The RCEP (Regional Comprehensive Economic Partnership) and The Possible Impact of the RCEP on Lao PDR

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EXECUTIVE SUMMARY

- The dialogue partners of ASEAN+6 (effectively the RCEP) recently declared their intention to begin RCEP negotiations. The problem; limited work existed concerning the economic impact of the RCEP on Lao PDR. The Regional Trade Policy Division of the MoIC determined the question; the RCEP, what are the benefits, and what are the challenges for Lao PDR?

- The limited literature review found for small but positive benefits for Lao PDR from continuing the process of economic integration however the distribution was acknowledged as being uneven, and that many macro and micro challenges remained.

- The study adopted a methodology from political economy (Colignatius, 2005), and a framework of understanding from regional economics (Swe & Chambers, 2011). Thereafter the study was grounded using economic growth theory. Growth theory was then linked Lao PDR’s macroeconomic data to substantiate the rationale for Lao acceding to the RCEP. Thereafter, GTAP estimations were mined to ascertain the possible benefits of accession and to shed light on the associated challenges. Finally, a stakeholder questionnaire (developed from the analytical results) is presented for further consideration.

- Econometric tests using macro data for Lao PDR finds that GDP growth is a function of increasing openness, exports and imports. These results concur with theory and with the literature. Therefore, accession to the RCEP will improve trade in goods, services and promote growth in Lao PDR; thus, the rationale for Lao PDR acceding to the RCEP.

- GTAP estimates indicate that the benefits to Lao PDR from association with the RCEP, on the basis of the liberalisation being as wide ranging as possible, are strongly positive. By 2015, GDP growth will be 3% above the baseline predicted trend path. Welfare will improve 2.49%; exports, imports and investments are all predicted to increase 5.7%, 9.1%. 9.1% respectively. Ownership of foreign capital does decline but foreign ownership of capital increases; -1.7% and 7% respectively.

- The challenges facing Lao PDR in acceding to the RCEP are many and varied. The national strategy and macroeconomic policy will be tested. This understanding should determine the final form of any RCEP agreement. With sixteen dialogue partners the challenge of negotiating an agreement which benefits Lao PDR may remain elusive. As a consequence of WTO accession and the looming approach of the RCEP current FTAs may lose their relevance. In addition, there are competing regional and global FTA initiatives which may not favour Lao PDR and their momentum will also pose challenges for Lao. The long-run impact on the Lao economy of RCEP accession will ultimately depend on the final negotiated agreement that is arrived at, the speed of reform and the magnitude of that reform in Lao PDR, in as much, as on the policies and actions of other dialogue partners.

- The objectives of the study have being achieved. The rationale for the Lao Government to the RCEP agreement is given as – economic growth theory and the theory of conditional convergence. The impact of the RCEP on the Lao economy will be positive,
small initially but this will compound over time. In essence, the work has taken a positive step toward determining that accession to the RCEP agreement would be good for Lao PDR.

- Recommendations are: further research should be conducted in the areas identified in the study as presenting challenges to Lao PDR and accession to the RCEP. Lao PDR should conclude a high level, and as comprehensive as possible, RCEP agreement as speedily as possible (inclusive of services, logistics, and investments) and that improves on the GATT/WTO position.

- The penultimate section of the study defined the objective of a proposed stakeholder survey as being to ascertain the perceptions of key GoL representatives concerned with accession to the RCEP; what is their level of awareness of and the degree of preparation for Lao PDR’s accession to the RCEP? The first draft of the questionnaire is found in Subsection 8.4, and is ready for further discussion and determination by the client.

- The study’s hypothesis was paraphrased from Mundell (1968); that theory and empirical analysis could only provide us with an awareness/better understanding of, but not enlighten us greatly of, any real long run economic reality. This answer is not simply a philosophical one, it is imminently practical. The potential impact on the Lao economy of the RCEP will depend, as it does in any economy, on the policies of others, and most especially, on the policies and approach of the GoL (short, medium, and long term). This hypothesis is found to hold.
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The RCEP

(Regional Comprehensive Economic Partnership)

And

The Possible Impact of the RCEP on Lao PDR

A Foundation Study
1. Introduction

The dialogue partners of ASEAN+6 recently declared their intention to begin RCEP\(^1\) negotiations (Lim, 2012; and ASEAN, 2012a). The problem; there exists limited work concerning the possible economic impact of the RCEP on Lao PDR. The Regional Trade Policy Division of the MoIC\(^2\), herein undertakes a foundation study in respect of the RCEP’s potential impact on the economy of Lao PDR. The question; RCEP, what are the benefits, and what are the challenges for Lao PDR?

