

# Chapter 9

## **Narrowing the Development Gap in ASEAN: Approaches and Policy Recommendations**

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## **INTRODUCTION**

Regional economic integration has been accelerating both in South East Asia as a sub-region and between South East Asia and the rest of East Asia. This process is leaving no country unaffected, particularly the less developed ASEAN countries, including Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). CLMV countries view deeper regional economic integration as a necessary and unavoidable process, albeit one that presents both benefits and challenges. The key question for CLMV countries is how, given their limited resources, they should proceed to be able to catch up with more the advanced economies in the region. More specifically, CLMV needs to engage in consultation, both among themselves and with other countries, to share experiences, which will help them identify appropriate priorities for their constrained resources and the available Overseas Development Assistance (ODA). In addition, they have a dire need for lessons and experiences about how best to employ their resources properly and most effectively to enable them to reach their pre-determined targets.

With its location at the heart of the East Asia, ASEAN is playing an important role in the process of the regional integration. With their geographical proximity to and long-established economic (and historical) relations with other major East Asian countries, the ASEAN countries possess important factors to effectively drive East Asian integration. East Asian (institutionalized) integration will, therefore, come to no major success without the strengthening of ASEAN integration. In turn, ASEAN integration cannot succeed if the development gap in ASEAN, particularly between the CLMV and the more advanced ASEAN member countries, continues to widen. Thus, reducing the gap in development between the CLMV and other ASEAN member countries is critical

to the success of East Asian integration. Having said that, it should be noted that development gaps always exist; however, not all gaps are impediments to integration.

This paper attempts to present some approaches to reducing development gaps within ASEAN countries, and to draft concrete policy recommendations for undertaking such approaches<sup>1</sup>. Section I discusses alternative ways to address, and to narrow, the development gap between the CLMV and the more advanced ASEAN member countries. Section II provides some major policy recommendations to realize the goal of “an ASEAN with less of a development gap”.

## **2. APPROACHES TO THE PROBLEM OF NARROWING THE DEVELOPMENT GAP**

There are two approaches to narrowing the development gap within ASEAN member countries. The first is on a more *technical* basis, which refers to the key “gap indicators” we should think of. More specifically, this approach assumes that development gaps can be reflected in a number of aspects and disciplines, i.e. multi-dimensional and inter-disciplinary. Alternatively, one may proceed to discuss the problem of reducing the development gap by thinking of the reforms to be undertaken by each newer member (the CLMV), the possible forms of intra-CLMV cooperation to be pursued, and the type of external assistance required.

It should be pointed out that the CLMV countries are at significantly different stages of reform and international integration. Vietnam and Cambodia have progressed rather rapidly in terms of international economic integration, at least in terms of the number of international economic arrangements they participate in and their (relatively early) timing. Meanwhile, Lao PDR and Myanmar have stayed rather closed<sup>2</sup>. Thus, it is not easy to generalize about propositions/conclusions for reforms in each of the newer ASEAN members.

Using an indicator basis, Bui and Vo (2007) present a “4-I” *approach to address the development gaps in ASEAN*, with the four “I”s referring to Income, Infrastructure, Integration, and Institutional Gaps. The ideas for selecting these indicators are rather

simple. First, income indicators, including Human Development Index (HDI), can depict the progress made in catching-up to the other countries. Faster growth in per capita income enables less developed countries like the CLMV to progress in other aspects of development, such as education level and health, although rising income by itself is by no means sufficient to ensure an improvement in the level of development. The ability to utilize the rise in income levels to enlarge the set of choices for its people and to attain high development level is a real concern, particularly for less developed countries. Besides, infrastructure, integration, and institution have all been well-established in theoretical and empirical literature to have material effects on economic growth and development. Secondly, improvements in those critical “*I aspects*” enlarge both the sets of choices available to people and the ability to exploit the benefits of the newer choices.

Great disparity of income does exist within ASEAN, with member countries falling into three groups of per capita GDP. High-income members include Singapore and Brunei; middle-income members include Malaysia, Thailand, Philippines and Indonesia; and the low-income members are the CLMV countries. The gaps among the three groups of members are huge and among individual members are extremely high, both in absolute and relative terms. Income in CLMV countries is equivalent to only 1/3–1/5 of the average income of ASEAN members, whereas Singapore’s GDP per capita is 50 times that of Vietnam’s and 75 times that of Cambodia (Helen Nesadurai 2003, cited in Bui and Vo 2005). Looking at other aspects of income gaps such as human development, gender development, poverty reduction and Purchasing Power Parity (PPP), Bui and Vo (2007) also find evidence of significant development gaps within ASEAN member countries, particularly between the CLMV countries and the ASEAN-6.

