

**YANGON UNIVERSITY OF ECONOMICS
MASTER OF ECONOMICS**

**OPPORTUNITIES AND CHALLENGES OF MYANMAR
AND ASEAN ECONOMIC COOPERATION**

NANG PO PO MYINT

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A thesis submitted as a partial fulfillment towards the requirements for the degree of
Master of Economics (Economics)

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YANGON UNIVERSITY OF ECONOMICS

MASTER OF ECONOMICS

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To those who showed me the meaning of love and
sacrifice: My Family

And

To My Sasayaka Friends



Abstract

Myanmar was accepted as full-fledged member of the Association of Southeast Asian Nations in July 1997. Myanmar has participated in all the various ASEAN Activities: political and security cooperation, economic cooperation and functional cooperation. The main objectives of this study are to investigate whether trading with ASEAN countries can be beneficial or not and to explore opportunities and challenges for Myanmar accession to ASEAN regional economic cooperation and its integration process in general and Myanmar-ASEAN cooperation and accession to ASEAN. It focuses on trade and trade openness of Myanmar-ASEAN. This thesis presents Myanmar-ASEAN trade within seventeen years from 2001 to 2017. Based on the secondary data and information, the descriptive method is used in this thesis. Myanmar is developing country among in ASEAN member so that unequal trade can impact on Myanmar economy. Starting from 2004, the exports of Myanmar-ASEAN were declined 70% and then slightly up and down with average 10% from 2005 to 2017. The imports of Myanmar-ASEAN slightly inclined from 2005 to 2014 with average rate 10% but started declining from 2016 to 2017. The balance of trade has been negative starting from 2013. In 2017, the trade deficit has recovered. Trade with ASEAN takes place around 50% in Myanmar total trade. It can be said that Myanmar-ASEAN trade is important part in Myanmar economy. Myanmar-ASEAN trade openness is important to measure how ASEAN is involving in Myanmar economy. The trade openness is around 20% and started declining from 2003 to 2017. The outcome of the study highlights that Myanmar joining to ASEAN can have both opportunities and challenges but the positive effect will depend on the country's further economic liberalization as well as improved political climate.

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Abbreviations

ACER	ASEAN-Closer Economic Cooperation
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AIA	ASEAN Investment Areas
AIC	ASEAN Industrial Complementation
AMS	ASEAN member States
APEC	Asia Pacific Economic Cooperation
ASA	Association of Southeast Asia
ASEAN	Association of Southeast Asian Nations
ASYB	ASEAN Statistical Year Book
ATIGA	ASEAN Trade in Goods Agreement
ATR	ASEAN Trade Repository
CAGR	Compound Annual Growth Rate
CEPT	Common Effective Preferential Tariff
CMLV	Cambodia, Myanmar, Laos and Vietnam
CSO	Central Statistical Organization
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Growth Domestic Product
GATT	General Agreement on Tariffs and Trade
GVC(s)	Global Value Chain(s)

IAI	Initiative for ASEAN Integration
JICA	Japan International Cooperation Center
Lao PDR	Lao People's Democratic Republic
MAPHILINDO	Malaysia, Philippines and Indonesia
MFN	Most-Favoured Nation
MSMEs	Micro, Small and Medium Enterprises
NAFTA	North American Free Trade Agreement
NDG	Narrowing the Development Gap
NTRs	National Trade Repositories
OECD	Organization for Economic Co-operation and Development
RCEP	Regional Comprehensive Economic Partnership
RTA	Regional trade Agreement
SEA	South East Asia
SEAFET	Southeast Asia Friendship and Economic Treaty
SME(s)	Small and Medium Enterprise(s)
TVET	Technical and Vocational Education and Training
UN	United Nations
US\$	United State Dollar
WTO	World Trade Organization
ZOPFAN	Zone of Peace, Freedom and Neutrality

CHAPTER – I

INTRODUCTION

1.1 Rationale of the Study

The early economic systems arised naturally as various trades and crafts produced goods that can be exchanged. People began to trade, at first by bartering between goods and services that they want from each other before the innovation of modern-day currency. The trade became a central part of life and started trading between regions by cooperating. Trade exists between nations because different nations may have a comparative advantage in the production of some tradable commodity – including production of natural resources, scares or limited elsewhere, or because different nations' size may encourage mass production. A major change occurred in the 15th century, as city-states developed in most places of the world and become wealthy through international trade. Therefore, international trade will only have a positive effect on the economic growth of the country if there is the existence of available absorptive capacity in the host country. Nations trade with each other because they both know they benefit from it. Other motives may be involved, but the basic motivation of international trade is that of the benefit, or gain, to the participation. The importance of international trade stems from the fact that no country can produce all goods and services which people require for their consumption largely owing to resources differences and constraints. As a result, this trade relationship suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced domestically. International trade has attracted increasing interest from developing countries because of the perceived benefits in terms of the injection of capital, technology and knowledge. International trade could be seen as a measure by which technology could be transferred to developing countries. International trade can increase the production potential or capability of the host country as more advanced technology can and will possibly spread to local firms as multinational firms are at the forefront of technological advancement. Economic cooperation increases between interdependence countries in order to reduce and ultimately remove tariff and non-tariff barriers to the free flow of goods and services and factors of production between each other.

In this study, Myanmar has been selected to evaluate joining ASEAN as a case study of regional economic cooperation in terms of trade.

1.2 Objectives of the Study

The objectives of this study are –

1. To investigate whether trading with ASEAN countries can be beneficial or not.
2. To explore opportunities and challenges for Myanmar accession to ASEAN regional economic cooperation.

1.3 Method of Study

In order to achieve the above objectives, both analytical and descriptive methods are based on the secondary data obtaining from ASEAN Secretarial, Statistical Year Book of ASEAN, Central Statistical Organization (CSO) of Myanmar, Ministry of Commerce of Myanmar, World Trade Organization, World Bank and Asia Development Bank (ADB). To find out and hypothesis the impact of Myanmar trade with ASEAN on Myanmar economy, the descriptive method is used.

1.4 Scope and Limitations of the Study

This study begins with the formation of ASEAN and its cooperation and integration processes and it continues to explain and explore Myanmar-ASEAN economic integration especially in terms of trade, and other cooperation which is the Initiation of ASEAN Integration (IAI).

The time series data are from 2001 to 2016 because Myanmar joined ASEAN in 1997, and compare with ASEAN members, Myanmar is still developing so that Myanmar changed the rules and policies to be able to complete with ASEAN. Starting from 1997 to 2000, policies changing are unstable and still not completely activating yet that why this study begins the data from 2001 to 2017 since rules and policies are stabling and start activating.

1.5 Organization of the Study

In order to achieve above objective, this study has been divided into five chapters. The first Chapter is introduction of this study. The Chapter II is the literature review of this study along with two dimension; theoretical and methodology research. The Chapter III will explore the evolution of regional economic cooperation in ASEAN and the data are from 2001 to 2016. The Chapter IV summarises the major conclusions and finding derived throughout the thesis, opportunities and challenges for Myanmar participating in ASEAN. Chapter III is the evolution of ASEAN and its cooperation and integration. Chapter IV is the opportunities and challenges of Myanmar participating in ASEAN. And the last chapter, Chapter V concludes the study and also makes findings and recommendations for improving Myanmar-ASEAN trade.

CHAPTER II

LITERATURE REVIEW

2.1 A Brief Overview of International Trade

Since economic historians date the modern era of globalization to approximately 1890, countries come to realize that a major component of achieving economic growth global cooperation – politically, economically and socially. The cooperation of the countries into the world economy is often regarded as an important determinant of differences in growth across countries. Economic cooperation has become a part of economic links between nations by supporting, promoting their own economic and opening up their market. Nations agreed to work together to promote free trade, entering bilateral and multilateral agreements. The trade became a central part of life and started trading between regions. Trade exists between nations because different nations may have a comparative advantage in the production of some tradable commodity – including production of natural resources, scares or limited elsewhere, or because different nations' size may encourage mass production. Therefore, international trade will only have a positive effect on the economic growth of the country if there is the existence of available absorptive capacity in the host country. Nations trade with each other because they both know they benefit from it. Other motives may be involved, but the basic motivation of international trade is that of the benefit, or gain, to the participation. International trade has attracted increasing interest from developing countries because of the perceived benefits in terms of the injection of capital, technology and knowledge. International trade could be seen as a measure by which technology could be transferred to developing countries. International trade can increase the production potential or capability of the host country as more advanced technology can and will possibly spread to local firms as multinational firms are at the forefront of technological advancement. Economic integration is an agreement among countries in a geographic region to reduce and ultimately remove, tariff and non-tariff barriers to the free flow of goods or services and factors of production among each other; any type of arrangement in which countries agree to coordinate their trade, fiscal, and/or monetary policies are referred to as economic integration. Economic cooperation increases between interdependence

countries in order to reduce and ultimately remove tariff and non-tariff barriers to the free flow of goods and services and factors of production between each other.

Nations agreed to work together to promote free trade, entering bilateral and multilateral agreements. Regional Integration Agreements (RTAs) have led to major developments in international relations between and among many countries, specifically increases in international trade and investment and in the formation of regional trading blocs. RTAs are a part and parcel of the present global economic order and this trend is now an acknowledged future of the international scene. It has achieved a new meaning and significance. RTAs are mainly the outcome of necessity felt by nation-states to integrate their economies in order to achieve rapid economic development, decrease conflict, and build mutual trusts between the integrated units. The General Agreement on Traffic and Trade (GATT) and World Trade Organization (WTO) signed in each year has dramatically increased since the 1990s.

The economic cooperation is evolving from trade. Trade plays a vital role in shaping economic and social performance and prospects of countries around the world. Trade is believed to promote the efficient allocation of resources, allow a country to realize economies of scale and scope, facilitate the diffusion of knowledge, foster technological progress, and encourage competition both in domestic and international markets that leads to an optimization of the production process and to the development of new products.¹ International trade is usually defined as one of the major factors of country's access and way to prosperity. The Asia-Pacific Economic Cooperation (APEC) was founded in 1984 by 12 countries and it has been discussing establishing a free-trade zone. ASEAN was created in 1967 for economic, social, culture and technical cooperation as well as promoting regional peace and stability. In 1994, The North America Free Trade Agreement (NAFTA) came into being during a period when free trade and trading blocs were popular and positively perceived. Regional integration should be much more than macroeconomic cooperation between states and corporations, it should protect shared ecological resources and should promote human development and health, wellbeing and democracy as the base of economic development. After the end of World War II, Southeast Asia region was ruled by the European. Even prior to the penetration of European interests, Southeast

¹ Trade and Economic Growth by Matthias Busse, Jens Koniger

Asia was a critical part of the world trading system. After free from colonial, Southeast Asia was realized that working together could be an alternative for regional peace foundation.

Therefore, institutional integration in Southeast Asia started with the establishing of the Association of South East Asia Nation (ASEAN) on 8 August 1967 with the signing of the ASEAN Declaration (the Bangkok Declaration) in order to promote regional cooperation between member countries. At first, the founding members were Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei joined ASEAN in 1983. In 1995, Vietnam joined ASEAN, Myanmar and Lao in 1997 and Cambodia was accepted as a member in 1999, making up what is today the 10 ASEAN member States (AMS) or ASEAN-10. The first early members are noted as ASEAN-6. The latter four that is Cambodia, Lao PDR, Myanmar and Vietnam are also known as “CLMV Countries”.

As in any other organization, ASEAN has its own aims, principle and purposes in order to promote regional cooperation. In 1992, the ASEAN Free Trade Area (AFTA) was established in the face of stronger integrated trading blocs. In 2015, the ASEAN Economic Community (AEC) has been substantively achieved in order to enhance ASEAN's trade and production networks among member countries. The Initiative for ASEAN integration (IAI), launched in 2000, helps CLMV in order to narrow the development gap within ASEAN.

2.2 Theoretical Review

Numerous papers have been published concerning the impact of regional integration, trade and trade openness on growth are engaged in the debate since the early days of economic history. Economic theory has identified the well-known channels as trade can affect growth. Many economists argued about the trade and trade openness on growth with many of their opinions.

The theories helped economists, governments and business to better understand international trade and how to promote, regulate and manage it. It is not clear that any one theory is dominant around the world. In practice, government and companies use a combination of these theories to both interpret trends and develop

strategy. Trade cannot be explained neatly by one single theory, and more importantly the understanding of international trade theories continue to evolve.

2.2.1 Theoretical Review of Regional Cooperation

At present, economic cooperation is undoubtedly one of the most important challenges that must be addressed in connection with vertical cooperation. However, adequate methods to translate the theoretical concepts into concrete initiatives are still not clear. This is partly due to the multiple contents assigned to the concept by the different actors involved in international cooperation. Nations can face well together in globalized economy by joining in regional cooperation. International economic cooperation includes foreign trade, credit relations, cooperation between countries in extracting natural resources, compensation arrangements, and extensive scientific and technical cooperation—for example, trade in licenses to produce certain goods and to use certain technological methods, joint scientific studies, and collaboration on major technical projects, in the construction of plants and other enterprises, in geological exploration, and in training national personnel. José Miguel Insulza (1998) said that international cooperation is understood as “a series of actions that attempt to coordinate policies or join efforts to achieve common objectives on the international sphere.”

Cooperation for development continues to exist but it is increasingly targeted to specific issues and to less developed countries. Thus, cooperation aimed at countries with an intermediate level of development tends to shift from grants towards technical cooperation with shared costs and economic cooperation. The emphasis is now placed on a relationship between "partners" or associates who cooperate for their mutual benefit. Regional economic integration is a process in which neighboring states enter into an agreement which could range from economic to political to environmental through common institutions and rules. The economic integration is illustrated by the following stage: preferential trading arrangement; free trade area; customs union; common market; economic union including a common currency.

The framework of the theory of economic integration was laid out by Jacob Viner (1950) who defined the trade creation and trade diversion effects, the terms introduced for the change of interregional flow of goods caused by changes in

customs tariffs due to the creation of an economic union. He considered trade flows between two states prior and after their unification, and compared them with the rest of the world. His findings became and still are the foundation of the theory of economic integration. The basics of the theory were summarized by the Hungarian economist Béla Balassa in the 1960s. As economic integration increases, the barriers of trade between markets diminish. Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically—and, thus, that economic communities naturally evolve into political unions over time. De Lombaerde and Van Langenhove describe integration as a worldwide phenomenon of territorial systems that increases the interactions between their components and creates new forms of organization, co-existing with traditional forms of state-led organization at the national level. As a result of globalization a country's economy has become much more closely associated with external factors such as openness.

2.2.2 Theoretical Review of Trade

Developed in 16th century, mercantilism was one of the earliest efforts to develop an economic theory. Mercantilists believed that a country should increase its holding of wealth by promoting exports and discouraging imports. Although, mercantilism is one of the oldest trade theories, it remains part of modern thinking. Adam Smith and David Ricardo gave the classical theories of international trade. According to the theories given by them, when a country enters in foreign trade, it benefits from specialization and efficient resource allocation.

Adam Smith (1790) is recognized as the founder of modern economics and as one of the first and most famous thinker who argued in favour of free trade. For Smith, international trade has the same underlying cause as well kinds of trade. In "The Wealth of Nations" (1776), trade is the consequence of human "propensity of truck, barter, and exchange one thing for another"² that does not mean trade has no selfish motive. Adam Smith assumed that each country produce one or more commodities at a lower real cost than its trading partners. It then follows that each

² The Wealth of Nations, I.ii.1.1

country will benefit from specialization in those commodities in which it has an absolute advantage, exporting them and importing other commodities that it produces at a higher real cost than does another country³. According to Adam Smith, international trade is beneficial for all nations involved in trade. However, he conceded that nations do not necessarily benefit in equal parts: "trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantages, though not always equally so, to both"⁴.

David Ricardo, English economist, is the first who proposed the law of comparative advantages which become a basic constituent of neoclassical trade theory in 1817. If a country has absolute advantage in all products or no absolute advantage in any product, how such a country would benefit from trade? The answer of this question was by David Ricardo in his theory of comparative advantage. He stated that "a nation, like a person, gains from the trade by exporting the goods or services in which it has its greatest comparative advantage in productivity and importing those in which it has the least comparative advantage" in his *Principle of Political Economy*. Ricardo had shown that between the productions of two countries could differ and trade flow could not guarantee that the terms of trade would reflect the relative cost of production. The classical economists John Stuart Mill (1873) introduced the equilibrium ratio of exchange, the amount of export goods one country offers must exactly equal the amount the other country is willing to purchase. Mill stated that terms of trade tend to be determined nearer the cost of production of the richer countries and therefore the poor countries gain more than the rich ones. Mill point out that both the extent and elasticities of demand and supply of export and import come into play and at equilibrium level the desired values of export and import are equated. However, Mill's theory did not seem to make any very material difference in the practical result.