Searching has not found any substantive work for Lao PDR and the RCEP. Existing quantitative trade studies for, and those that include Lao PDR, are also limited (for example: Kyophilavong, 2004, 2010, and 2011; Sikdar & Nag, 2011; Fukunaga & Isono, 2013; and Itakura, 2013). Nonetheless, the literature review finds for small but positive benefits for Lao PDR from continuing the process of economic integration however the distribution may be uneven, and macro and micro challenges remain.

The study adopts a methodology from political economy (Colignatius, 2005), and a framework of understanding from regional economics (Swe & Chambers, 2011). Economic growth theory then links to Lao PDR’s macroeconomic data to find a rationale for Lao acceding to the RCEP. Thereafter, GTAP estimations are mined to ascertain the possible benefits of accession and to shed light on the associated challenges. Finally, a stakeholder questionnaire (developed from the analytical results) is presented for consideration.

The purpose of this study (in accordance with the above) is twofold. First, to provide the Lao Government with a better understanding of why they should accede to the RCEP Agreement; and second, to shed light on the possible impact of the RCEP on the Lao economy. In essence, the work should go some way toward determining whether accession to the RCEP agreement will be good for Lao PDR. The study’s hypothesis is found below.

Here we paraphrase from Mundell (1968) and hypothesise that theory and empirical analysis can only provide us with an awareness/better understanding of, but not enlighten us greatly of, any real long run economic reality. The answer is not philosophical one, it is imminently practical. The potential impact on the Lao economy of the RCEP will depend,

\[^1\text{RCEP} – \text{The ASEAN led Regional Comprehensive Economic Partnership.}\]
\[^2\text{MoIC} – \text{Ministry of Industry and Commerce, Lao PDR.}\]
as it does in any economy, on the policies of others, and most especially, on the policies and approach of the GoL (short, medium, and long term).

The study is laid as follows. Section 2 contains background information and brief notes on the current position. In Section 3 is found the literature review. Methodology and method are discussed in Section 4. The econometric test is Section 5, and The GTAP assessment, Section 6. Policy Implications and recommendations are in Section 7. The developed questionnaire can be found in Section 8. Section 9 concludes the work.
2. Background

Initial background detail was provided by the MoIC, Lao PDR. To begin, the RCEP was formally endorsed by ten ASEAN leaders at the 19th ASEAN Summit in 2011. The broad outline of the RCEP Agreement was developed and key features were defined. The “RCEP is a strategy aimed at maintaining regional growth by ensuring the markets of the participating countries remain open and competitive” (Lim, 2012, p. 1).

The structural framework for the RCEP was formally agreed in February 2012 (ASEAN, 2012b). At that time, country representatives articulated a desire for future RCEP negotiations to be an ASEAN-led process for promoting and enhancing discussions with FTA partners (ASEAN++), and inclusive of other trade partners. The RCEP aims to minimise barriers, strengthen economic linkages, increase intra-regional trade and investment, and create wider markets and larger economies of scale for the private sector (ASEAN, 2012a).

The objective for RCEP is the removal, overtime, of 95% of trade distorting barriers and the creation of a truly regional free trade area. Three Working Groups were established to investigate and develop a better understanding in: Trade in Goods, Trade in Services, and Investments. Lao PDR was represented on each of the three working groups and they completed work December 2012. Full RCEP negotiations are scheduled to commence in early 2013 (ASEAN, 2012b, p.2).

Additional preparatory work is being undertaken by the relevant ministries of the GoL. The work undertaken herein will aid in considering further the possibility of acceding to the RCEP Agreement. The initial view of the GoL (as stated by the MoIC TOR) is that the RCEP could serve as an effective platform for a wide-ranging economic agreement within the region. The task is to conduct a study on the impact of the Regional Comprehensive Economic Partnership Agreement for Lao PDR.