In terms of infrastructure development, the average infrastructure score of the ASEAN-6 is almost twice as high as that of the CLMV (IWEP, 2005). The paved road ratios are almost 100% in Singapore and Thailand, 78% in Malaysia, and 58% in Indonesia, while the ratios for Cambodia, Laos and Vietnam are under 20 %<sup>3</sup> (Bui and Vo 2007). Poor infrastructure, such as transportation system and utilities, poses a significant barrier to mobility of factors and technological transfer into the new ASEAN

members, which in turn would widen the development gaps between the ASEAN-6 and the CLMV countries.

Looking into such sectors as information, science and technology, energy and telecommunications, exposed large gaps among ASEAN member countries, which can be divided into three groups. The first group, with the most developed infrastructure, includes Brunei, Singapore and Malaysia. The second group (fairly-developed infrastructure) includes Thailand, the Philippines and Indonesia, while the last group (members with poorly- developed infrastructure) are the CLMV countries, although Vietnam is catching up fast. There is a high gap in Internet users per 1000 persons among the three groups, which is a warning about the “digital divide” in ASEAN, which would even widened integration and institutional gaps among ASEAN member economies.

All the ASEAN-6 members have been WTO members for a long time, while the accession of Cambodia (October 2004) and Vietnam (November 2006) occurred only recently and Laos is still working on its application. The ASEAN-6 members are also more experienced in various regional and global economic arrangements, whereas the CLMV countries made their very first moves in regional and international integration within the last decade.

Singapore, Malaysia, Vietnam, Thailand, Cambodia and Brunei (in 2001 data) had the highest trade openness ratio (over 100%), quite a contrast with the ratios of Laos and Myanmar, which were under 50%, or even the 54% for Indonesia in 2005. The openness levels of ASEAN member economies reflect ASEAN’s strong dependence on trade activities, as well as the benefits from foreign trade to the growth of individual economies.

In another aspect, “Integration Gap” should be considered in terms of the FDI inflows as well as outflows, if applicable. Data from UNCTAD (2006) show that Singapore, Brunei, and Vietnam had the highest FDI openness to GDP, and Singapore, Malaysia, Thailand, and Vietnam recorded the largest inward FDI stock, whereas Myanmar, Cambodia and Laos were much less open and had lower inward stock (in 2005). As will be discussed, while it is rather convenient to look at this simple statistical data, it is insufficient to assist with more insightful analyses of problems underpinning the widening development gaps within ASEAN.

The last reference can be made to institutional gap. The different economic and political systems are key to the gaps in ASEAN. As elaborated by Ulrich Volz (2005, cited in Bui and Vo 2007), ASEAN members encompass the full scale of political (from free democracy to authoritarian) and economic (from free market to state-led) systems.

Even the market economies in ASEAN are dissimilar. Singapore is unique in size, highly outward-looking and free market-driven. Malaysia and Thailand have long adopted the market economy principles and have highly export-oriented economies. However, the CLMV are all transition economies, gradually shifting from centrally-planned to market-oriented and from agricultural to industrialized economies. Such a dual shift has made the CLMV economies a mixture between import-substitution and export-oriented models of development.

The gap in economic freedom is also large. According to the 2005 Freedom House assessment of the state of freedom for ASEAN countries, Philippines and Thailand live in “free societies” that grant them comprehensive political rights and civil liberties, whereas the societies of Indonesia, Malaysia and Singapore are only classified as “partly free, and Brunei, and the CLMV countries are classified as “not free”. While the preciseness and relevance of the index remain to be considered, the index does show the diversity in economic rights among ASEAN members.

Furthermore, there exists an asymmetry in macro-economic policy. The capital markets of the ASEAN-6 are more market-based, while those of the CLMV are much more dependent on the banking system. Differences in financial deepening levels and the development of financial markets could also lead to asymmetric effects in terms of intra-regional financial market integration. Monetary and exchange rate policy would, therefore, be difficult to coordinate. Public institutions for governance are also a key determinant of the fourth “I” – Institution. The large gaps within ASEAN in terms of public administration, law enforcement and governance effectiveness would likely hinder deeper integration among member economies (Bui and Vo 2007).