The theories of Smith and Ricardo didn't help countries determine which products would give an advantage for a country. Both theories assumed that free and open market would lead countries and producers to determine which products they could produce to get more efficient. In early 1900s, Eli Heckscher and Bertil Ohlin,

³ International Economics, ECO 3102

⁴ The Wealth of Nations, IV.iii.c.2

Swedish economists, argued that how country could gain comparative advantage by producing product that utilized factors that were abundance in the country. Their theory is also called the factor proportions theory that stated that countries would produce and exports goods that required resources or factors that were in great supply and cheaper production factors. In contrast, countries would import goods that required resource that were in short supply, but higher demand⁵.

In 1961, Steffan Linder, Swedish Economist, developed the country similarity theory. Linder's theory states that most trade in manufactured goods will be between countries with similar per capita incomes, and intraindustry trade will be common. This theory is often most useful in understanding trade in goods where brand names and product reputations are important factors in the buyers decision-making and purchasing process. Raymond Vernon, a Harvard Business School professor, developed the product cycle in the 1960s. The theory stated that a product cycle has three distinct stages: (1) new product, (2) maturing product, and (3) standardized product. The Vernon product cycle assumed that the comparative advantage of the producers in the innovation country will change as products move through the product cycle's stages. Romer (1990) developed Romer-Mode that can distinguish between free trade in goods and free flows of ideas. He said that by trading differentiated capital goods, domestic manufactures can take advantage of foreign designs and trade in goods alone increases the growth rate of the slower growing economy and decreases the growth rate of the fast growing economy. He also said that if ideas flow freely, the stock of knowledge in each country than can be used in the research sector increases.

In 1991, Grossman and Helpman described that how international trade affect the economic growth with two ways; international knowledge spillover and growth in a small open economy. Insights by Cypher and Dietz (2004) revealed that are significant mutual gains that emanate from trade and can lead to an expansion in economic activity. Ultimately, it was established that specialization was the key to economic growth. Kim and Lin (2009) examined the impact of export composition on economic growth, indicated that not all exports contribute equally to economic

⁵ Heckscher-Ohlin Theory from "International Business"

growth. In particular, many developing countries depend on exports of primary products, which are subject to excessive price fluctuations. In most cases, this category of exports had negligible impact on economic growth, while manufactured exports had a positive and significant effect on economic growth.

2.2.3 Theoretical Review of Trade Openness

Trade share to growth ratios is important to measure how international trade relative in the economy of a country or a region. There is no consensus on whether greater openness to trade stimulates economic growth. According to the theory of comparative advantage, if a country wants to trade with another country the latter will produce goods in which it has a comparative advantage. It specializes in the sector for which it has better factor endowments and produces goods on a larger scale. As a result, productivity and exports of this sector will go up and this will boost the overall economic growth. In 1978, Krueger and Bhagwati argue that trade liberalization encourages specialization in sectors which have economies of scale that contribute to improve the efficiency and productivity in long-run. New endogenous growth models developed by Grossman & Helpman (1991), Romer (1994) and Coe & Helpman(1995) explain a positive relationship between trade openness and economic growth as the result of the international diffusion of advanced technologies⁶. These arguments suggest that developing economies have much to gain from international trade with technologically advanced nations. However, some opposite arguments point out that trade openness may be detrimental to economic growth.

On the empirical front, a growing literature has examined the relationship between trade and economic growth. The studies by Bahmani-Oskooee and Niroomand (1999), Dollar and Kraay (2004), Zarra-Nezhad, Hosseinpour, and Arman (2014) confirm the positive impact of trade on economic growth. In low-income countries, however, the effect is negative and significant. Kim (2011) shows that openness to trade has positive effects on economic growth and real income in developed countries but negative effects in developing countries. Fenira (2015) finds a weak relationship between trade openness and economic growth. Openness to trade

⁶The impact of trade openness on economic growth: The case of Cote d'Ivoire by Yaya Keho, 2017.

has negative effect on growth in countries with low financial development, but has insignificant impact in countries with high financial development.

Trade openness is conducive to economic growth in low-inflation countries but has insignificant impact on growth in high-inflation countries. Wizarat, and Lau (2016) show that trade openness is positively related to growth in the long and short run, and openness has mostly positive effect on growth, resulting from a sample of research on 115 countries. From those above theories, only one cannot gain growth, but the country has to combine both theories to develop growth strategies.

CHAPTER III

EVOLUTION OF ASEAN: ECONOMIC COOPERATION AND INTEGRATION

3.1 Origin of ASEAN and Its Cooperation and Integration

Before World War II, Southeast Asian (SEA) countries were not recognized as a region. After the end of World War II, South East Asia (SEA) region ruled by European countries with a system called bipolar (Calleo, 1996). These superpowers realized that international peace and political stability could only be achieved through structural changes and integration (Fox, 1994). These changes produced the formation of ideology pacts, North Atlantic Treaty Organization (NATO) and Warsaw Treaty of Friendship, Co-operation and Mutual Assistance at an international level (Waltz, 1995). Superpowers' stratagem and competition in international level have influenced SEA countries to constantly conform to current demands to ensure national security. SEA countries were greatly influenced by Soviet Union's planned development strategy. After free from colonial, SEA countries were too young and facing tremendous internal political instability, ethnic conflict, unity problem and weak security and defense system. These problems forced/motivated SEA countries to form a state or regional organization that could be an alternative for regional peace foundation⁷. The SEA countries signed Southeast Asia Friendship and Economic Treaty (SEAFET) in 1959 that motivated to form ASEAN. The establishment of SEAFET experienced failure due to disagreement of several Southeast Asia countries. On the other hand, it led to the formation of regional organization, i.e. Association of Southeast Asia (ASA). The ASA was formed with three countries: Malaysia, Philippines and Thailand in 1961. The ASA was a forum for foreign minister of each country to participate in confidence building and form closer regional ties. ASA also failed due to sought out conflicts and objections among countries, mainly between Malaysia and Philippines. After ASA, another regional organization was established and called MAPHILINDO comprising Malaysia, Philippines and Indonesia. But MAPHILINDO also failed too because each country focused on their national

⁷ Association of South East Asian Nation (ASEAN): Origin and Perspectives by Sadhna, *Department of Evening Studies, Panjab University, Chandigarh-160014 (India)*.

interest. Consequently, it placed SEA into a tense situation, caused the regional interrelationship to break and raised conflict between member countries. In order to seek out conflicts, revive and develop strong ties between SEA states, a conference organized among SEA countries in Bangkok in 67. The idea to establish association of SEA nation (ASEAN) was created by five member countries: Malaysia, Thailand, Indonesia, Singapore and the Philippines and started with a few bilateral and multilateral agreements. It is set up with objectives to accelerate the process of economic growth, social progress and cultural development and also to attain political stability. Since inception, Brunei, Cambodia, Laos, Myanmar and Vietnam (CLMV) have joined the association.

In the early years, ASEAN primarily focused on political cooperation, striving for peace and security in SEA. In 1971, the five members signed a Zone of Peace, Freedom and Neutrality (ZOPFAN). After that, the organization shifted its emphasis to the promotion of economic development as the surest way of combating the internal appeal of communication in the ASEAN nations. The ASEAN Vision 2020 was adopted by ASEAN Leaders on the 30th Anniversary of ASEAN in 1997, in which the ASEAN Leaders agreed on a shared vision of ASEAN as “a concept of Southeast Asia nation, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies⁸.” The goal to establish the ASEAN Community was first stipulated in the Bali Concord II, adopted at the 9th ASEAN Summit in Bali, Indonesia, in 2003 and to be comprised of three pillars, namely political and security cooperation, economic cooperation, and socio-culture cooperation. Efforts toward the establishment of the ASEAN Community intensified, first, with the adoption of the AEC Blueprint (2008-2015) in 2007, and later the Roadmap for an ASEAN Community, 2009-20154 at the 14th ASEAN Summit in Cha-am, Thailand in 2009, which consolidates the 2015 Blueprints of all three Community pillars. The ASEAN Community was formally established on 31 December 2015, comprising the ASEAN Political-Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community. For the next ten years, ASEAN integration will be guided by the

⁸ ASEAN Vision 2020

ASEAN Community Vision 2025 and its three corresponding 2025 Community Blueprints⁹.

In 2000, the ASEAN Leaders agreed to launch an Initiative for ASEAN Integration (IAI) Work Plan to narrow the development gap among ASEAN as well as expedite greater regional economic integration, promote equitable economic development and help alleviate poverty in Cambodia, Laos, Myanmar and Vietnam (CLMV). IAI has so far seen the adoption of two work plans, Work Plan I (2002-2008) and Work Plan II (2009). In January 2007, 10 South-East Asian nations agreed to implement the ASEAN Economic Community (AEC) by 2015, committing to the free movement of goods, services, foreign direct investment (FDI) and skilled labor, and freer flows of capital. In November 2007, the *ASEAN Economic Community Blueprint*, a detailed implementation plan, was signed. The ASEAN Economic Community (AEC) is the largest integration effort attempted in the developing world; if realized, it will create a single market with the free movement of goods, services, foreign direct investment and skilled labor, and freer movement of capital encompassing nearly 600 million people. Since CLMV countries still have the lowest incomes among member states, the Initiative for ASEAN integration (IAI) Work Plan III is a policy framework which provides special support and technical assistance to CLMV countries to enhance their capacity in implementing ASEAN commitments as regional integration gathers pace. Through facilitating stronger ASEAN participation by CLMV countries, IAI Plan III seeks to ensure the benefits of ASEAN integration are equitably shared and contribute to narrowing the development gap and aims to be able participate in AEC.

3.2 ASEAN Economic Indicators

Since ASEAN foundation in 1967, ASEAN has made extraordinary economic and social progress deepened intra-ASEAN cooperation and narrowed the development gap within and across ASEAN member states. ASEAN total population reached 634.5 million in 2017, three and a half times more than the population who lived in the five founding Member States in 1967, an increase due to natural

⁹ Celebrating ASEAN: 50 years of evolution and progress

population growth and the Association's membership expansion. ASEAN now represents 8.5% of the world population.¹⁰

Table 3.1 Evolution of ASEAN GDP (US\$)

Year	GDP at current price (US\$ Million)	GDP per capita at current price (US\$)
2001	576,884	1,097
2002	645,981	1,209
2003	722,395	1,332
2004	800,087	1,455
2005	905,856	1,621
2006	1,087,697	1,918
2007	1,340,870	2,267
2008	1,555,953	2,615
2009	1,551,194	2,564
2010	1,927,603	3,153
2011	2,246,135	3,601
2012	2,386,268	3,950
2013	2,494,541	4,076
2014	2,523,701	4,071
2015	2,439,200	3,890
2016	2,559,463	4,034

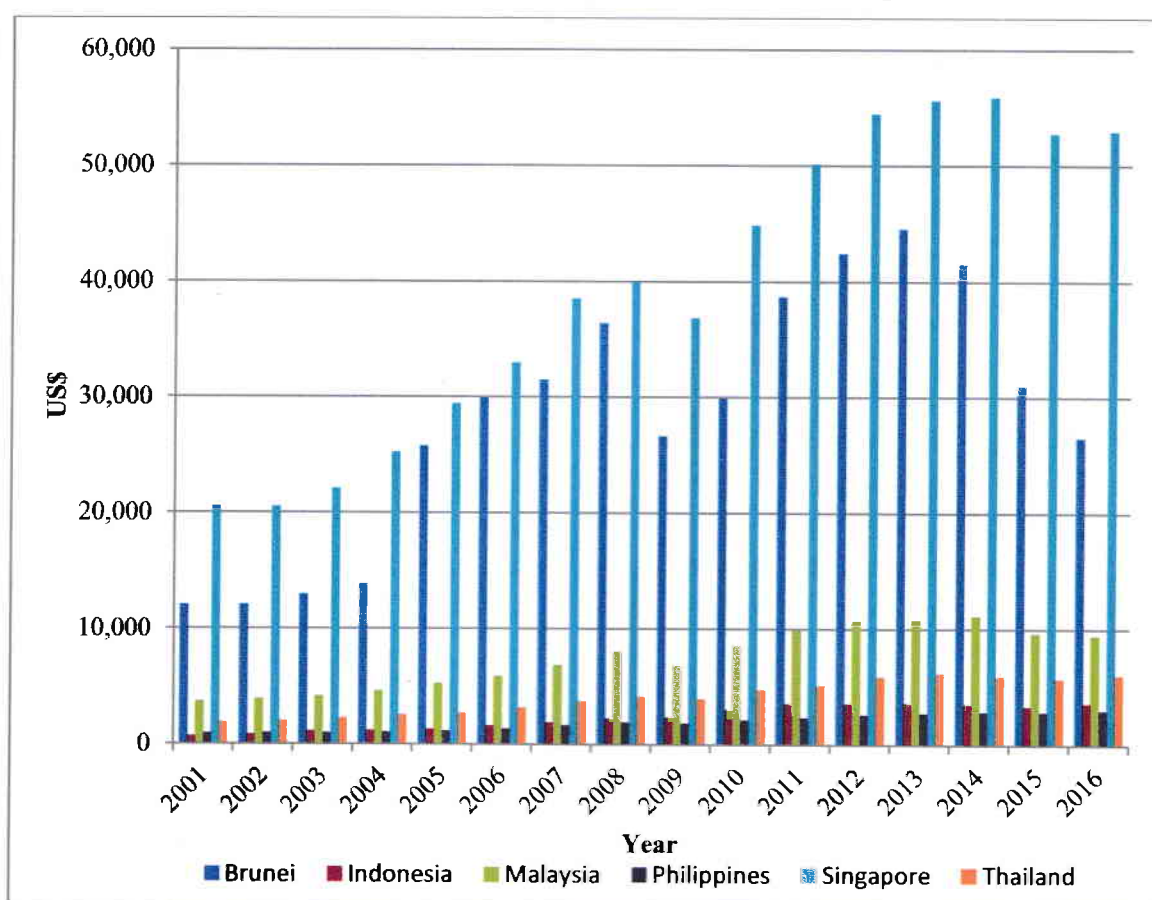
Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

Table 3.1 shows the ASEAN GDP and GDP per capita from 2001 to 2016. When ASEAN embarked on the ASEAN Vision 2020 in 1997, ASEAN GDP was US\$694 billion. If ASEAN were to grow at a Compound Annual Growth Rate (CAGR) of 5%, ASEAN economy should reach US\$1 trillion by 2005 and US\$2 trillion in 2020. ASEAN became US\$1 trillion economy in 2006, one year later than the predicted date. But ASEAN passed the US\$2 trillion benchmark in 2011, 9 years

¹⁰ Celebrating ASEAN: 50 years of evolution and progress

earlier than anticipated. By 2015, ASEAN reach US\$2 trillion point and will be closer to US\$4 trillion in 2020. ASEAN economy reaches a total GDP of US\$ 2.5 trillion in 2016. Economic growth raised the living standard in ASEAN with nominal GDP per capita averaging at US\$4,034 in 2016 for the ten current ASEAN Member States (AMS), while in 1967 the five founding AMS has an average nominal GDP per capita of just US\$122. After the period of the Asian financial crisis between 1996 and 2001, ASEAN GDP per capita grew strongly from 2002 to 2014 with just a small decrease in 2009, likely reflection the 2007-2008 global financial crisis. A slight decrease was also observed in 2015 to US\$3890 before increasing to US\$4034 in 2016.