2.1 Overview of FTA’s

Lao PDR has/or has had FTA agreements many countries, dating as far back as 1976 (Russia) – currently FTA’s exist with all of ASEAN, Korea, India, Japan, Australia and New Zealand (lacking China, that is the RCEP). However, subject to the existing FTA

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3GoL – Government of Lao PDR.
agreements, GoL’s own publications consider that in terms of trade liberalisation there is still much to achieve with even the more recent agreements failing to fully deliver on tariff reform or adequately free up the services trade – not to forget investments sector (MoIC, 2012). In terms of existing FTA’s, published material has already identified the ongoing challenges for Lao PDR i.e. - ratification, implementation and institutional efficiency issues (MoIC, 2012).

Furthermore, theory suggests that PTA’s (and by implication bilateral FTA’s) do not necessarily improve the welfare of member countries (WTO, 2012, p. 28). Thankfully therefore, trade patterns and trade agreements are not set in stone but rather also reflect the reality of change. Thus, in accordance with economic theory and the reality described by Swe & Chambers (2011), a particularly important policy concern which motivates much of the ASEAN regions recent reciprocal trade liberalisation, is the continued drive to access to new markets and expand export opportunities (WTO, 2012, p. 21-22). Finally, with accession to the WTO (January, 2013), the relevance of Lao’s many existing FTA’s is now thought to be under threat. Therefore the RCEP agreement is a timely review.

2.2 The RCEP

The Regional Comprehensive Economic Partnership agreement “if implemented, would be the biggest free trade zone and integrated market in the world, spanning 16 countries with a combined population of more than 3 billion people and [a combined] GDP of about US$20 trillion…. This regional grouping, which is effectively Asean+6, would account for more than half of the global market and about a third of global economic output” (The Nation, 2013, p. 1)

The current process associated with the RCEP agreement is well advanced and (with respect), momentum is independent of Lao PDR. ASEAN representatives released the Joint Declaration of the launch of RCEP negotiations in November, 2012. The associated working groups sat/considered the RCEP and completed their work November/December, 2012. Furthermore, Lao PDR became a member of the WTO in January, 2013. RCEP negotiations begin February (2013).

In addition to the ASEAN centred RCEP there are other regional and global FTA’s in the process of advancement or agreement. As mentioned, there is the China-Japan-Korea FTA (first round conducted January 2013), and the Non ASEAN led Trans-Pacific Partnership
(TPP) is about to start its 16th round of discussions with selected dialogue partners (March, 2013). Both of the initiatives pose further challenges for Lao PDR to engage as the focus of future trade initiatives could potentially shift from the core of ASEAN to the +3 periphery and beyond (the US and the EU).

2.3 Economic Liberalisation/Integration: The Results

The rationale for Lao PDR to engage is the potential for an ASEAN centred multilateral agreement to assist in continuing to deliver high growth rates in the short term and sustainable economic growth in the long term. The process began in Lao PDR with the introduction of the New Economic mechanism in the late 1980’s (1986/87) and further developed in the ten years immediately prior to the 1998 AFTA agreement. Progress since that time can only be described as dynamic, especially since the early 2000’s. The long run path of economic progress in Lao PDR is depicted in Figure 2.1 below using the key macro variables of GDP, exports and imports.

Figure 2.1 Trade & Income performance of Lao PDR, 1990-2011

![Figure 2.1 Trade & Income performance of Lao PDR, 1990-2011](image)


Figure 2.1 displays the trade related data for Lao PDR, 1990-2011. Economic growth, as measured by real GDP, dip briefly due to the Asian financial crisis but thereafter began a long run positive trend. Exports and imports display a lagged response and a somewhat slower momentum. The trend change identified for all variables is post 2002 (and is more responsive after 2009). The lag and the trend change may indicate support for the
comments of Ghani (2011, p. 10) – the effects of liberalisation may contain a lag of five years to full impact.