The “4-I” approach brings about a number of advantages, whilst embodying certain disadvantages. Firstly, the approach can be employed for monitoring the process of reducing the development gap. With its well-established foundations and simplicity, the approach appeals to users since it helps to figure out which aspects have progressed sufficiently, and which have not. Secondly, it can be used for finding some (significant)

causality and, accordingly, the areas/policies that need to be prioritized. Nevertheless, this approach may remain far too simple, and may rely too much on *ex-post* observations of the indicators, with hardly-precise implications for the future (and the policies). Therefore, the approach requires further analyses before having suggestions on institution-settings.

In the 2<sup>nd</sup> approach, Vo (2005) postulates that certain valuable information (and experience) can be learned from the reform process in each of the CLMV countries<sup>4</sup>. Vo (2005) then describes the two major components of external assistance: the special and differential treatment (SDT) (allowing a longer period of implementation of liberalization or easier access to other members' markets), and technical assistance.

Yet, there are some notes to this. Firstly, the SDT can make it easier for governments in developing countries to surrender to pressure-group demands for import restrictions and, consequently, to encourage rent seeking activities. Secondly, institutional building should also be seen as the key, since the CLMV are all transition economies. Thirdly, the effectiveness of the Initiative for ASEAN Integration (*IAI*) (with its focus on four areas: infrastructure, human resource development, information and telecommunication technology, and capacity building) remains questionable. The problems remain, as widely discussed in the literature, of limited financial resources, inadequate capability, and collaboration or incorporation with other assistance programs (various donors' ODA, Development Strategy in GMS, etc.).

Vo (2005) also addresses the problem of efficiency and effectiveness of cooperation among the CLMV countries. The author asserts that limited human and financial resources, small market size, and trade structure — which is more competitive than complementary — are posing serious challenges to the CLMV in forming an effective partnership to help them in the development process. Nevertheless, the author notes an important advantage of CLMV cooperation: with their low level of development and with their many common issues, the CLMV countries can learn/talk rather easily from/with each other.

### 3. POLICY RECOMMENDATIONS

The objective of “narrowing the development gaps in ASEAN” should be a key mission in any community-building strategy/action in the region.

- It is important, in particular, to develop a set of quantitative and qualitative indicators for assessing/monitoring the progress of ASEAN integration and of reducing the development gap in ASEAN. There have been a number of studies on this issue (e.g. Denis & Yusof 2003, Lloyd 2005, Vo & Bartlett 2006, Bui & Vo 2007). Obviously, the ERIA can play an essential role in developing and analyzing these indicators.
- Besides, greater flexibility should be allowed for in applying ASEAN’s “core” principles. Various formulas for facilitating and accelerating ASEAN integration (10 – X, 2+X, etc.) can be considered, and even applied, as they take into account the interests of and the costs-benefits to the CLMV.
- Finally, to have the SDT in regional agreements is necessary. But the SDT itself should be *temporary* and *firmly* implemented. For Vietnam and Cambodia, to have easier market access seems to be better than to have a longer period of liberalization implementation.

In another direction, the IAI needs to be transformed into *a new initiative/program* (say, *Initiative for East Asian Integration (IEAI)*, which can be under ASEAN Secretariat “umbrella”). Under this proposal, all ASEAN + 3 or even ASEAN + 6 countries are to join the IEAI with financial contributions (e.g. by rule and voluntarily). The IEAI could have three important tasks/functions:

- The first is to review the development gap in the region and to recommend the major assistance policies, especially those related to institutional building, human resource development, and infrastructure improvement.
- The second is to have consultations with individual CLMV countries to better understand their reform process and their need for assistance and then, recommending corresponding assistance programs, which are left at the core of the IEAI framework.

- The third is to collaborate with other international institutions and donors to ensure the effectiveness and efficiency of the assistance programs, especially sub-regional programs.

As a third major recommendation, the “2+1” cooperation scheme (cooperation between 2 or more low-income countries, with financial/technical support provided by a more advanced country/international institution) needs to be encouraged. Vietnam has had quite good experiences elsewhere and may serve as a good “bridge” for a better mutual understanding and cooperation between the CLMV and ASEAN-6.

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## NOTES

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1. There are two types of ‘so-called’ concrete recommendations. The first is to suggest the policies and the instruments that can be used for implementation. The second is to recommend appropriate institutions for preparing and implementing (various) necessary policies.
2. It could be said that despite the fact that Myanmar has been much earlier a member of WTO.
3. Data for Myanmar is not available.
4. The CLMV Development Strategies Study Group has also set up a number of common policy recommendations for CLMV as a group as well as specific recommendations for each of the CLMV countries.