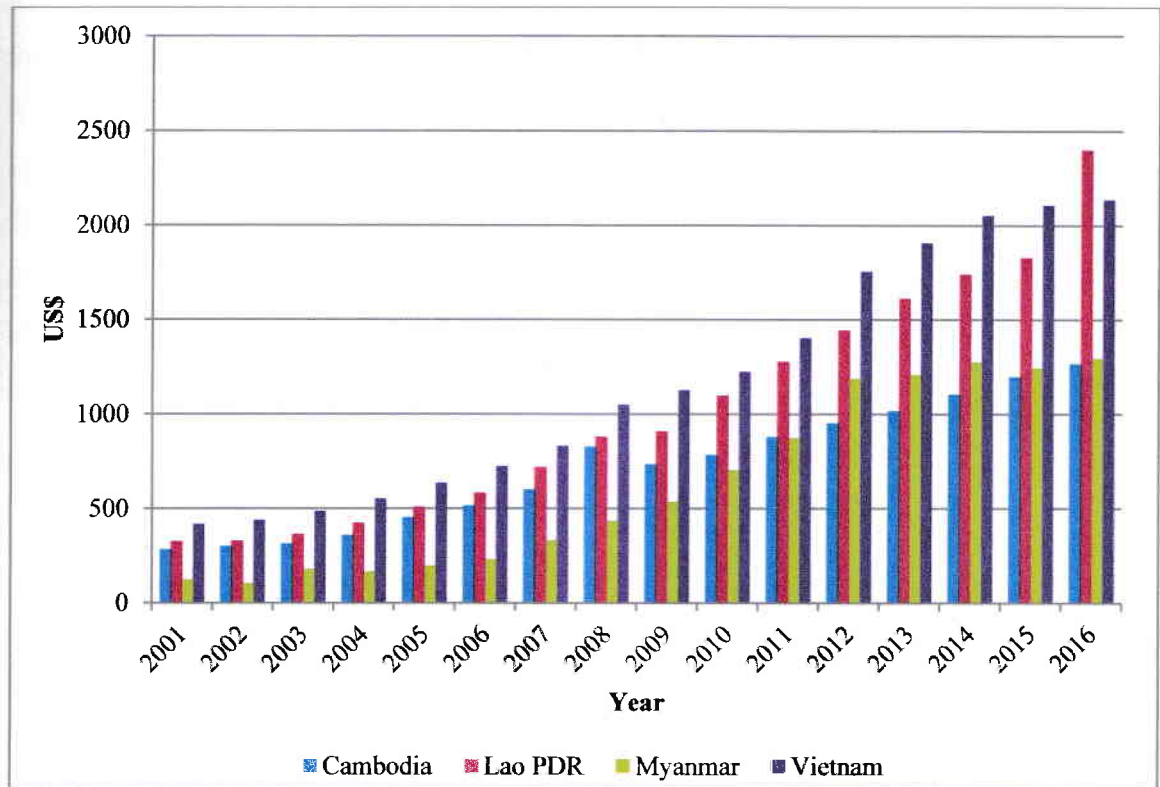
Figure 3.1 ASEAN6 GDP per capita at current price



Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

Figure 3.1 shows the ASEAN6 GDP per capita at current price. ASEAN6 is more developed than CLMV countries and per capita is much more than CLMV. In ASEAN6, Singapore per capita is around 50,000 US\$ and second to Brunei is around US\$40,000. ASEAN6 average GDP per capita is US\$35,000.

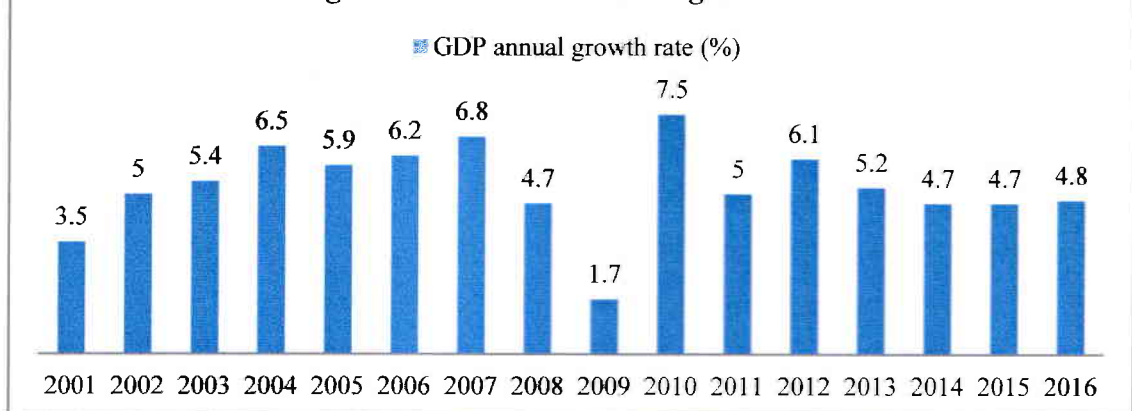
Figure 3.2 CLMV GDP per capita at current price



Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

Figure 3.2 shows the CLMV countries per capita GDP at current price. Average CLMV GDP per capita is US\$1,500. Among CLMV, Vietnam and Lao PDR per capita are more than other CLMV countries. But in 2016, Lao PDR is US\$ 2,402 and Vietnam is US\$2,138. Myanmar per capita is less than three CLMV countries.

Figure 3.3 ASEAN GDP growth rate



Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

Figure 3.3 shows year-on-year ASEAN GDP growth rate. Since 2001, ASEAN GDP growth rate has consistently been positive, except in 2009, GDP growth was dropped to 1.7% (its slowest annual rate since the 1997 financial crisis) resulting from Southeast Asian financial crisis to sharp contraction in ASEAN exports demand. But ASEAN has strong GDP growth. A study last year by Temasek and Google suggested that ASEAN economies (especially Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) will become the fastest-growing Internet region in the world, with over 480 million users by 2020. The combination of GDP of ASEAN, if it were a single country, takes place as 6th largest economy in the world, and 3rd largest in Asia in 2016.

3.3 ASEAN Economic Cooperation and Integration Agreements

Matters concerning trade promotions in ASEAN, trade liberalization and industrial complementation were emphasized. In 1977, the ASEAN Preferential Trading Agreement (ASEAN-PTA) was formed. This ASEAN-PTA was approved by the General Agreement on Tariffs and Trade (GATT). As ASEAN members shifted toward more outward-oriented economic development strategies in the 1980s, their exports went to markets outside the region and intra-regional trade remained small. In 1992, the six ASEAN leaders decided to take their trade liberalization efforts to a higher level, by enhancing PTA to ASEAN Free Trade Area (AFTA). AFTA is meant to provide a training ground for ASEAN business, give a way to attract foreign direct investment to the region, accelerate trade liberalization and improve upon the provisions in the old agreement on ASEAN-PTA. A few months later, ASEAN economic ministers laid down the groundwork for the free trade area concept by putting the Common Effective Preferential Tariff (CEPT), CEPT provides a means for harmonizing internal tariff rates¹¹. To deepen regional cooperation, ASEAN leader felt that it was necessary to go beyond AFTA if regional integration was to be strengthened so that the ASEAN vision 2020 was launched in December 1997. In 1998, ASEAN Investment Area (AIA) was established for further enhancing the region's competitiveness and conduciveness for attracting higher and sustainable level of FDI flows. ASEAN is trying so hard only to bring in economic cooperation among member regions but also maintaining external relations and cooperation with several

¹¹ Myanmar in ASEAN by Mya Than

countries and trading groups outside the region. External economic cooperations of ASEAN are the Asia Pacific Economic Cooperation (APEC), ASEAN-Closer Economic Cooperation (CER) of Australia and New Zealand, ASEAN plus 3 (Japan, China, Korea), ASEAN plus 6, ASEAN-European Union (EU) and ASEAN-North America Free Trade Agreement (NAFTA). To sum up, expanding AFTA to link up with other Regional Trade Agreements (RTAs) is beneficial for the region because there are enormous opportunities in trade and investment cooperation. In 2000, the ASEAN leaders agreed to launch an Initiative for ASEAN integration (IAI) which the direction to narrow the development gap, expedite greater regional economic integration and promote equitable economic development within ASEAN, especially for CLMV countries. IAI Work Plan I was endorsed in 2002 with the list of programmes and project proposals. Work Plan II was launched in 2007 and began in 2009 to 2015. IAI Work Plan was adopted in 2016 to undertake a more strategic and focus effort on the development and implementation of actions for CLMV. The ASEAN Economic Community (AEC) was launched at the 2003 ASEAN summit. The AEC was intended to unify and extend AFTA, and aimed at facilitating trade within a single ASEAN market.

3.3.1 ASEAN Free Trade Area (AFTA)

AFTA was established in 1992 in order to face strong integrated trading blocs, such as EU and NAFTA. AFTA is necessary to ASEAN for economic as well as political reasons. AFTA was introduced at the time when United State accelerated agreements for NAFTA while the EU held on to the “Maastricht Treaty”. These events urged ASEAN to take bolder steps in regional cooperation. In other words, the establishment of AFTA was more “reactive” or “defensive”, given the global uncertainties at the time¹². AFTA objectives are: First, AFTA was to liberate trade in ASEAN by progressively removing tariff and ultimately no-tariff barriers; Second, AFTA attracted foreign investors to ASEAN by presenting a larger FDI flows to ASEAN regions; Third AFTA would change ASEAN by rising the regional trading arrangements to international economic conditions. AFTA-Plus appeared to deepen regional integration, to reduction of intra-ASEAN tariff on traded goods and to increase regional integration by extending the agenda beyond just liberalization of

¹² Myanmar in ASEAN by Mya Than

barriers to trade in goods. However, AFTA's attempts to increase the integration process through AFTA-Plus has had limited success.

3.3.2 ASEAN Economic Community (AEC)

In January 2007, 10 South East Asian nations agreed to implement the ASEAN Economic Community (AEC). The AEC was formally established as part of the ASEAN Community on 31 December 2015. The implementation of AEC Blueprint 2015 has been achieved in committing to the free movement of trade, FDI and capital. The goal of free trade of goods is a key element with the AEC's first pillar. In 2009, ASEAN signed the ASEAN Trade in Goods Agreement (ATIGA). ASEAN recognizes that regional economic integration is a dynamic, ongoing process as economic as well as domestic and external environments are constantly evolving. In this context, ASEAN has developed the AEC Blueprint 2025, taking into account the recommendations of the two studies, namely by the Economic Research Institute for ASEAN and East Asia (ERIA) and the Institute of Southeast Asian Studies (ISEAS). The AEC Blueprint consists of five interrelated and mutually reinforcing characteristics; (i) A Highly Integrated and Cohesive Economy; (ii) A Competitive, Innovative, and Dynamic ASEAN; (iii) Enhanced Connectivity and Sectoral Cooperation; (iv) A Resilient Inclusive, People-Oriented, and People-Centred ASEAN; and (v) A Global ASEAN¹³. The main objectives of A Highly Integrated and Cohesive Economy are facilitating the seamless movement of goods, services, investment, capital and skilled labor within ASEAN in order to enhance ASEAN's trade and production networks as well as to establish a more unified market for its firms and consumer.

The key elements of a highly integrated and cohesive ASEAN economy include:

- i. Trade in Goods
- ii. Trade in Services
- iii. Financial integration, Financial Inclusion, and Financial Stability
- iv. Facilitating Movement of Skilled Labor and Business Visitors
- v. Enhancing Participation in Global Value Chains (GVC)

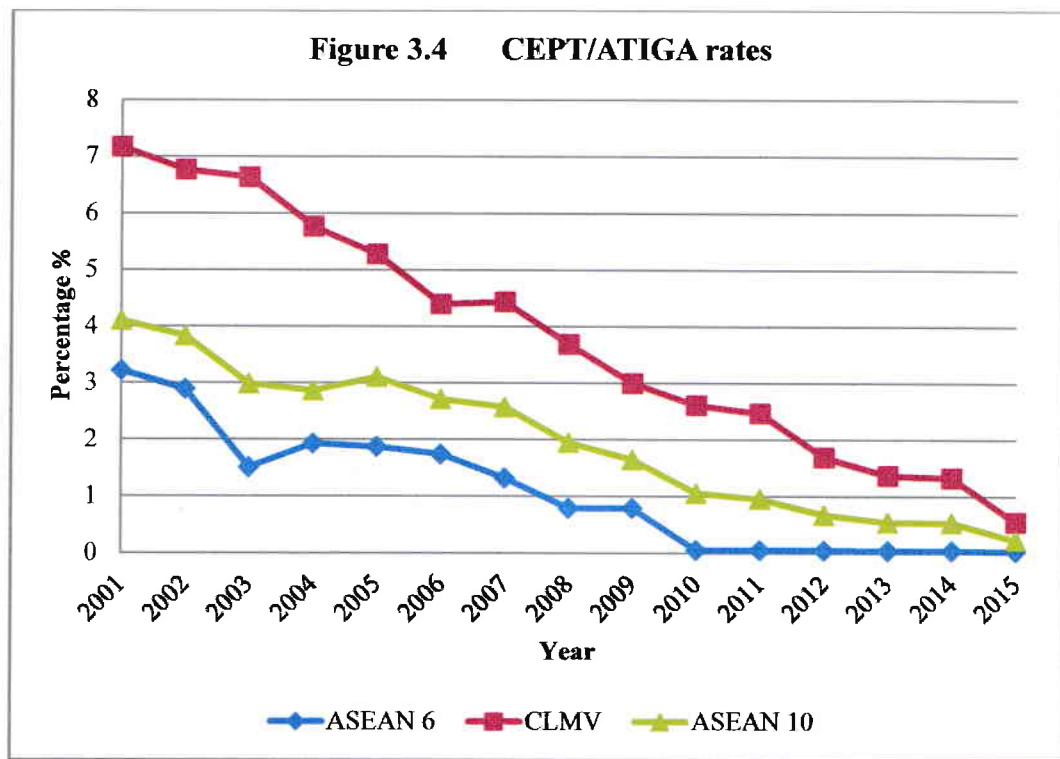
¹³ ASEAN Economic Community Blueprint 2025

This study is focusing on one of the highly integrated and cohesive economy, Trade in Goods. Trade in goods: The implementation of AEC Blueprint 2015 measures relating to tariff elimination in accordance with the ATIGA and trade facilitation have contributed to greater free flow of goods. In AEC Blueprint 2025, ASEAN will continue to reduce or eliminate barriers that impede trade, so as to achieve competitive, efficient, and seamless movement of goods within the region¹⁴.

The CEPT, signed in 1993, marked the established of the AFTA. The agreement encouraged gradual intra-ASEAN tariff liberalization from 1993. In 2003, the agreement on CEPT-AFTA for the Elimination of Import Duties was adopted to push integration forward. Tariff lines in the Inclusion List (IL) were to be eliminated by 1 January 2010 for the ASEAN6 and by 1 January 2015 for the CLMV, with flexibility for some sensitive products for elimination by 1 January 2018. The AEC Blueprint, adopted in 2007, reaffirm this definitive tariff elimination timeline for the realization of the free flow of trade.

Implementation of the CEPT-AFTA tariff elimination commitments in the AEC Blueprint was given stronger force by the signing and entry into ATIGA. With regard tariff commitments, the ATIGA provide the full tariff reduction schedule for each ASEAN Member States (AMS) and spell out the annual tariff rate until 2015 and also specify for the CLMV, the flexibility for sensitive products for elimination by 1 January 2018 shall not exceed 7% to tariff lines. Significant progress on tariff elimination has been made across AMS.

¹⁴ ASEAN Economic Community Blueprint 2025



Sources: : ASEAN CEPT/ATIGA tariff rate 1993-2015.

Figure 3.4 shows the CEPT/ATIGA rate from 2007 to 2015. In 2015, the average ATIGA rate stood at 0.03% for the ASEAN6 and 0.55% for the CLMV. This is substantially lower than the 2007 rates of 1.32% and 4.44%, respectively when the Blueprint was first adopted.