Overall however the point of note is that a twenty year trend for real trade in goods and services, until quite recently – 2008/9, has been divergent from the dynamic performance of national income. This would indicate that the goods and services trade has been playing a diminishing role in the Lao economy since the Asian crisis (1997/98). The difference is obviously in the capital account however further analysis of the change in the composition of income overtime is outside of the scope of this report. Here we return to our analysis of the import and export of goods and services for Lao PDR.

The turning point for trade in goods and services appears to be quite recent – beginning 2003, and being boosted after 2009. The limited data after 2005 do not allow us to comment on trend however it is not implausible to suggest that trade in goods and services is now moving in the right direction. Also plausible is that Lao PDR has in place multiple FTA’s, regional and international agreements and these are beginning to impact the Lao economy. Aside from the lag theorem of Ghani (2011) Figure 2.1 above is thought to concur with the early work of Kyophilavong et al (2004).

Kyophilavong et al (2004) studied the impact of AFTA\(^4\) on the economy of Lao PDR. Lao PDR signed the AFTA agreement in 1998 and this was to be fully effective in 2008. Both of those dates are plausible turning points in the data displayed in Figure 2.1 (disregarding for the time being any argument concerning the delayed timeframes present in tariff removal agreements). Furthermore, the findings of Kyophilavong et al (2004) were for increased GDP, increased trade, growth in the trade deficit and falling prices.

Without suggesting causality, subject to growth theory and conditional convergence, overtime the economic outcome for Lao PDR has been positive. GDP per capita has risen considerably, services and industry are growing sectors of the Lao economy, and poverty levels have been reduced. To quote from Vixathep (2011, p. 1); “this implies that Lao largely follows the neoclassical path of development”. To strengthen this argument of Vixathep (2011), concerning developmental paths, the performance of Lao PDR’s primary sectors is displayed below as Figure 2.2

\(^4\) Asian Free Trade Area (AFTA).
In consideration of the above Figure 2.2; each of the three key sectors is shown as a percentage of national income (GDP). Clearly, the decline of agriculture in the economy is large and a long run phenomenon. As an economy develops the percentage share of GDP associated with agriculture is expected to decline (Chaiyuth, 1998). The trade off is the gradual growth of Industry and Services in the economy and each of these (as per Figure 2.2) have almost doubled their respective shares over the period of twenty one years (1990-2011).

Figure 2.2 Primary Sector Performances as % of GDP, Lao PDR, 1990-2011

Support for the comments made above is found in the literature. Past economic performance in the region was determined in Dean & Wignaraja (2007). Economic integration, primarily due to increased trade and FDI flows, is the result of national/regional trade and investment liberalisation policies subject to GATT, WTO, and APEC influences and the pressure of foreign competition which in turn has driven domestic reforms. The result is region wide increases in income and wellbeing.

5 The decline of agriculture's contribution to national income is a central feature of economic development. The share of GDP originating in agriculture, initially greater than 50% in many poor countries, is typically much less than 10% in wealthy countries (Chaiyuth, 1998 p. 1).
In summary, the economy of Lao PDR does appear to be responding to economic change in a manner that concurs with theory (economic theory is discussed extensively in the methodology section). The change in the macro variables displayed in Figure 2.1 is positive and thereby welfare increasing. For example, poverty rates in Lao PDR have fallen by almost a 30% in the last decade (Meys, 2011, MoIC, 2012). The positive relationships, briefly discussed above, give rise to the question of – where are we [Lao PDR] now.

2.4. Where Are We Now?

“In order to strengthen economic development and emerge from Least Developed Country (LDC) status by the year 2020, the Government of Lao (GoL) PDR is eager to capitalise on trade liberalisation agreements such as the Asian Free Trade Area (AFTA), the World Trade Organisation (WTO), [and the Regional Comprehensive Economic partnership (RCEP)]. However, the exact impact of trade liberalisation is debateable, especially in LDC’s such as Lao PDR, which face various economic and social constraints” (Kyophilavong, 2011, p. 1).

