productive land use for agricultural diversification and productivity, and the promotion of agribusiness and light industry;
- All strategic components of more inclusive growth and the narrowing of the development divide and promoting competitiveness in ASEAN and East Asia.

The role of regional trade and economic cooperation and in particular the key roles of Japan, China, India and South Korea, in helping to build 'a durable economic

and trade alliance that could lead the world' are vital. This was emphasized most recently in a statement to the Nikkei Summit in Tokyo in June 2012, by the outgoing ASEAN Secretary General, Surin Pitsuwan, in promoting the concept of a new regional mechanism- a 'Regional Comprehensive Economic Partnership (RCEP)- that had been initiated at the ASEAN summit in Bali in 2011 (Bangkok Post, 2012). This commitment was also reflected in the statement of the 2012 ASEAN Summit, which committed ASEAN, amongst other things, to:

'Further enhance ASEAN's relations with both FTA and Economic Partners and Dialogue partners to deepen economic integration based on mutual interest, transparency and best practice. Recognizing the benefits of sound and sustainable economic relations, ASEAN will also engage its FTA partners through new initiatives such as the ASEAN Framework for Regional Comprehensive Economic Partnership and adhering to the work plan which will broaden and deepen ASEAN's economic relations with the global community. (Phnom Penh Declaration on ASEAN April 2012)

The difficult question is whether there is sufficient political will, shared regional and national self-interest, and commitment amongst the leadership of the developed and developing nations of ASEAN and broader East Asia, on how this might be achieved. This could be through existing or innovative new regional institutions and processes. It is also not clear what changing global and regional economic environments and power relations will mean for the future architecture of the East Asian region, and what the role of regional economic and development cooperation will be.

8. Some Policy Priorities and Recommendations

- (i) **CLMV Development Priorities.** To achieve more inclusive growth and sustainable development, and narrow the development divide in ASEAN and East Asia, the CLMVs, their private sectors and development partners must focus on hard and soft infrastructure for connectivity; economic diversification and private sector development; agricultural development, diversification and productivity; trade, transport and investment facilitation; regional integration and the capacity to implement domestic policy for the

cross-border movement of goods, services and people, particularly for education and labor market responsive skills development; institutional strengthening and governance; aid effectiveness and graduation from aid dependency.

- (ii) Lessons from the Region- Development Policy Focus. As ‘latecomers’, learning from the development experiences of other successful regional economies, particularly the NIEs, the CLMVs need to focus on the following reform policies for regional economic convergence and cohesion; human capital formation; a conducive investment climate and sound macroeconomic fundamentals; distribution of land ownership and mitigation of asset inequality.
- (iii) GMS-ASEAN-ASEAN+3- Coordinated Priorities for Development Cooperation. The strategic coordination of GMS, ASEAN and ASEAN+3 regional integration initiatives is imperative for the CLMVs. This would involve better coordination, resourcing and investment in long term reform and institutional capacity building on transport, connectivity, trade and investment facilitation and customs reforms, plus a greater awareness and engagement of their private sectors in regional integration mechanisms and their potential opportunities.
- (iv) ODA – The Case for Change. To achieve better aid effectiveness and more concrete development outcomes, the provision and coordination of ODA, from both traditional and non-traditional development ‘partners’, must share the following features; demand rather than supply driven; strong recipient country leadership, ownership and coordination; long term program planning and implementation with integrated institutional strengthening and human resource capacity building; mutual transparency and accountability; sector-wide approaches linked directly to recipient governments’ national planning strategies and priorities; limited conditionality.
- (v) An Investment in Long Term CLMV Institutional Capacity Development. Quality development outcomes for the CLMVs will require the stronger integration of capacity development as a key component of long term institutional strategic planning, policy making, and organizational development in key government priority areas. These include trade and investment, private sector development and employment creation, labor market responsive vocational education and training, and sectoral development priorities. There has to be exploration of longer term institutional collaboration between weaker and stronger agencies and

institutions in ASEAN, China, Japan and South Korea and other regional development partners.