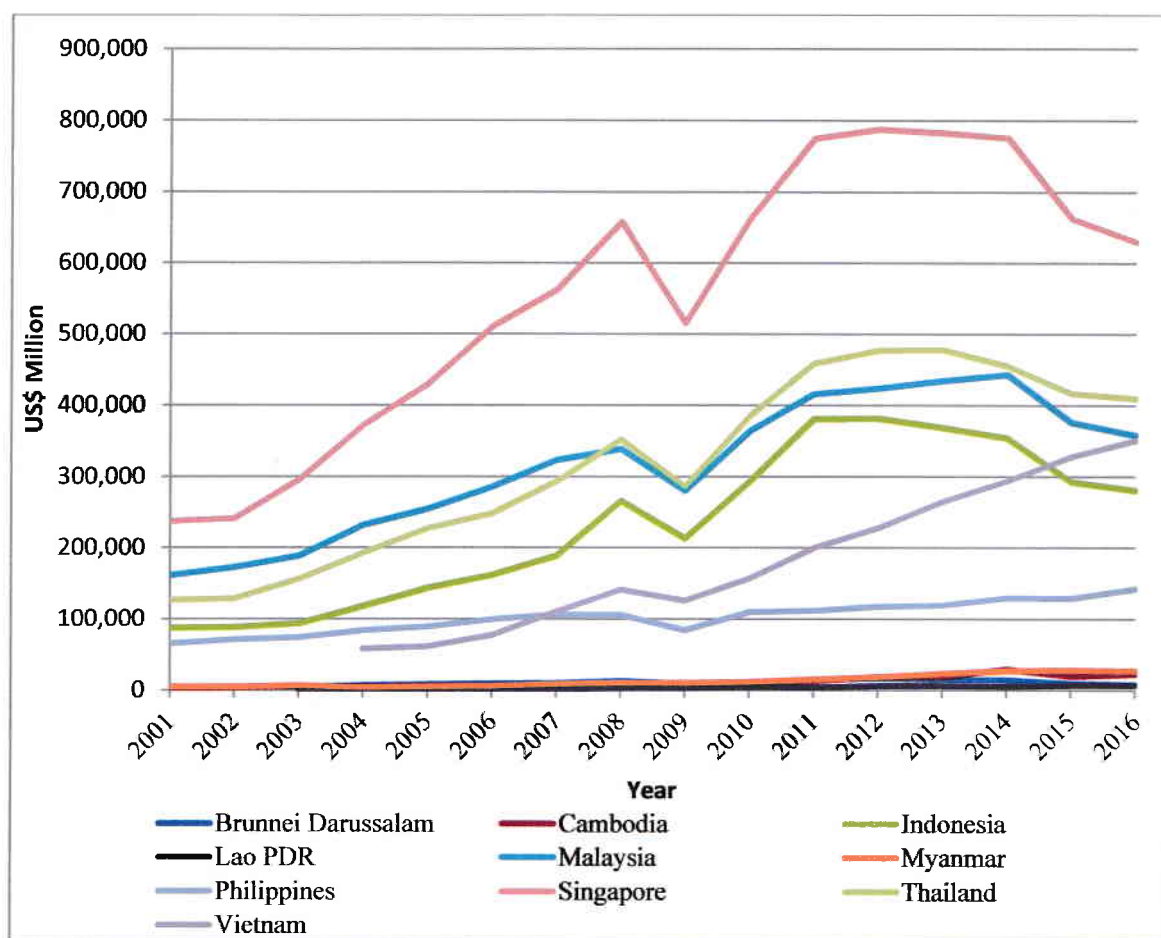
Table 3.2 ASEAN Total Exports and Imports

Country	ASEAN	ASEAN6	CLMV	ASEAN	ASEAN6	CLMV
Year	Total Export (US\$ Million)			Total Import (US\$ Million)		
2001	370,356	366,642	3,714	320,635	316,322	4,313
2002	383,854	379,486	4,368	329,963	326,180	3,783
2003	452,557	445,833	6,724	371,982	366,894	5,088
2004	569,442	538,826	30,616	502,513	466,243	36,271
2005	647,970	613,004	34,966	576,608	538,855	37,753
2006	750,907	706,442	44,466	654,325	608,463	45,863
2007	859,804	801,294	58,510	750,983	682,114	68,869
2008	977,552	903,967	73,585	919,605	830,011	89,594
2009	810,472	741,217	69,255	726,405	647,698	78,707
2010	1,051,614	963,806	87,808	957,502	861,529	95,973
2011	1,242,199	1,130,257	111,942	1,146,245	1,026,880	119,365
2012	1,254,581	1,120,665	133,916	1,221,847	1,084,644	137,203
2013	1,271,128	1,115,287	155,841	1,240,388	1,083,801	156,587
2014	1,292,400	1,119,956	172,443	1,236,216	1,052,582	183,634
2015	1,171,906	986,744	185,162	1,101,128	902,979	198,149
2016	1,150,478	949,197	201,282	1,085,864	879,227	206,637

Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

Table 3.2 shows the total exports and imports of ASEAN. From 2001 to 2016, ASEAN exports slightly increase as average US\$ 200,000 million. Extract CLMV from ASEAN, CLMV countries' export is imperceptibly increased from 2011 to 2016 but import is significantly high and high. ASEAN6 import was drop to US\$ 879,227 million in 2016 from US\$ 902,979 million in 2015.

Figure 3.5 ASEAN's Total Trade



Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

ASEAN trade expanded considerably with exports and imports valuing over US\$ 1 trillion each in 2016, and represents almost 7% of total world trade in world and 4th largest trade powerhouse after the major world economies of the European Union, the USA and China¹⁵. Figure 3.5 shows the ASEAN and ASEAN members' total trade in world from 2001 to 2016. From 2001 to 2016, exports and imports of goods grew significantly. Reflecting the period of Asian financial crisis at the end of the 1990s, this period of fluctuation was followed by a high and rapid increase until 2014, with significant dip observed in 2009. ASEAN total trade reaches US\$ 2,236.3 billion in 2016. (Appendix I)

¹⁵ Celebrating ASEAN: 50 years of evolution and progress

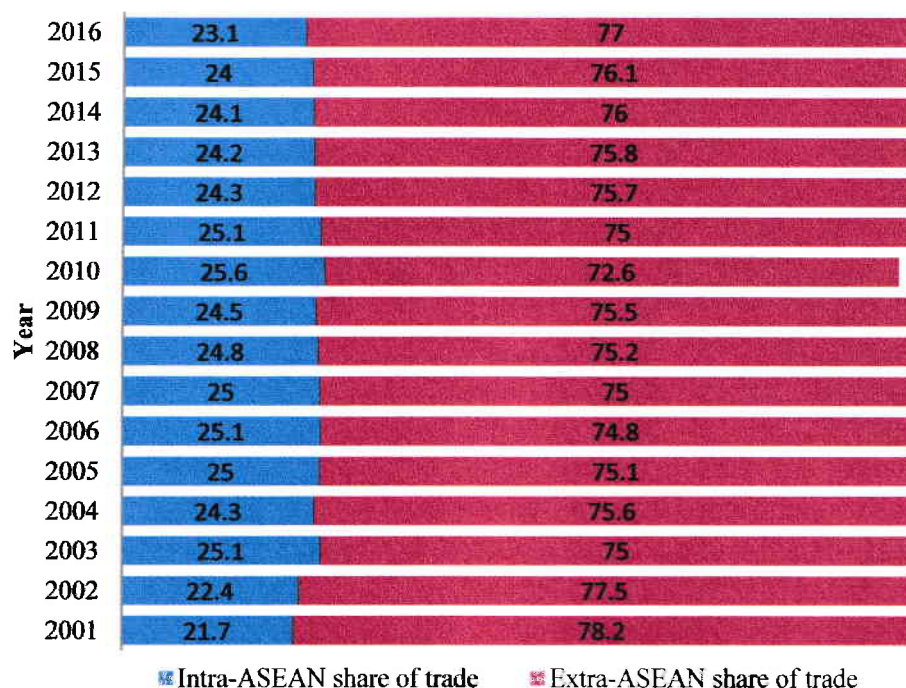
Table 3.3 Trade Openness (Total Trade, % of Nominal GDP)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Brunei	79.2	88.4	88.8	88.7	88.8	99.3	83.2	82.9	74.3	67.3
Cambodia	87.8	79.2	85.8	93.3	100.3	133.1	120.3	176.8	106.6	117
Indonesia	43.8	51.9	39.1	41.3	45	45.6	42.9	36	34.2	30.2
Lao PDR	25.9	49.7	52.9	66.8	49.1	65.5	54.6	45.8	53.5	45.5
Malaysia	166.6	146.4	138.9	149.3	143.5	138.8	139.1	135.8	127.4	11.4
Myanmar	47.9	42.7	37.8	28.8	26.4	30.7	37.9	41.4	43	39.6
Philippines	69.7	60.9	49.7	54.8	49.9	46.8	44.3	45.5	44.5	45.6
Singapore	312.5	342.3	268	280.8	281.5	271.8	259.1	252.1	227.1	212.1
Thailand	118.8	129.2	108.4	120.6	132.7	130.4	123.4	122.1	105.4	100.7
Vietnam	142.2	142.6	118.8	135	147.2	146.2	154.6	157.8	169.5	177.1
ASEAN	121.6	123.4	100.2	105.9	108	105.7	104.2	98.3	93.3	87.4
ASEAN6	121.9	124.1	100.3	106	108	104.8	102.3	94.8	88.2	81
CLMV	117.5	116.6	99.4	104.8	108.6	113.2	120.6	126.9	132	135

Sources: : ASEAN statistical GDP data(2015), trade data (2013), ACIF (2016), ASEAN Statistical Leaflet 2017.

One of the important success stories of the AEC is how ASEAN Member States (AMS) have benefited from deeper trade links within the region as well as within global economy. Trade to GDP ratios measure the relative importance of international trade in the economy of a country or a region. It is also a measure of the openness of a region to international trade. The region's openness to trade has been maintained, despite heightened external volatilities over recent years, with total merchandise trade as a share of normal output reaching 93.3% in 2015 to 87.4% in 2016 in step with the observed trend of global trade moderation. Table 3.3 shows the trade openness ratios to Nominal GDP of AMS.

Figure 3.6 ASEAN's Total Trade Share

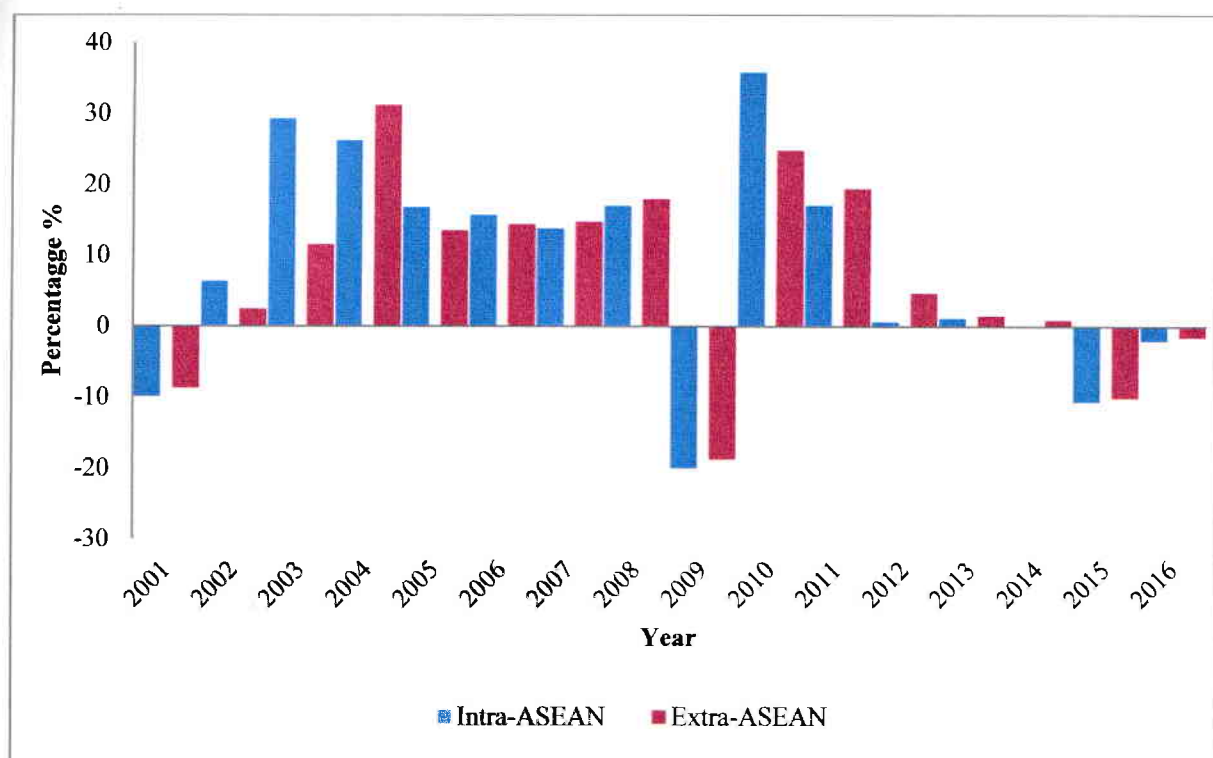


Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

In term of trade share, total intra-ASEAN trade has not fluctuated significantly over the period, with slight incline from 21.7% in 2001 to 23.1% in 2016 (see Figure 3.4). While the share of intra-regional trade is often used as an indicator of integration ‘success’, it may be argued that ASEAN’s pursuit of regional integration has placed consistently in the broader context of integration into global economy. An increase in the share of intra-share of trade may not be an accurate indicator of success if this takes place due to trade diversion. Intra-and extra-regional trade should be seen as mutually reinforcing, particularly in the era of global value chains (GVCs).¹⁶

¹⁶ ASEAN Integration Report 2015

Figure 3.7 ASEAN's Total Trade Growth



Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

In figure 3.7, year-on-year growth of ASEAN trade fluctuated considerably from 2001 to 2016. Despite the fluctuations, both intra- and extra- regional trade has been consistently increasing. By 2016, intra-regional trade was declined to 2.02% but declining rate was lower than that in 2001. Similarly, extra-regional trade was declined to 1.49% in 2016 but lower than that of 2001 (-8.7%). (Appendix II)

Table 3.4 ASEAN Trade Indicators

Year	Share in Total Trade (%)		Balance of Trade (USD\$ Million)	
	ASEAN6	CLMV	ASEAN6	CLMV
2001	98.8	NA	50,321	NA
2002	98.9	NA	53,306	NA
2003	98.6	NA	78,939	NA
2004	93.8	6.2	72,583	-5,654
2005	94.1	5.9	74,149	-2,787
2006	93.6	6.4	97,979	-1,397
2007	92.1	7.9	119,180	-10,359
2008	91.4	8.6	73,956	-16,010
2009	90.4	9.6	93,519	-9,451
2010	90.9	9.1	106,247	-9,604
2011	90.3	9.7	97,954	-11,902
2012	89.1	10.9	37,156	-2,504
2013	87.6	12.4	26,130	-2,366
2014	85.9	14.1	60,347	-7,580
2015	83.2	16.8	83,766	-12,988
2016	78.6	21.4	69,969	-5,355

Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

Table 3.4 states ASEAN Trade Indicators for ASEAN6 and CLMV. Among AMS, the CLMV has played an increasing role in trade generally. In 2016, the trade share of CLMV accounted for 21.4% up from 6.2% in 2004 as shown in table 3.2. ASEAN6's trade in Share has declined significantly from 98.8 in 2001 to 78.6% in 2014. From 2001 to 2016, the difference between CLMV and ASEAN6 trade shares are more pronounced, with average growth 2% for CLMV compared to average low 5% for ASEAN6. The difference is even more evident for the proposition that an integrated ASEAN market can provide the newer AMS with a stepping stone toward greater integration into global economy. The trade balance was negative during ASEAN first decade however starting from 2001 to 2016 trade balance has consistently recorded surplus. Trade balances in years 2006, 2005 and 2015 show that

there is some depression in economy among CLMV countries since imports is higher than export. But CLMV countries' trade balance becomes slightly less falling.

3.3.3 Initiative for ASEAN Integration (IAI)

At the fourth ASEAN Informal Summit held on November 2000, the ASEAN leader agreed to launch the IAI. In 2002, ASEAN Foreign Ministers endorsed the IAI Work Plan and agreed to devote special efforts and resources to promote effective cooperation and mutual assistance to narrow the development gap among ASEAN Member Countries for the sake of dynamic and sustained growth of the region and prosperity of the people. The IAI Work Plan for Narrowing the Development Gap (NDG) within ASEAN: Assisting New Member Countries is prepared with the aim to reduce the development gaps among ASEAN Member Countries and expedite greater regional economic integration, promote equitable economic development and help alleviate poverty in Cambodia, Laos, Myanmar and Vietnam (CLMV). The IAI Work Plan for CLMV focuses in the priority areas of Infrastructure Development (Transport and Energy), Human Resource Development (Public Sector Capacity Building, Labor and Employment, and Higher Education), Information and Communications Technology, and Promoting Regional Economic integration (Trade in Goods and Services, Customs, Standards and Investment) in the CLMV countries¹⁷. The first Work Plan was implemented on a six-year basis (2002-2008) with 48 projects. But the number of projects was increased to 100 in 2005.

¹⁷ Initiative for ASEAN Integration (IAI) Work Plan for the CLMV Countries (Reported at 15 May 2005)

Table 3.5 Progress of the Implementation of IAI Work Plan (2005)

Area	Components	Status of Project						Total
		Completed	Under Implementation	Funding Secured Planning Underway	Partially Funded- Planning and Implementation Underway	Matching Process Underway	Not Matched Yet	
Infrastructure	A. Transport	5	3			1	1	10
	B. Energy	5	2					7
Human Resources Development	A. Public Sector Capacity Building	14	4	7		3	1	29
	B. Labor and Employment	3	4	2	1		2	12
	C. Higher Education			1				1
Information and Communication Technology		10	1	1	3		2	17
Regional Economic Integration	A. Trade in Goods and Services	3	3					6
	B. Customs	1		2		1	4	8
	C. Standards	3	4	2				9
	D. Investments						1	1
Total		44	21	15	4	5	11	100

Source: : Initiative for ASEAN Integration (IAI) Work Plan for the CLMV Countries, 2005

Table 3.5 shows the progress of the implementation of IAI Work Plan (2005). To realize ASEAN Vision 2020, the ASEAN Leader became to understand that IAI Work Plan for NDG to CLMV countries is very important strategy. NDG efforts shall assist the CLMV countries to meet ASEAN-wide targets and commitments towards realizing the ASEAN Community. The first IAI Work Plan (2002-2008) accomplished implementation of over 200 projects attracting a total investment from ASEAN-6 about US\$ 191 million. The IAI Work Plan is aligned with the three Community Blueprints namely the ASEAN Economic Blueprint, ASEAN Socio-Culture Blueprint and the ASEAN Political Security Blueprint. There the IAI Work Plan II for the period 2009-2015 has been formulated on the key program areas in each Blueprint. Criteria for projects in the IAI Work Plan II include the importance of

a project's role in national development plans, its effectiveness in building CLMV capacity for participation in ASEAN programs, long terms continuity and sustainability, and absorptive capacity of CLMV countries¹⁸.