In the recent literature concerning Lao PDR, regional trade initiatives and international competitiveness, some interesting comments have been made. “Evidence…. [indicates that a higher degree of liberalisation, or] the more openness a countries [economy is, in respect of]…. regional and international economic [integration] has led to a strengthening of the competitiveness of those countries [economies] over time” (Greenaway & Sapsford, 1994; Krugman, 1994; Sachs & Warner, 1995; Greenaway, et al., 1997; Greenaway, 1998; Frankel & Romer, 1999; Greenaway, et al., 2002; in, Inthaboualy, 2012, p. 109).

Consistent with these findings, “it seems logical for Laos [to continue to] liberalise its trade regime and integrate into international trade in order to [further] boost productivity and national competitiveness” (Inthaboualy, 2012, p. 109). Lao PDR is seeking continued economic progress and the way progress is measured is GDP per capita. In short Lao PDR has a methodology. The strategy for obtaining and sustaining continually high GDP growth rates is acknowledged as being by way of the RCEP.

To close the section; a recent study undertaken by the ADB concerning an ASEAN+3 FTA suggested that such an agreement would galvanise intra-regional trade in goods and services and that the benefits of economic integration would lead to substantial output and
welfare gains for participating nations. The ADB (2012) report did also point out the challenges. In the real world [the politics of international trade], historical and geopolitical factors, special interest groups and vested interests often stand in the way of free trade and this will make negotiating (such as the RCEP) a much more difficult than any of the previous bilateral FTA’s.
3. Literature Review

The Literature review section (as explained in the introduction) is concerned primarily with research material that is specific to Lao PDR, trade agreements and competitiveness. The section will evaluate the results derived from successive CGE modelling and Dynamic GTAP simulations in relation to Lao PDR or subject to the wider economic community of ASEAN+3 and ASEAN+6. The approach is liberally adopted from the mapping study of Fukunaga & Isono (2013), and should rightly be seen as logical foundation to any study which seeks to replicate their current work.

3.1 Introduction

To begin; in a few cases the parameters, aggregations and even included nations of the individuals models can differ however the testing is normally consequent to either full liberalisation, partial or qualified and partial, perfect or imperfect competition. The view here is that there is little disparity among the results and the body of work can be described as forming a homogenous group. Nonetheless, there is one difference of note – for example there are authors concerned with macroeconomic growth and those whose focus includes welfare considerations.

For an example of the latter there is the growth and poverty nexus approach of Kyophilavong et al (2010), and Nag & Sikdar (2011). The modelling work that is concentrated more specifically on the economy wide impact of liberalisation (trade, goods, and services), and improved connectivity and facilitation in ASEAN can be found in Kyophilavong et al (2004), and Itakura (2103). The principle method of analysis in almost all of the surveyed research however is the Dynamic GTAP mode, as per Ianchovia & McDougall (2001).

Invariably, analysis has utilised the GTAP Database version 7.1 (Narayanan & Walmsley, 2008). The model encompasses 112 countries/economies – enabling aggregated regional analysis to be undertaken as per the relevant sectors of production – in this case the member nations of ASEAN and those of +6. The baseline data conforms to the year 2004. To better understand GTAP and the results which are thus derived from running the model Figure 3.1 is presented below.
Figure 3.1 Understanding GTAP

Figure 3.1 illustrates how the impact of a policy change such as an FTA can be measured in respect of variable Y (the vertical axis). The horizontal axis is a measure of time. The base line is the trend path of that variable (the variable of interest; for example, exports). An event such as the RCEP is termed a policy shock and subject to baseline data, and the specifications/parameters of the model, the response to change is predicted out to a set point in time (herein 2015). The difference between the baseline and the policy scenario is measured in percentage terms and is the accumulated difference over time.

GTAP is considered a formidable tool for trade policy analysis however results can be influenced by the modeller and ultimately are determined by the validity of the data and most importantly by the model specifications. Nonetheless, the various results, and their implications, are hereafter considered as each have something of interest to add to the debate on the beneficial impacts of the RCEP agreement on Lao PDR. The review continues below with Kyophilavong et al (2004) and their research on AFTA and Lao PDR.