- (vi) **A New Development Model Responsive to CLMV Needs.** To meet the needs of the CLMVs, any new model for regional economic and development cooperation should have the following features; greater respect for, and sensitivity to, local needs and local ownership; a reduction in overt or covert conditionality in the provision of development assistance; a focus on long-term institution building and capacity development; a more sophisticated understanding of the complexity of anti-corruption and governance strategies in different systems, and their role in poverty reduction and sustainable development; long-term thinking in ODA design and delivery; a more effective role for ODA-private sector partnership; a greater respect for, and mobilization of, local experience and expertise, and in the sharing and developing of solutions and regional models; and very importantly, the establishment of long-term collaborative institutional partnerships between governments, the private sector, education, policy and research institutions, and civil society organizations in the East Asian region - all useful building blocks for regional development cooperation, but also all building blocks for a future regional community.
- (vii) **ASEAN-ASEAN+3 Development Cooperation.** To maximize benefit for the CLMVs, regional economic and development cooperation in East Asia should include; more effective linkages of national, sub-regional and regional development strategies cooperation and assistance to ASEAN and ASEAN+ regional economic cooperation and integration mechanisms and initiatives; long term partnerships and investment in infrastructure, human resource development, education and health, and private sector development; a focus on the strengthening of key institutions; learning from other recent East Asian development success stories; programs not driven by ideology, avoiding institutional design and development models imported or imposed by Western dominated agencies and institutions; and linkages to regional integration, trade and investment facilitation and private sector development cooperation mechanisms and resources.
- (viii) **ASEAN Charter Commitment on Narrowing the Development Gap and ASEAN-ASEAN+3 Delivery.** If ASEAN's regional integration aspirations, according to the ASEAN Charter, are to be realized, ASEAN LDCs need GMS, ASEAN & ASEAN + 3 partnerships to; deliver on the ASEAN charter commitment "to alleviate poverty and narrow the development gap within ASEAN through mutual assistance and cooperation"; to better exploit the real

and potential benefits of ASEAN + China/Korea/Japan FTAs, especially provisions like the Early Harvest Program in the ASEAN-China FTA, as agricultural producers and potential food processors; and promote awareness of, and engagement of the private sector in, the ASEAN Economic Community, GMS and broader East Asian ‘connectivity’ and economic integration opportunities and processes.

- (ix) Towards an East Asia Free Trade Area and Community, with Integrated Economic and Development Cooperation. ASEAN, China, Japan and South Korea should fast-track negotiations for the establishment of an East Asia Free Trade Area as a building block for an East Asian Community. The FTA should have; integrated economic and development cooperation features focused on trade and investment facilitation, including the promotion of intra-regional trade and investment; hard and soft infrastructure development and ‘connectivity’, particularly local institutional capacity strengthening of carefully targeted key national agencies involved in TIF and the cross-border movement of goods and people; the creation of a positive environment for private sector development and employment creation; a greater investment in education at all levels, improving retention rates at primary and secondary levels, along with upgrading tertiary and vocational education and training in response to local labor market needs, plus effective health systems to enable the achievement of education goals; intra-regional labor movement policy and administration; land management policy to promote productive land use for agricultural diversification and productivity, and the promotion of agribusiness and light industry; and other strategic components of more inclusive growth, the narrowing of the development divide and promoting competitiveness in ASEAN and East Asia.

- (x) From ASEAN Regional Comprehensive Economic Partnership to East Asian Convergence and Development Fund. The Regional Comprehensive Economic Partnership (RCEP) that was initiated at the ASEAN summit in Bali in 2011 to facilitate and resource regional economic and development cooperation, and which was recommitted to by ASEAN leaders at the 2012 ASEAN Summit, should be reconfigured at the 2012-13 ASEAN+3 Summits as an ASEAN+3 or East Asian Convergence and Development Fund, as a building block for an East Asia Free Trade Area and eventual East Asian Community, involving ASEAN +3 as its core but inviting the participation and support of other ASEAN regional dialogue and development partners.

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