The ASEAN Summit provided overall guidance and recommendations on IAI Work Plan II for the NDP. To be able to participate in AEC, IAI Work Plan II helped on managing the revenue losses and adjustment costs arising from CLMV participating in AFTA, on conducting programs to familiarize the private sector in the CLMV countries with ATIGA and providing strengthen the export competitiveness of the CLMV countries by ASEAN-6. The IAI Work Plan II included 182 project aligned with three Blueprint however while projects worth over US\$ 40 million have been undertaken, the implementation rate for projects is 45% less than IAI Work Plan I(2002-2008).

IAI Work Plan III has been developed and is aligned with the ASEAN Community Vision 2025. In IAI Work Plan III, in order to achieve this vision, the five strategic areas which have been identified are:

- i. Food and Agriculture. The CLMV countries are rural and dependent on agriculture. ASEAN is trying to increase trade in agriculture through harmonization of standard and to improve food security in the region.
- ii. Trade Facilitation. Simplification and harmonization of trade procedures can significantly reduce trade costs in CLMV countries. AEC strongly focused on improving trade facilitation through various mechanisms and CLMV countries need assistance to fully participate.
- iii. Micro, Small and Medium Enterprises (MSMEs). MSMEs play a critical role in the economies of CLMV countries. Promoting of MSMEs is a strong ASEAN priority with a range of regional initiatives in progress so that CLMV countries will need additional support for MSMEs.
- iv. Education. One of the major challenges for CLMV is developing human capital with skill gaps widening as economies evolve. There are remaining large numbers of out-of-school children and quality is

¹⁸ IAI Work Plan II strategic framework (2009-2015)

largely unaddressed. ASEAN is promoting education with the Technical and Vocational Education and Training (TVET).

- v. **Health and Well-Being.** ASEAN is increasingly pursuing regional standards in areas such as maternal child health and food safety. Health has also important regional dimension. CLMV countries will need special support to implement these standards.

Table 3.6 Four dimensions for the implementation of IAI Work Plan III

Clear governance and ownership	• Accountability for outcomes is assigned to individuals in the implementing bodies in each country, and supported by a designated group, such as the endorsing sectoral body, that is empowered to drive delivery
Presence of core skills and finance	• Adequate capabilities and finance to support plans, and strong coordination across activities
Proactive stakeholder engagement	• Frequent communication to public on progress and to develop potential solutions, supported by proactive engagement of stakeholders who will be critical for success
Robust performance management	• Intensive, regular, data-based performance dialogues, supported by strong problem solving to address potential risks early

Sources: :IAI Work Plan III, exhibit 11.

The approach for IAI Work Plan III is based around four dimensions found to be important drivers of success in government delivery. Table 3.6 shows the four dimensions.

Table 3.7 Trade Facilitation

Lower the incidence of trade distorting non-tariff measures	• Build the institutional capacity to identify and classify non-tariff measures into National Trade Repositories, and Then reduce their incidence
Reduce the time and cost of customs and border procedures for export and import	• Complete the development of National Single Windows • Strengthen the capability to conduct trade facilitation training programmes more systematically and regularly - including for customs
Harmonise or mutually recognise product, conformance, and technical standards	• Improve implementation of standards and conformance harmonisation measures by embedding Good Regulatory Practices (GRP) and developing conformance assessment capabilities
Improve market access through stronger participation in the WTO	• Strengthen capacity to meet the objectives set out in the World Trade Organization (WTO) Trade Facilitation Agreement • Build capacity in understanding the legal General Principles underlying the World Trade Organization (WTO) system through technical assistance programmes in training and consultancy, for better understanding of the various processes, e.g. Panel Process, Dispute Settlement Mechanism and WTO Appellate Body Process

Sources: :IAI Work Plan III, exhibit 6

Trade Facilitation, one of the IAI Work Plan III, is only focused. Trade facilities measures, which simplify and harmonise trade procedures with international standards, have the potential to significantly reduce trade costs, integrate CLMV countries into AEC and increase their participation in global value chains. Businesses in ASEAN have highlighted trade facilities issues as priorities to be addressed in order to enhance regional integration, with non-tariff barriers ranked the most important challenge requiring attention.

At present, either export or import in CLMV countries is almost double the ASEAN-6. The Organization for Economic Co-operation and Development (OECD) has estimated that amongst AMS, CLMV countries have the most to gain through improved trade facilities. ASEAN agreed, in AEC Blueprint 2025 and ATIGA, to work toward ASEAN Trade Repository (ATR), built on National Trade Repositories (NTRs). Table 3.7 shows the trade facilities for IAI Work Plan III.

Table 3.8 IAI Work Plan III Implementation Schedule

	2016	2017	2018	2019	2020
Trade Facilitation					
I. Build the institutional capacity to identify and classify non-tariff measures into National Trade Repositories, and then reduce their incidence					
II. Complete the development of National Single Windows					
III. Strengthen the capability to conduct trade facilitation training programmes more systematically and regularly – including for customs					
IV. Improve implementation of standards and conformance harmonisation measures by embedding Good Regulatory Practices (GRP) and developing conformance assessment capabilities					
V. Strengthen capacity to meet the objectives set out in the World Trade Organization (WTO) Trade Facilitation Agreement					
VI. Build capacity in understanding the legal General Principles underlying the World Trade Organization (WTO) system through technical assistance programmes in training and consultancy, for better understanding of the various processes, e.g. Panel Process, Dispute Settlement Mechanism and WTO Appellate Body Process					

Sources: :IAI Work Plan III, exhibit 16

The indicative timeframe for the implementation of Trade Facilitation is shown in table 3.8. IAI Work Plan III will be implemented over a five-year period from 2016 to 2020 with a staggered start to actions to ensure the availability of appropriate resources. Each action includes a schedule. A project developed as an IAI

project shall meet all of the following criteria; Align with the ASEAN Community Blueprints, including relevant ASEAN sectoral work plans where possible, and receive support from the relevant sectoral body; Support the implementation of the existing IAI Work Plan; and Benefit all four or at least two CLMV countries as beneficiaries. With the aim of narrowing the development gaps among the ASEAN Member States and contributing to ASEAN integration, the IAI Work Plan is the main instrument to promote and pursue equitable economic development and strengthen cooperation in ASEAN.

OPPORTUNITIES AND CHALLENGES FOR MYANMAR PARTICIPATION IN ASEAN ECONOMIC COOPERATION

4.1 Myanmar in ASEAN

Myanmar was accepted as full-fledged member of the Association of Southeast Asian Nations in July 1997, along with Lao PDR. It was not smooth process for Myanmar joining into ASEAN. Some ASEAN members were against Myanmar joining into the regional association. There are many reasons for Myanmar joining in ASEAN. First, towards at the end of the millennium, internal and external conditions had changed in the country. Domestically, Myanmar had expended large resources on internal security measures for decades, and now the government had signed peace treaties with most of the rebels, who have laid down their arms. This now allows the Myanmar Government to devote more attention to external matters, including ASEAN. Second, in the age of globalization and regionalism, the country realizes that it cannot continue to isolate itself. It needs to identify with a sympathetic group, which will treat it as one of them, and a group that will not exploit Myanmar's weak situation¹⁹. Third, politically, there was some Western bloc led by the United States and EU, Myanmar needed international recognition so that Myanmar decided to join ASEAN. Fourth, Myanmar needed development assistance and economic cooperation with groups of countries since Myanmar was facing economic sanctions imposed by the Western countries.

Finally, Myanmar expected benefits from joining ASEAN: Opportunities emerges to open door wider politically and economically with the help of ASEAN members; The greater cooperation with ASEAN members in various sector, Myanmar does not need to place more emphasis on investment from the other part of the world than that from its own region; Politically, Myanmar's joining ASEAN will contribute to peace and stability in the region and strengthen of external security by building better confident among ASEAN members; Economically, by increasing more trade and investment links within the region, Myanmar would achieve greater development and increased efficiency among other benefits; Culturally, Myanmar could contribute

¹⁹ Myanmar in ASEAN by Mya Than, pg 84

to ASEAN through promoting its own rich traditions and this would result in better understanding and tolerance of other culture in the region through socio-cultural and information exchanges²⁰.

On the other hand, ASEAN was happy to accept Myanmar as Myanmar along with Lao, Cambodia and Vietnam. With the new four members, ASEAN would now represent the whole of Southeast Asia. ASEAN had some reasons for accepting four new countries. Since there was some influence of China, as some of member region share a border line with China and were under China political and economic influence to some extent. Politically, by bringing all the 10 Southeast Asia countries under one roof, ASEAN would now represent the whole Southeast Asia and would improve its political and bargaining power in international fora. Economically, ASEAN interests behind the inclusion of new members are obvious: a market of nearly 600 million people with an abundance of natural resources and cheap labor. The resulting increasing investment inflow from ASEAN to the new member countries and growing trade between the members are evident.

According to ASEAN Secretarial, Myanmar was ready to join ASEAN. But Myanmar is still at the learning stage in institution building for ASEAN cooperation and there is a need to strengthen and refine the existing institutions to be effective in cooperation with ASEAN. So the government had formed the Steering Committee on ASEAN Affairs in 1996 before becoming ASEAN member. The committee is to oversee and review Myanmar's joining ASEAN and to provide policy guidance on Myanmar's activities in the association. So that Myanmar would be able to meet obligations for ASEAN membership. Myanmar could meet political and economic obligations for membership. Myanmar was a far better position than the other new members such as Cambodia and Laos. All the Myanmar's economic laws have English versions and are easily accessible and have a large pool of government officials who can communicate in English. Since Myanmar was founding member of WTO and has been granting most-favoured nation (MFN) states to other countries, Myanmar would have no problem to become a member of AFTA. As one of the AFTA members, Myanmar has to bring down its tariffs to 0% to 5% by the year 2008.

²⁰ Myanmar in ASEAN by Mya Than, pg 85

Unlike the other new member, Myanmar has less problems since Myanmar's tariff rates reduction process started in 2000 and its tariff was already around 5%.

In short, Myanmar was more ready to join ASEAN than other new member like Cambodia and Lao PDR. To achieve the goal of creating a free trade area, based on 0% to 5% tariff range on trading with liberalization of some goods, the new members are given a grace period of 10 years, and for Myanmar the time frame appears to be more than adequate²¹. Table 4.1 shows the tariff rate of CLMV countries after becoming ASEAN members (1998-2008).

Table 4.1 Average Tariff Rates of CLMV (1998-2008)

Average Tariff Rates				
Year	Cambodia	Lao PDR	Myanmar	Vietnam
1998	5	2.39	3.95	2.98
1999	7.54	4.45	7.11	6.31
2000	10.39	7.07	4.43	7.25
2001	10.39	7.08	4.57	6.75
2002	8.89	6.72	4.72	6.92
2003	7.93	6.85	4.74	6.98
2004	7.46	5.96	4.22	5.92
2005	8.79	4.45	4.55	4.53
2006	8.82	3.05	4.2	2.49
2007	8.23	1.8	3.47	4.16
2008	7.13	1.28	2.83	2.77

Source: : average CEPT-ATIGA tariff rates 1993-2015

Also, Myanmar participates over 300 ASEAN-related meeting in the region and attends ASEAN Summit Meeting (ASM) in every year and signs the integration agreements such as AFTA and AGITA. Myanmar has participated in all the various ASEAN Activities: political and security cooperation, economic cooperation and functional cooperation.

²¹ Myanmar in ASEAN by Mya Than, pg 87

In conclusion, Myanmar has been participating in ASEAN activities fully since its first day of entry into the regional association.

4.2 Methodology

Trade is a vital role for a country's development. No country has growth without trade. However, the contribution of trade to development depends a great deal on the context in which it works and the objectives it serves. The data are secondary data and from 2001 to 2017 at available.

To measure annual changes rate, the equation is that;

$$\text{Rate \%} = \left(\frac{\text{Year}_1}{\text{Year}_2} - 1 \right) \times 100$$

Where, Year₂ is last year of Year₁. This equation is used to find every annual change rate in this study.

The trade to GDP ratio is an indicator of the relative importance of international trade in the economy of a country. It is calculate by dividing the aggregate value of imports and exports over a period by the GDP for the same period.

$$\text{Trade Openness} = (\text{Exports} + \text{Imports}) / (\text{GDP})$$

The interpretation of the Openness Index is: the higher the index the larger the influence of trade on domestic activities, and the stronger that country's economy.

Trade plays essential key to a country's development. Trade to GDP is used as a measure of the openness of a country to international trade. Increased trade openness can result in magnified gains owing to large knowledge spillovers, greater level of competition, product variety and technology transfer. Higher exports increase real output while higher imports mitigate production cost. As a result, it is commonly accepted that a high degree of trade openness is a growth enhancing policy tool.

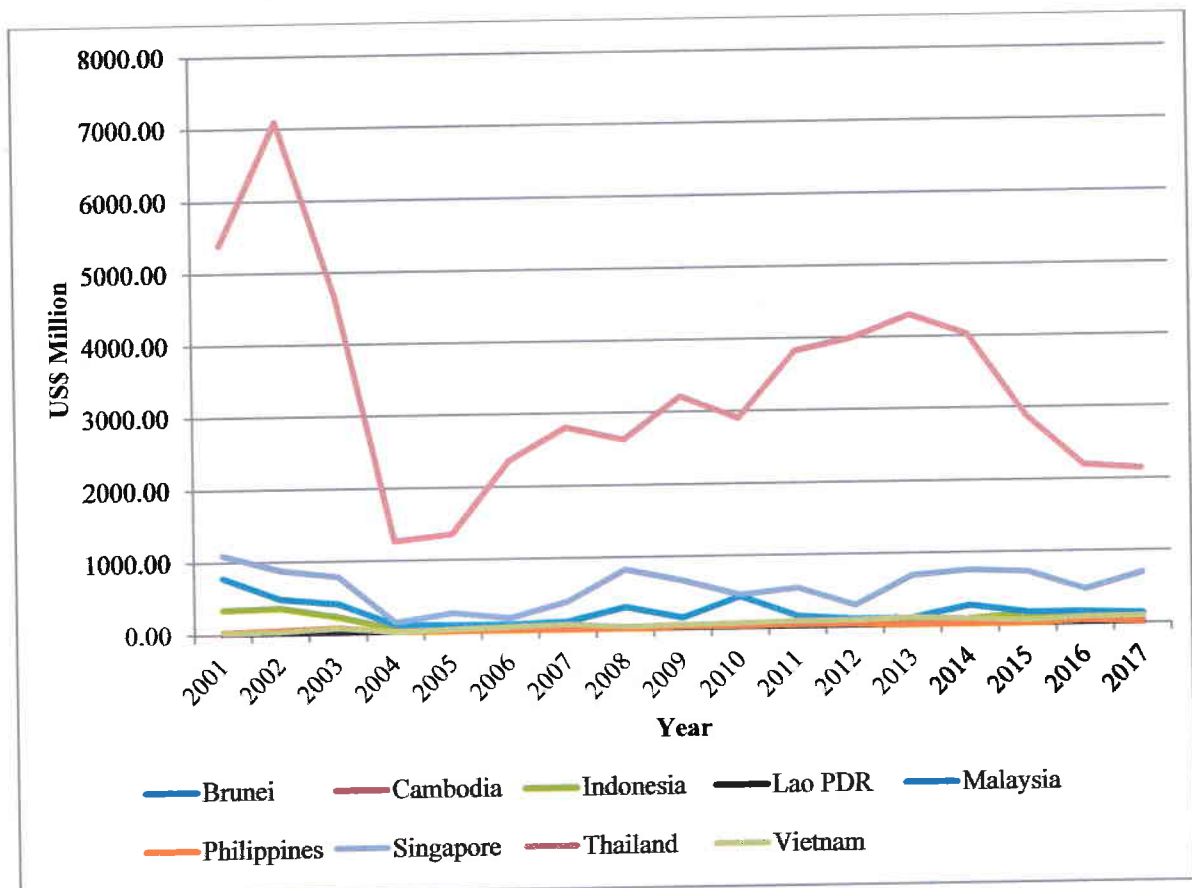
4.3 Myanmar and ASEAN Economic Cooperation

Even before Myanmar's joining ASEAN, trade relations between Myanmar and neighbouring Southeast Asia countries have existed since 16th century. After joining ASEAN, Myanmar has participating in ASEAN economic cooperation in

terms of trade, investment and tourism. As a member, Myanmar is also participating in AEC, i.e. to establish a single market and production base in ASEAN region, with free flow of trade, investment and capital and signed in component agreements on good (ATIGA), service(AFAS), and investment (ACIA). To meet ASEAN targets and reduce development gap, IAI was adopted for CLMV. Myanmar, together with the ASEAN members, is negotiating with ASEAN Free Trade Area (FTA) partners (Australia, China, India, Japan, Republic of Korea and New Zealand) a Framework for Regional Comprehensive Economic Partnership (RCEP). Myanmar has becoming more wide openness trading with many countries now today.