3.2 FTA’s, ASEAN and the Lao Economy

Kyophilavong et al (2004) successfully analysed the effect of AFTA on the Lao economy. They concluded that the benefits to Lao PDR, due to the reduction in barriers to trade, were an increase in GDP by 0.44% over the baseline and a 1% decline in the general price level which also results in a positive impact on all other macro variables in the Lao economy.
The overall finding is positive for growth and by joining AFTA, overtime, the general price level and import prices in Lao PDR would also fall.

The challenges they identified were specifically for the GoL. Of concern was the estimated increase in the nation’s trade deficit, the rise in imports, and the ramifications for macro policy. Recommendations for the GoL followed and these were trade focused: Promote SME’s; revise investment laws and provide incentives for FDI. At the micro level: to shift goods from TEL list to IL \(^6\) list; and speed up the process of reform. Their one structural initiative was for the GoL to continue working on strengthening Lao’s institutional framework. However, there is little in the study to substantiate the latter recommendations and these are assumed to relate to unexplained economic theory or the work of others.

In contrast EAFTA (2006) provides much explanation for the rationale behind an ASEAN+3 FTA and directly suggests that regional integration leads to a higher level of institution building and that an East Asian FTA (EAFTA) would form the core of this development process (EFTA, 2006, p. 8). The rationale for EAFTA - and this connects to the structural framework of the study i.e. Post Classical Realism - lies firmly in economic and political interests of all ASEAN nations. The economic benefits thereafter are claimed to exceed AFTA, any AFTA+1 FTA or any other bilateral or regional arrangement.

On a regional basis East Asian countries have been undergoing continuous trade and investment liberalisation and EAFTA is seen as being an extension of that process. Sadly, Lao PDR is not represented individually in the GTAP estimations but the results do suggest a small 1.2% increase overall for GDP and an increase in welfare among associated nations. The recommendations suggest that to be beneficial to all members the approach should be comprehensive in scope with substantial liberalisation in all sectors – in line with facilitation and development efforts.

Further recommendations suggested that an EAFTA should be negotiated first with ASEAN+3 and then extended. The agreement needs to be a single package of initiatives and a gradual and progressive approach should be adopted s (EFTA, 2006, p. 9). The latter is in respect of concerns regarding the economic development of the LDC’s in ASEAN+3. The logical follow on from this research can be found in Dean & Wignara (2007).

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\(^6\) TEL and IL list refer to product lines included in the temporary excluded from the agreement to those included in the agreement to reduce or eliminate tariffs.
Wherein, an extensive background section details the rise of ASEAN+6, effectively the RCEP.

A decade after the Asian crisis, and as a result of ASEAN beginning to emerge as a future hub for regional economic integration initiatives, a concern was that further uncoordinated FTAs would exacerbate the noodle bowl effect for East Asia. The extension of ASEAN+3 was mooted i.e. ASEAN+6 (effectively, the RCEP). The logic of this was that East Asian economies had already committed to extensive and complimentary trade and investment liberalisation as part of their outward-oriented trade and FDI policies with much success and they had done so within the multilateral frameworks of GATT, the WTO and APEC.

However, over time and the economic influence of the +3 nations (China, Japan and Korea) had grown considerably and the importance of Europe and the US markets to ASEAN members had supposedly declined. To counter this, the individual nation states of ASEAN began a process of bilateral FTAs. However, in 2004 the ASEAN+3 leaders agreed on the establishment of an East Asian Community and with the inclusion of Australia, India and New Zealand is ASEAN+6. To shed light on the possible impact of ASEAN+6 Dean & Wignara (2007) first undertook a review of the existing GTAP studies. Citing multiple authors (Urata & Kiyota, 2003; Mohanty et al, 2004; Zhang et al, 2006) they found for GDP gains and modest welfare losses from accession to an ASEAN+3 FTA. When the alternative FTA scenarios of Gilbert (2004) and Cheong (2005) were compared to those for ASEAN+3 the estimations indicated that he broader the FTA the better. Further work by Behir & Fouquin (2006) and Wignara (2006) – which excluded trade in services and logistical improvements - concluded that ASEAN+6 would deliver the largest global welfare gains for its members.