4.3.1 Myanmar-ASEAN Exports

Figure 4.1 Myanmar's Exports with ASEAN



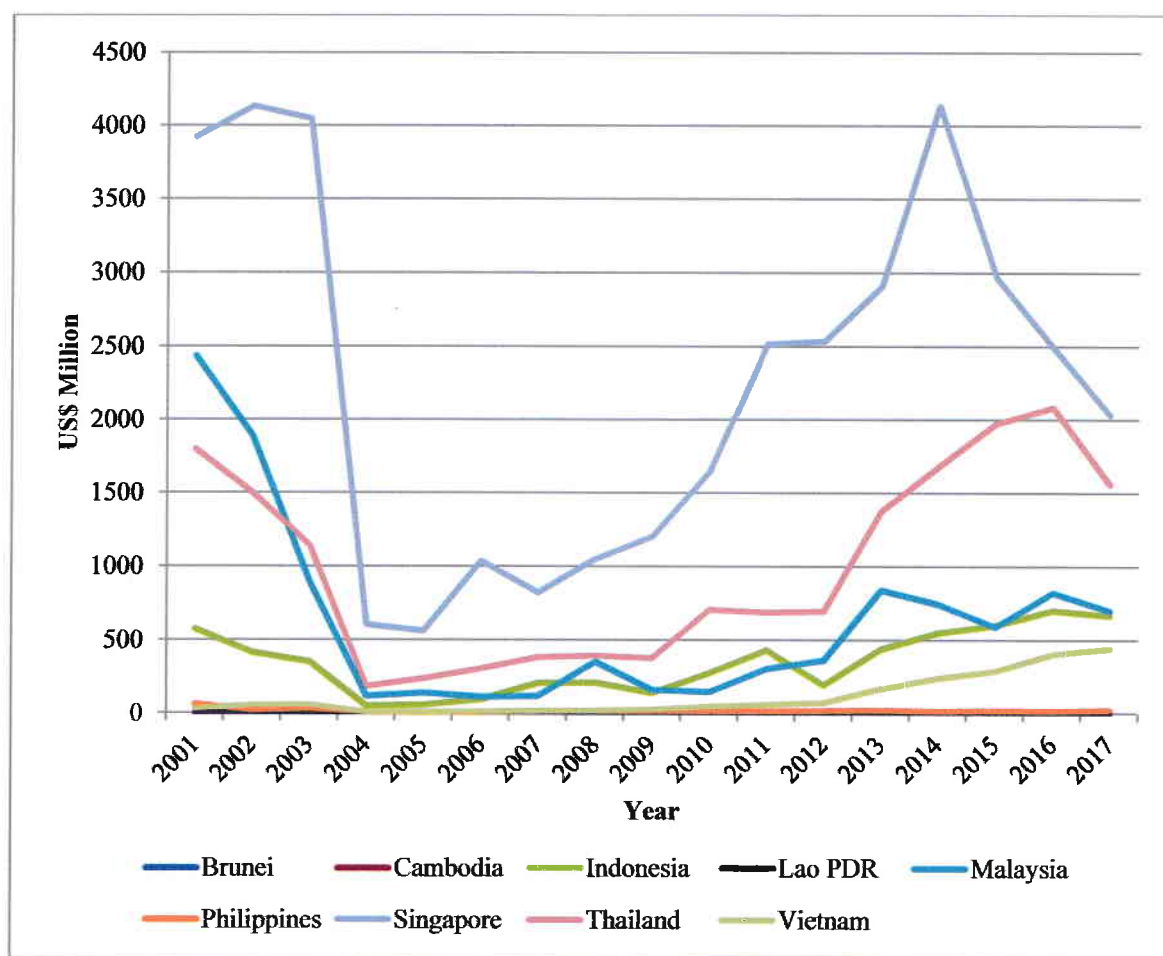
Source: : CSO, Ministry of National Planning and Economic Development, Myanmar.

Starting from becoming the member of ASEAN in 1997, Myanmar exports to ASEAN increases slightly. Figure 4.1 shows the exports of Myanmar with ASEAN. Myanmar's exports to ASEAN was 7694.42US\$ million in 2001. This suggests that,

after becoming ASEAN member in 1997, Myanmar-ASEAN trade relations improved significantly since Myanmar switched from its “socialist” economic system to a market-oriented. But starting from 2015, Myanmar’s exports to ASEAN declined obviously to 3091.567US\$ million in 2016 because of the new government and policy changing, some countries such as China put trade barriers on some export commodities, exchange rate slightly increased, and flooding in most of Myanmar agricultural areas in last year. But in 2017, exports to ASEAN increase 3179.64US\$ million. One of Myanmar’s main exporters is Thailand. But Myanmar’s exports to Thailand is also drop to 2145.94.09US\$ million in 2017 from 5391.81US\$ million in 2001. (Appendix III)

4.3.2 Myanmar-ASEAN Imports

Figure 4.2 Myanmar’s Imports with ASEAN

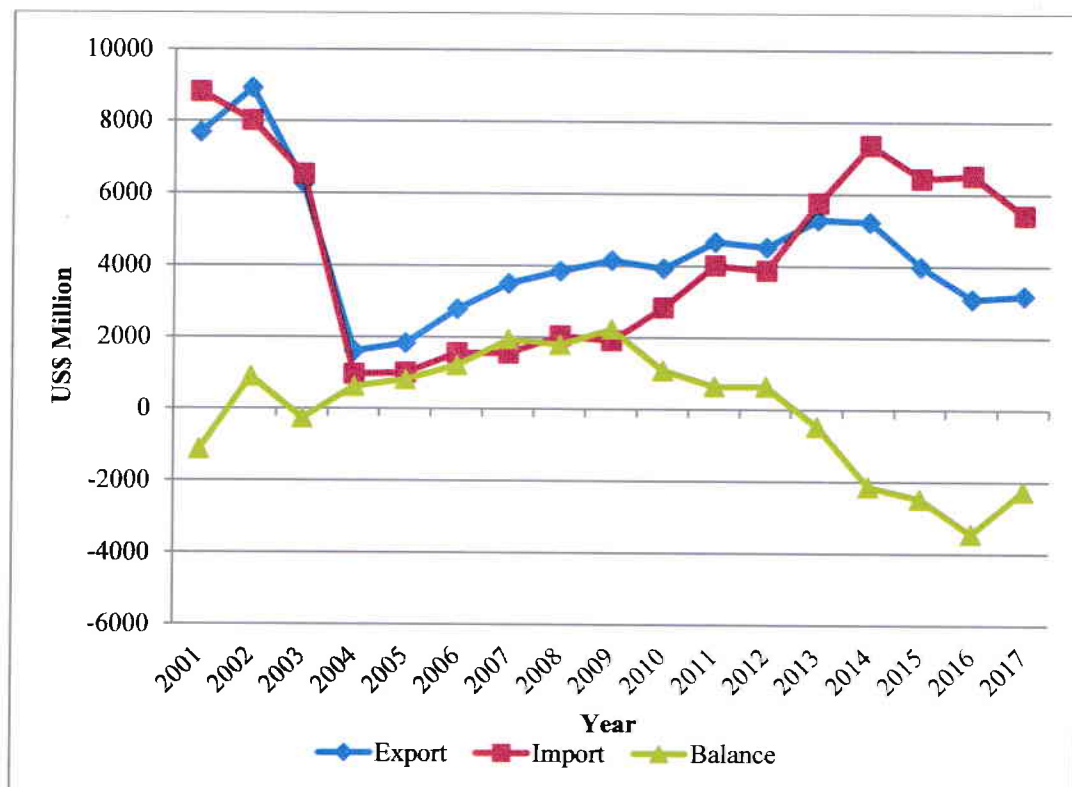


Source: : CSO, Ministry of National Planning and Economic Development, Myanmar.

Figure 4.2 shows the imports of Myanmar with ASEAN. Imports of Myanmar was 8819.99US\$ million in 2001 because Myanmar was starting open economy after joining ASEAN and so ASEAN's imports started to flow more imports to Myanmar. Under AEC, started for Myanmar in 2015, the imports slightly rise from 5757.4US\$ million in 2013 to 6526.07US\$ million in 2016. This suggests that Myanmar, a member of ASEAN, has committed to reduce or eliminate the trade barrier for all ASEAN-investors by 2015 so that ASEAN countries export more to Myanmar. This may also suggest that in 2017, Myanmar face with the flooding in most places and decrease in agricultural productions and, less in exports and more in import. But new government changing in 2015, imports of Myanmar is decline to 5426.13US\$ million in 2017 about 2 times decreased from 2001. The main importers of ASEAN member countries are Singapore, 2030.901US\$ million in 2017 and Thailand, 1561.13US\$ million in 2017. (Appendix IV)

4.3.3 Myanmar-ASEAN trade balance

Figure 4.3 Myanmar-ASEAN: Balance of Trade

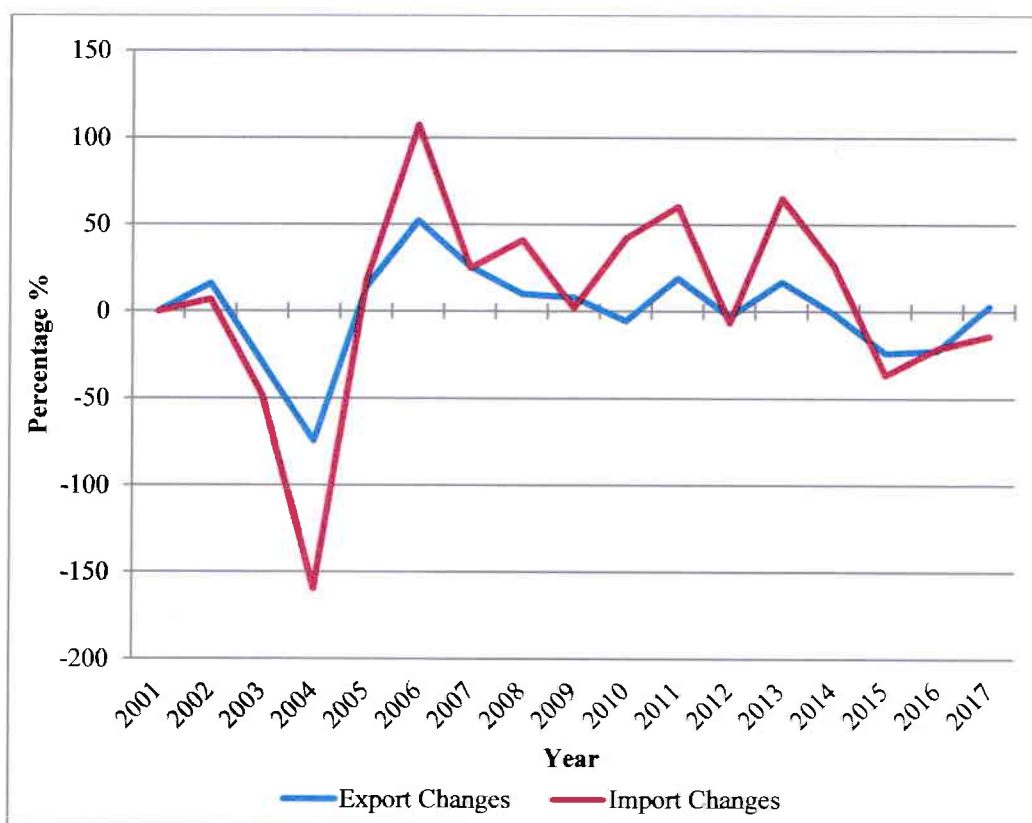


Source: : CSO, Ministry of National Planning and Economic Development, Myanmar.

Figure 4.3 shows the balance of trade of Myanmar-ASEAN (US\$ million) from 2001 to 2017. In 2017, imports of Myanmar is decline to 5426.13US\$ million. The trade balance of Myanmar has been positive from 2003 to 2012, increasing from trade deficit 1125.57US\$ million in 2001 to surplus 2236.72US\$ million in 2009. But while various economic sanctions effectively isolated Myanmar from a large part of the rest of the world, the reform in the government since 2010 has paved the way for Myanmar's reintegration into the global economy and some trade barriers by other countries, domestic policy changes, higher exchange rates and declining exports, so that trade balance was dived into deficit 3434.5US\$ million in 2016 and then slightly incline to 2246.5US\$ million in 2017. (Appendix V)

4.3.4 Percentage Changes in Myanmar-ASEAN Trade

Figure 4.4 Annual changes of Myanmar-ASEAN Trade



Source: :Appendix VI.

As shown in figure 4.4, the exports of Myanmar-ASEAN declined to 70% in 2004 and then slightly up and down with average 10% from 2005 to 2017. The imports of Myanmar-ASEAN also declined 80% in 2004 and then up and down with

average 10% from 2005 to 2017 significantly. Starting from 2015, the export is declined less the import and then up to 2% in 2017.

4.4 The Role of Myanmar-ASEAN Trade Cooperation in Myanmar Economy

Since trade play a major role of development engines for a country or a region, Myanmar-ASEAN trade cooperation is very important for economic growth.

Table 4.2 Trade Share of Myanmar-ASEAN Selected Indicators

Year	2001	2007	2011	2017
ASEAN	46%	52%	48%	35%
EU	6%	3%	2%	7%
Rest of World	48%	45%	50%	58%
Total Trade	100%	100%	100%	100%

Source: : Central Statistical Organization, Ministry of National Planning and Economic Development, Myanmar.

Share to total trade of Myanmar-ASEAN was 46% in 2001 and now decline to 35% in 2017. Trade share of ASEAN in Myanmar accounted for around 40-50% to total trade as show in table 4.2. Comparison between 2007 and 2017, even with EU and rest of the world, share of trade of 10-ASEAN countries take over almost a halt in total trade of Myanmar. This means that ASEAN trade plays a critical role in Myanmar economy.

Table 4.3 Myanmar's GDP and trade openness of Myanmar-ASEAN

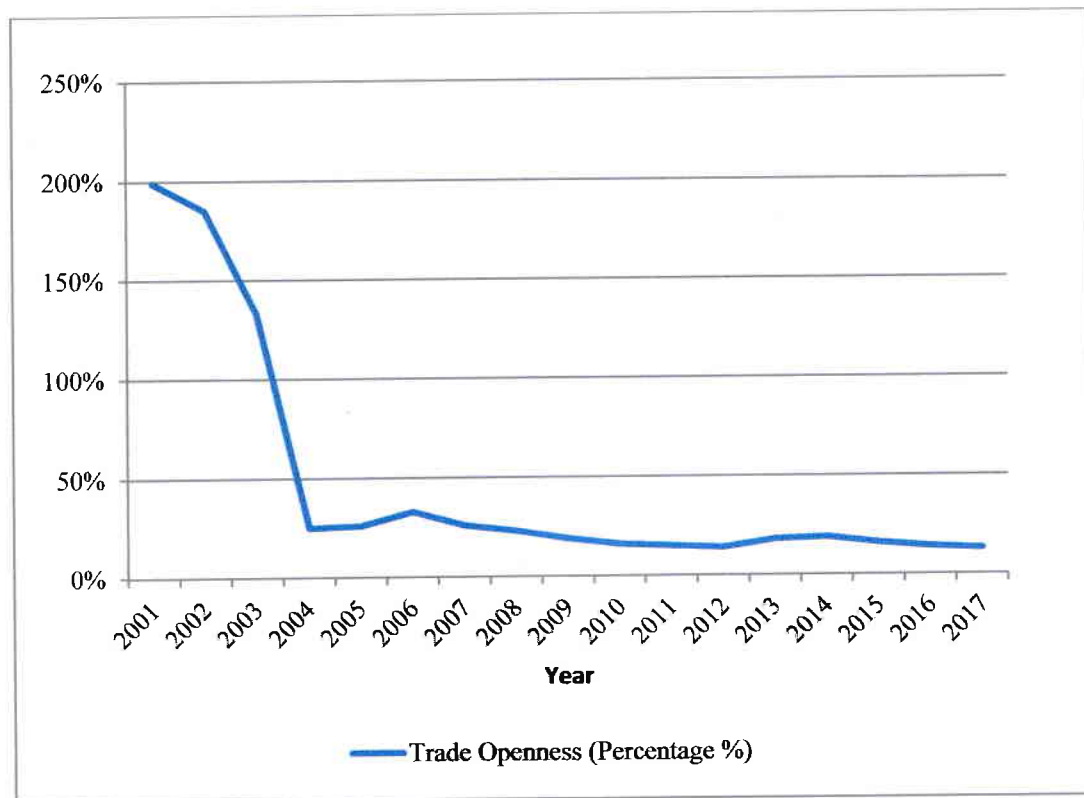
Year	Annual GDP (US\$ million)	Trade Openness (Percentage %)
2001	8,281	199%
2002	9,135	185%
2003	9,605	133%
2004	10,370	25%
2005	10,989	26%
2006	13,188	33%
2007	19,132	26%
2008	25,435	23%
2009	31,831	19%
2010	42,228	16%
2011	56,502	15%
2012	60,282	14%
2013	61,864	18%
2014	65,574	19%
2015	64,001	16%
2016	68,636	14%
2017	73,303	13%

Source: : ASEAN Statistical Year Book 2005, 2012, 2017 and CSO of Myanmar.

Since, to measure economic growth, GDP of Myanmar also must be shown (2001-2017). Myanmar-ASEAN trade openness is important to measure how ASEAN is involving in Myanmar economy. The time series data are from 2001 to 2017. Table 4.3 shows the GDP of Myanmar at current price (US\$ million) and Myanmar-ASEAN trade share to GDP ratios.

Trade-to-GDP ratio can be well over 100% which means that the country's imports and exports far more than it produces, as it act as a trade hub.

Figure 4.5 Myanmar-ASEAN trade openness



Source: : ASEAN Statistical Year Book 2005, 2012, 2017 and CSO of Myanmar.

As show in figure 4.5 (based from table 4.6), trade-to-GDP ratios have been dived significantly from 199% in 2001 to 25% 2004. Starting from 2004 to 2016, trade share to GDP of Myanmar-ASEAN has been below 50%, the ebb and flow delicacy. As mention above, since there are some economy problems and reform of policy and economy that effect on Myanmar economy. But Myanmar starts recovering the trade balance from 2017 so that trade openness starts recovering. So that in the future, there is still plenty of headroom to increase openness.

4.5 Opportunities and Challenges of Myanmar Participating in ASEAN

As mention above, the economic cooperation becomes the essential major role of development in every country since this is the age of globalization. International trade also plays the major engine for economic growth for the country or region. Myanmar's participating in ASEAN has been over 20 years now. Evaluation of the economic impact of Myanmar's accession to ASEAN is complicated by the timing.

After joining ASEAN, Myanmar has become more open and welcome foreign trade with many countries. But there is a saying ‘the good and the bad are intermingled’. The income gap between CLMV and the ASEAN-6 members has narrowed in 21st century but there still appears to be a wide development divide by other measures. So participating in ASEAN can gain the benefit along with the side effects for Myanmar.

Table 4.4 Opportunities and Challenges for Myanmar participating in ASEAN

Opportunities	Challenges
Open market access	Trade diversion
Trade creation	Trade imbalance, trade complexity
Economic growth	Economic instability
Exchange technical know-how	Economic underdevelopment
Employment	Structural unemployment
Monopoly prevention	Difficult establishment of developing and new industries

Source: : based on various trade studies and author’s own note.

Since the year 2015 marked a special cornerstone for the ASEAN as the region was to set the AEC and the AEC went into effect however Myanmar, Lao and Cambodia are going to join the trade bloc in 2018. To be able to participate in AEC, ASEAN adopted IAI Work plan for CLMV countries. Table 4.4 states the opportunities as well as challenges for Myanmar-ASEAN relation

4.5.1 Opportunities for Myanmar

ASEAN is an important market for Myanmar’s trade. In total trade share, Myanmar-ASEAN trade share is around 50%. Myanmar’s exports to ASEAN has inclined to 3179.64 US\$ million and ASEAN imports has also declined 5426.13 US\$ million in 2017. But Trade deficit of Myanmar-ASEAN starts decline. Among ASEAN, Thailand is also Myanmar’s most important source of imports. Myanmar purchased goods worth 2202.23 US\$ million from Thailand in 2016 than other rest ASEAN countries. Myanmar is on track to post high economic growth with the return

of normal weather, agriculture is recovering from flooding last year. Crop production is benefiting as well from higher demand and strong international prices for agricultural commodities. Industry growth continues to accelerate with higher investment, both public and private, Myanmar annual GDP growth is slightly increasing.

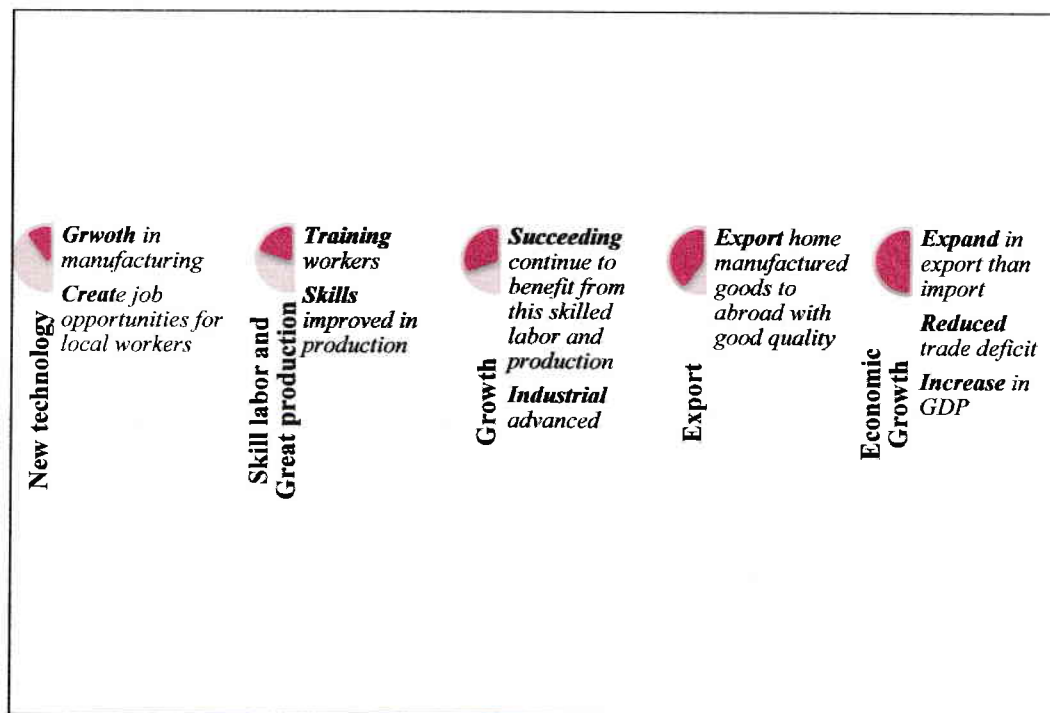
As a member of ASEAN, Myanmar is preparing for AEC. The AEC is a highly ambitious effort to enhance ASEAN's global competitiveness through free flow of goods, services, skilled labor and capital across 10 ASEAN countries. U.S supported study suggest that 'the successful of AEC will result in an increase in ASEAN real incomes by 5.3% as well as growth in exports of up to 43% in many manufacturing sectors. Myanmar will stand to be one of the greatest beneficiaries of the AEC with estimated 4.4% increase in national income and 66% increase in exports'²². The benefits from AEC for Myanmar are; the export market becomes more widen and per capita will increase; foreign direct investment (FDI) flow will increase and as developed countries are able to move their operations into developing countries, new job opportunities open up for local workers; technology will develop; foreign capital will increase and domestic production increases; living standard will also increase; domestic banking and financing, and transport services will increase; private firms become to invest in abroad; and national income will increase. Also Free trade can be one of the measures for monopoly prevention. With more trade, domestic firms will face more competition from abroad; therefore, there will be more incentives to cut costs and increase efficiency. It may prevent domestic monopolies from charging too high prices.

Since Myanmar is developing countries and the newest member along with Cambodia, Lao PDR and Vietnam, called CLMV, Initiative for ASEAN Integration (IAI) Work Plans have been helped to CLMV countries to narrow the development gap by strategic frameworks. Myanmar trade with ASEAN encourages innovation by facilitating exchange of know-how, technology in research development through the IAI work Plan. The AEC is strongly focused on improving trade facilitation through various mechanisms. With the trade facilitation measures, Myanmar has the potential

²² 'Myanmar prepared for AEC', Myanmar Time Journal

to significantly reduce trade costs, integrate into AEC and increase participation in global value chains. Also trade with ASEAN facilitates export diversification by allowing Myanmar, developing country to access new markets and new materials which open up new production possibilities. Trade openness of Myanmar-ASEAN is around 20% which means trade with ASEAN is essential part of Myanmar economic growth. And also trade openness expands business opportunities for local companies by opening up new markets, removing unnecessary barriers and making it easier for them to export.

Figure 4.6 The effect of gain facilities and assistances to industries



Source : : based on IAI Work Plan

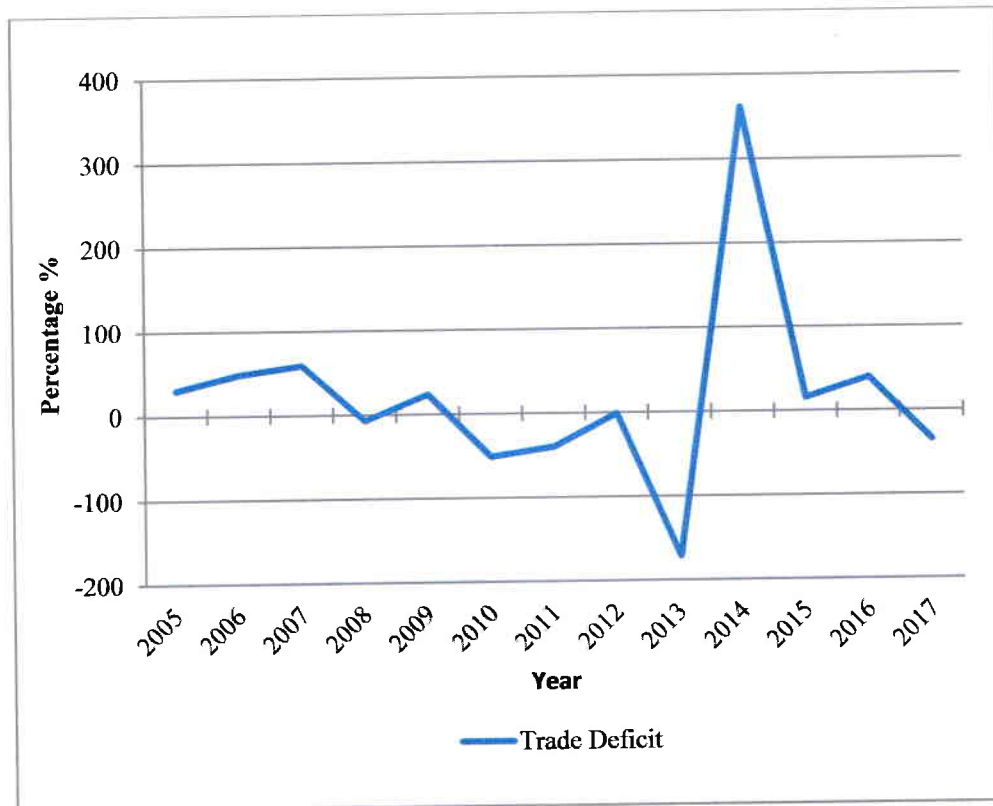
Figure 4.6 shows the effect of gain facilities and assistances to local industries will create the sustained growth. By sustaining growth in local industries, a lot of output will produce, and more export to abroad and increase in economic growth. (Appendix VII)

4.5.2 Challenges for Myanmar

Although trade with ASEAN has benefits, the arguments against trade liberalization should not be ignored. Since Myanmar is developing countries, trade with ASEAN and even with other developed countries has an adverse effect on the development of home industries. It may pose a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse. Countries which sell primary commodities and buy manufactured goods in return are losers. The standard of living of the people in such countries remains low. Since Myanmar economy is agricultural sectors and Myanmar has so many natural resources so main exports are mostly primary goods and raw material. Trade may completely exhaust the country's natural resources like coal, natural gas and oil which are irreplaceable. These goods are exported for the sake of profit. But the country will suffer in the long run when their source is dried up completely. Through trade, the economic troubles of one country are transmitted to others. The economic disturbances in one country are transmitted to others and their economy is upset.

Because of AEC, free trade, Myanmar will face with these challenges; trade barrier is eliminated, developing or infant industries may establish it difficult to become placed in a competitive market and an efficient company may be burned by an overseas rival with a predatory pricing strategy; Imports of harmful drugs and luxuries ruin the health of the nation; free trade can impact on large numbers of employees and workers, a lot of them loose their job due to in free trade without any barriers an tariffs some countries are looser and some of them are winner for looser they have more import instead of export; there can be bribery in some government offices; domestic large efficient companies or firms may invest more and do business in abroad since there is no barrier. In ASEAN, Myanmar economy ranking is 8 so that AEC can disadvantage for Myanmar.

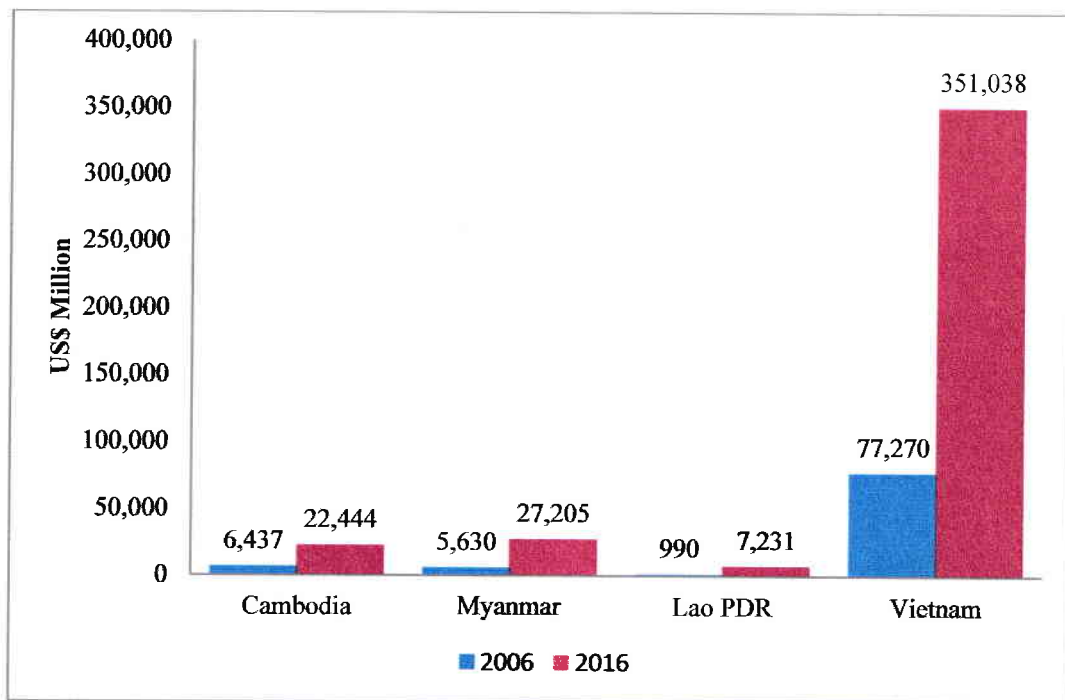
Figure 4.7 Annual trade deficit change (%) of Myanmar-ASEAN



Source: :CSO, Ministry of National Planning and Economic Development, Myanmar.

Figure 4.7 shows the annual trade deficit percentage changes of Myanmar-ASEAN trade. The highest trade deficit is 361.45% in 2014 but declined significantly to 46.61% in 2017. As mention above, Myanmar's main exports are mostly primary goods and imports are manufactured goods. Due to different and higher exchange rate, imports of Myanmar are greater than exports of Myanmar. As shown in table 4.3, trade openness is declined from 199% to 13% in 2017.

Figure 4.8 Total Trade of CLMV selected indicators (US\$ million)



Source: : ASYB 2012 and 2015.

Figure 4.8 describes the total trade of CLMV countries extracted from Appendix I. Among CLMV, Vietnam is more increasing in total trade, from 77,270 US\$ million in 2006 to 351,038 US\$ million in 2016. The quality of Myanmar's export goods is still lower than other ASEAN developing countries and not very much recognized by some other countries.

Trade can be a powerful force for constructive developments, but it can also bring problems and uncertainties. The main task is to liberalize trade reasonably and avoid as many drawbacks as possible. AEC implementation will tear down barriers to allow free flow of goods and labor and a study is required to access the challenges Myanmar need to overcome to be able to complete with potential influx of foreign goods and expertise.

CHAPTER V

FINDINGS AND CONCLUSION

This chapter is a summary of the thesis which presents outcomes of this research. This chapter summarizes the thesis, discusses the benefits of the research, the difficulties encountered and what improvements that can be done to the research. The limitations to the research are also discussed in this chapter as well as suggestions for future work. As mentioned in the introduction, the research was initially motivated by economic cooperation, especially trade between Myanmar and ASEAN countries.

5.1 Findings

In total trade share, Myanmar-ASEAN trade share is around 50%. The exports of Myanmar-ASEAN declined to 70% in 2004 and then slightly up and down with average 10% from 2005 to 2017. The imports of Myanmar-ASEAN also declined 80% in 2004 and then up and down with average 10% from 2005 to 2017 significantly. Starting from 2015, the export is declined less the import and then up to 2%, 3179.64 US\$ million and import declined 16%, 5426.13 US\$ million in 2017. Trade deficit of Myanmar-ASEAN starts decline. Among ASEAN, Thailand is also Myanmar's most important source of imports. Myanmar purchased goods worth 2202.23 US\$ million from Thailand in 2016 than other rest ASEAN countries. The trade openness is declining which means Myanmar's export is less than ASEAN's import. Since various economic sanctions effectively isolated Myanmar from a large part of the rest of the world, the reform in the government since 2010 has paved the way for Myanmar's reintegration into the global economy and some trade barriers by other countries, domestic policy changes, higher exchange rates and declining exports. The agriculture production in Myanmar is main economy, which accounts for around 29 percent of value added, and it is gradually recovering from last year 2015's floods. Since the main export is agricultural products and the slow recovery in agriculture has had negative spillover effects on the most industries, which accounts for an important share of manufacturing and industrial outputs. Falling exports were mainly due to gas and agricultural commodities, which account for over 60 % of Myanmar's merchandise export basket. As see in figure 4.1, Myanmar's exports to ASEAN starts recovering and declining in imports in 2017.

Myanmar is still the 8th largest economy in ASEAN but after new government started in 2015, Myanmar starts changing policies and becomes more friendly with the world wide. So that Myanmar is still developing in every sector to be able to complete with the world economy. Trade with ASEAN has been a prominent element of growth engine to Myanmar. The share to total trade of Myanmar-ASEAN is around 50%. ASEAN is one of the main export markets for Myanmar, 3,179.64 US\$ million of total export and about 30% of its total export to the world, 10,682 US\$ million in 2017. ASEAN is also a significant import for Myanmar, 5,426.13 US\$ million of total import 13,656 US\$ million about 40% of its total import to the world in 2017. Trade openness is around 20%. Trade share to GDP shows that how much Myanmar-ASEAN trade is involving in Myanmar GDP. Increased trade openness promotes the efficient allocation of resources, enhances competition in national and international markets and allows for diffusion of knowledge and technology across countries. In 2017, trade openness is declined 13% in GDP 73,303US\$ million comparing with 2001, 199% in GDP 8,281 US\$ million. The trade openness is decreased and GDP is growing but trade openness will be slightly recovering in near future. Because according to the economists, 'Myanmar economy will be slightly grown in near future since many foreign investors are interesting to invest in Myanmar and also receives many technological aids and financial assistances from many countries and organizations such as JICA, ADB'. And for the AEC, Myanmar is preparing to adopt a national single window system, launched in 2016, this will allow traders to secure all the permits they need in one place, and is a precursor to cutting tariffs completely. 'Once this system is in place, the custom duties will cut by more than 90% and it will create more opportunities for economic development, as well as facilitating free regional trade'. All these suggest that Myanmar will gain many opportunities for development in economy, and trade deficit and trade openness will recover in near future.

5.2 Suggestions

Today, ASEAN is a global economic and trade powerhouse, ranking sixth worldwide in terms of its combined GDP. It is also the world's fourth largest trader after China, US and Germany. Today's globalization is crossroad. While globalization has opened up greater economic opportunities, several downside risks are challenging

this once widely-accepted nation. Since Myanmar is developing country, Myanmar cannot be able to face globalization being alone. Myanmar joined ASEAN because of the forces of globalization and regionalism and because it needed to identify with a group that would treat it sympathetically. Some critics suggest that the reasons why ASEAN is not successful as EU is that, with the exception of Singapore, the most ASEAN members are developing and least developing countries. In other words, the more members from developing countries in the regional grouping, the less chance is for success. So that ASEAN leaders adopted IAI Work Plans to help the developing countries, CLMV, in order to reduce the development gap among ASEAN members. Myanmar and rest CLMV countries are getting the facilities by according the frameworks of IAI. Myanmar is preparing to be able to face AEC which Myanmar will join in 2018.

Myanmar is poor and developing country among in ASEAN members so that unequal trade can impact on Myanmar economy. If AEC starts in Myanmar and trade barriers remove and open borders to foreign trade in order to grow economies, rich, developed countries are dominant position so they will exploit to Myanmar through unequal trading terms, so this exploitation causes the economy of Myanmar to stagnate or shrink and then developed countries will more richer. Rich countries impoverish the poor. But capital in developed countries is subject to diminishing returns - extra investment results in less and less output but with the help of IAI, Myanmar can use new technology to provide very rapid growth, and then grow faster than developed countries and living standards also catch up so that over time, all countries will be rich. So that there can be both opportunities and challenges. Whatever it is, it only depends on how Myanmar government operates the situations in order to gain more benefits.

There are several issues to address in terms of the possible consequence of Myanmar joining ASEAN economic cooperation. The first is the fear that Myanmar will become a mere supplier of raw materials since most ASEAN countries are moving to more capital-intensive manufacturing such as Singapore is moving towards skill-intensive high-technology manufacturing. Myanmar is expected to fill the vaccum left by advanced ASEAN countries, by exporting more raw materials. The next issue is that Myanmar's public and private inefficient, developing and infant

industries will have to compete with ASEAN in the manufacturing sector. Currently, most domestic industries are facing with the shortage of good quality raw material, power supply, capital and advanced technical.

Another issue is that If AEC starts running in Myanmar, tariff barrier will remove then more imports are flowing to Myanmar markets and, due to unbalanced trade, trade deficit will quite large and its exports cannot be expanded or diversified significantly and also Myanmar-ASEAN trade openness has been declined 13% in 2017, if it continues like this, there will be more declined in trade openness in the near future. So that Myanmar need to develop economic reforms such as food security, competition laws, intellectual property right, upgrade labor skills and gearing up its agricultural sector, to allow a smooth entry to the AEC, and use IAI facilities efficiently in economic infrastructures and industries.

Trading with ASEAN takes around 50% in Myanmar total trade and around 20% trade share to Myanmar GDP. It is claimed that economic growth is probably the most important benefit originated from it in the short term. However, because of unbalanced trade with developed countries from ASEAN can cause trade deficit on Myanmar in the long term. In all, Myanmar's membership in ASEAN will have a positive impact on its economic development in the short-term, however, government of Myanmar need to committee to more political and economic reforms in the long term. Therefore, Myanmar joining to ASEAN can be both opportunities and challenges but the positive effect will depend on the country's further economic liberalization as well as improved political climate.

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Appendix

Appendix I Total Trade of ASEAN

Table of ASEAN's Total Trade

Year	ASEAN	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
US\$ Million											
2001	690,991	4,840	2,997	87,280	NA	161,130	5,030	65,207	237,606	126,901	NA
2002	713,817	4,291	3,581	88,448	NA	172,075	4,570	70,635	241,379	128,838	NA
2003	824,539	4,563	5,022	93,609	482	188,502	6,307	73,728	296,116	156,210	NA
2004	1,071,956	6,577	4,511	118,109	611	231,794	3,921	83,720	372,203	192,666	57,844
2005	1,224,578	7,872	5,916	143,361	876	254,684	4,757	88,673	429,656	227,613	61,170
2006	1,405,232	9,108	6,437	161,864	990	285,543	5,630	99,184	510,517	248,688	77,270
2007	1,610,786	9,750	7,581	188,574	1,093	323,116	8,723	105,979	562,451	293,537	109,982
2008	1,897,157	12,775	8,776	266,218	2,631	338,795	10,415	105,671	657,986	352,534	141,357
2009	1,536,877	9,602	8,887	213,339	2,962	280,221	10,191	83,869	515,616	286,267	125,922
2010	2,009,116	10,999	10,480	293,442	4,509	363,534	11,798	109,660	662,658	385,041	156,993
2011	2,388,444	14,822	12,844	380,932	3,956	415,559	14,925	111,752	775,167	458,904	199,582
2012	2,476,427	16,856	18,664	381,721	6,159	423,930	18,503	117,382	788,117	477,302	227,793
2013	2,511,517	15,057	18,324	369,180	5,885	434,229	23,445	119,109	783,265	478,247	264,774
2014	2,528,616	14,181	29,655	354,471	5,389	442,778	27,257	129,567	776,016	455,526	293,777
2015	2,269,917	9,392	19,676	292,977	6,763	375,830	28,275	128,944	663,109	417,147	327,804
2016	2,236,341	7,544	22,444	280,839	7,231	357,806	27,205	142,248	629,992	409,994	351,038

Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017. "NA" – Not Available.

Table of ASEAN's Total Trade Growth

Year	Intra-ASEAN	Extra-ASEAN
2001	-9.9	-8.7
2002	6.3	2.44
2003	29.3	11.5
2004	26.23	31.2
2005	16.8	13.5
2006	15.7	14.4
2007	13.8	14.8
2008	17	18
2009	-20	-18.7
2010	35.8	24.9
2011	17.1	19.5
2012	0.6	4.7
2013	1.1	1.5
2014	-0.06	0.9
2015	-10.66	-10.1
2016	-2.02	-1.49

Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017. "NA" – Not Available

Appendix III

Myanmar-ASEAN Exports (2001-2017)

Table of Myanmar's Exports with ASEAN

Country	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Vietnam	ASEAN ToTal
Year	US\$ Million									
2001	4.33	—	343.57	20.67	785.21	28.14	1099.54	5391.81	21.15	7694.42
2002	12.75	—	363.22	3.71	485.41	48.5	881.95	7095.55	31.79	8922.88
2003	5.64	—	233.51	1.77	412.01	78.91	785.99	4676.11	71.36	6265.30
2004	1.25	—	53.72	0.04	108.57	12.13	141.83	1270.62	16.63	1604.79
2005	0.85	—	65.36	0.02	92.9	12.58	262.85	1360.95	38.46	1833.97
2006	1.04	—	88.23	0.01	88.47	10.28	182.59	2362.44	58.23	2791.29
2007	1.22	—	86.58	0.07	119.03	7.66	400.56	2809.65	80.19	3504.96
2008	0.98	—	28.45	0.04	311.69	8.99	832.75	2631.23	39.58	3853.71
2009	0.75	—	37.43	0	152.61	27.21	670.41	3215.68	54.75	4158.86
2010	0.37	0.04	41.11	0.02	437.8	22.3	456.99	2905.18	67.03	3930.84
2011	1.33	0.36	40.94	0.03	152.04	34.32	542.75	3823.83	81.09	4676.68
2012	0.9	0.02	31.54	0.15	97.92	26.02	291.35	4000.57	81.24	4529.77
2013	4.28	0.23	60.04	0.39	108.87	12.25	694.03	4306.28	111.16	5295.27
2014	0.73	0.462	86.05	0.685	265	12.78	758.53	4031.75	80.18	5236.17
2015	0.32	0.015	139.84	0.395	161.32	8.23	725.43	2893.18	56.67	3985.4
2016	0.58	2.653	125.05	0.043	159	40.98	472.76	2202.23	88.25	3091.57
2017	0.143	2.482	85.964	0.083	136.663	14.114	696.352	2145.94	97.902	3179.64

Source: : Central Statistical Organization, Ministry of National Planning and Economic Development, Myanmar.

—: : less than 0.01.

Appendix IV

Myanmar-ASEAN imports (2001-2017)

Table of Myanmar's imports with ASEAN

Country	Brunei	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Vietnam	ASEAN Total
Year	US\$ Million									
2001	—	—	575.15	0.12	2434.09	62.75	3918	1798.04	31.84	8819.99
2002	—	—	415.86	0.92	1887.27	20	4134.24	1502.51	57.02	8017.82
2003	0.01	0.98	351.88	—	891.57	30.32	4047.99	1143.28	59.55	6525.58
2004	0.02	0.12	50.29	0.01	115.85	8.51	603.58	184.71	8.59	971.68
2005	—	0.02	57.47	—	138.41	5.55	560.91	237.37	9.87	1009.60
2006	—	0.06	94.08	—	110.39	9.78	1034.65	304.86	12.88	1566.70
2007	—	0.03	206.68	—	115.51	12.25	821.52	383.44	17.47	1556.90
2008	—	0.06	210.35	0.4	350.48	16.44	1050.28	394.84	19.65	2042.50
2009	0.03	0.18	140.07	—	159.52	14.16	1202.19	378.68	27.31	1922.14
2010	—	1.36	275.49	—	145.32	16.97	1645.32	709.09	47.05	2840.60
2011	0.02	1.11	431.82	—	303.41	14.64	2516.13	691.15	62.29	4020.57
2012	—	0.37	195.23	0.22	360.9	17.99	2535.42	696.81	74.72	3881.66
2013	—	0.71	438.82	0.01	839.69	21.1	2910.22	1376.99	169.86	5757.40
2014	0.02	0.76	550.51	0.02	743.95	15.42	4137.37	1679.44	241.15	7368.64
2015	0.73	0.88	601.96	0.1	588.72	20.76	2970.89	1972.89	290.19	6447.12
2016	0.28	0.32	702.16	0.41	821.37	15.49	2494.32	2085.94	405.78	6526.07
2017	0.059	1.397	667.835	1.304	698.936	23.59	2030.9	1561.13	440.978	5426.13

Source: : Central Statistical Organization, Ministry of National Planning and Economic Development, Myanmar.

—: : less than 0.01.

Table of Myanmar-ASEAN: Balance of trade (US\$ million)

Year	Export	Import	Balance
2001	7694.42	8819.99	-1125.6
2002	8922.88	8017.82	905.06
2003	6265.3	6525.58	-260.28
2004	1604.79	971.68	633.11
2005	1833.97	1009.6	824.37
2006	2791.29	1566.7	1224.59
2007	3504.96	1556.9	1948.06
2008	3853.71	2042.5	1811.21
2009	4158.86	1922.14	2236.72
2010	3930.84	2840.6	1090.24
2011	4676.68	4020.57	656.11
2012	4529.77	3881.66	648.11
2013	5295.27	5757.4	-462.13
2014	5236.17	7368.64	-2132.5
2015	3985.4	6447.12	-2461.7
2016	3091.57	6526.07	-3434.5
2017	3179.64	5426.13	-2246.5

Sources: : ASEAN Statistical Yearbook 2003, 2005, 2012, 2015, 2017.

$$\text{Rate \%} = \left(\frac{\text{Year}_1}{\text{Year}_2} - 1 \right) \times 100$$

Table of The Annual Changes of Myanmar- ASEAN Trade

Year	Export Changes	Import Changes
2001	0	0
2002	15.9656	-9.09491
2003	-29.7839	-18.6115
2004	-74.3861	-85.1097
2005	14.281	3.902519
2006	52.19933	55.18027
2007	25.56775	-0.62552
2008	9.950185	31.19019
2009	7.918344	-5.89278
2010	-5.48275	47.7832
2011	18.97406	41.53946
2012	-3.14133	-3.45498
2013	16.89931	48.32314
2014	-1.11609	27.98555
2015	-23.8871	-12.506
2016	-22.4276	1.224578
2017	2.848714	-16.8546

Source: :Appendix III and IV.

Figure of The effect of gain facilities and assistances to industries**Trade Facilitation**

Lower the incidence of trade distorting non-tariff measures	• Build the institutional capacity to identify and classify non-tariff measures into National Trade Repositories, and Then reduce their incidence
Reduce the time and cost of customs and border procedures for export and import	• Complete the development of National Single Windows • Strengthen the capability to conduct trade facilitation training programmes more systematically and regularly - including for customs
Harmonise or mutually recognise product, conformance, and technical standards	• Improve implementation of standards and conformance harmonisation measures by embedding Good Regulatory Practices (GRP) and developing conformance assessment capabilities
Improve market access through stronger participation in the WTO	• Strengthen capacity to meet the objectives set out in the World Trade Organization (WTO) Trade Facilitation Agreement • Build capacity in understanding the legal General Principles underlying the World Trade Organization (WTO) system through technical assistance programmes in training and consultancy, for better understanding of the various processes, e.g. Panel Process, Dispute Settlement Mechanism and WTO Appellate Body Process

Sources: :IAI Work Plan III, exhibit 6