The extension undertaken by Dean & Wignara (2007) modelled five scenarios: ASEAN plus each of the +3 nations individually, ASEAN +3 and ASEAN +6. Once again the findings are for small but positive gains and even distribution. Sadly however Lao PDR was not included in the analysis as an individual nation state. This omission detracts from the worth of the study however Dean & Wignara (2007) did provide some direction in terms of the benefits and costs associated with FTAs. Most notably that dialogue partners

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7 GATT refers to the general Agreement on Tariffs and Trade. WTO – the World Trade Organisation; and APEC, Asian-Pacific Economic Cooperation.
design FTAs in a way to maximise the benefits and minimise potential costs and that FTAs induce domestic structural reforms.

The former implies that the work prior to negotiations and the negotiations themselves are a very important phase of the agreement process and that the process post agreement is also of major importance. Of note for Lao PDR however is the comment that small, poor developing countries with limited capacity, and little to attract the interest of other dialogue partners, may struggle. That said the final findings were for a regional FTA providing for better coordination concerning ROO’s\(^8\) and a harmonisation of standards leading to reduced business costs and a positive economic contribution.

The economic effects of FTAs (Dean & Wignara’s 2007 finding of a positive economic contribution) comes from a an association apparently by way of a larger association of members (Ando, 2009). The implication here is for ASEAN+6 (the RCEP). However, Ando’s work using GTAP and scenarios relevant to ASEAN+6 is inclusive of an attempt to model investments and to take account of the need to provide technical assistance for developing countries in ASEAN. As a consequence agriculture, trade facilitation and technical assistance are seen as an important factor of FTA negotiations. In a pattern that is familiar Ando (2007) does not include Lao as an individual nation state thus little can be stated for Lao PDR.

In a study that is more specific to Lao PDR Kyophilavong et al (2010) determined the potential impact of the WTO accession for Lao PDR. However, the view here is that there little connection to their earlier work or that of the others reviewed above. What their work does share with their earlier empirical study is the results i.e. the benefits for Lao PDR of joining the WTO, once again, were subdued but positive, and associated with the slow process of economy wide gains in allocative efficiency. In summary, Lao exports and imports will continue their positive trend and the overall results differ little from Kyophilavong et al (2004), the implications are also of a similar nature.

Putting that aside, their simulations did highlight that their will winners and losers associated with the differing sectors of the Lao economy. Thus, herein the results from those simulations are worthy of further discussion. However, as we previously mentioned most differ little relative to their earlier paper and therefore only the information pertaining

\(^8\)ROO – Rules of Origin.
to the estimated impact of the factors of production is replicated here. The author of this study perceives that all of interest to readers is encapsulated in the information the table contains. The table is entitled Table 3.1 (see below).

From Table 3.1 (below); remembering that the estimated percentage changes will be small; demand for the factors of production will also alter due to the further opening and integration of the economy. There will be increasing demand for Land by those sectors who have a revealed comparative advantage in the new environment i.e. textiles/clothing and utilities/construction.

**Table 3.1 Impact on Lao Demand for Primary Factors of Production (% Change)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Land</th>
<th>Unskilled labour</th>
<th>Skilled labour</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains and Crops</td>
<td>-0.1</td>
<td>-0.7</td>
<td>-0.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>Livestock &amp; meat products</td>
<td>0.4</td>
<td>-0.5</td>
<td>-0.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>Mining and extraction</td>
<td>0.1</td>
<td>-0.4</td>
<td>-0.5</td>
<td>-0.4</td>
</tr>
<tr>
<td>Processed food</td>
<td>-1.0</td>
<td>-4.4</td>
<td>-5.4</td>
<td>-4.8</td>
</tr>
<tr>
<td>Textiles and clothing</td>
<td>3.8</td>
<td>6.0</td>
<td>4.9</td>
<td>5.5</td>
</tr>
<tr>
<td>Light manufacturing</td>
<td>0.5</td>
<td>-1.5</td>
<td>-2.6</td>
<td>-1.9</td>
</tr>
<tr>
<td>Heavy manufacturing</td>
<td>-0.2</td>
<td>-2.9</td>
<td>-4.0</td>
<td>-3.4</td>
</tr>
<tr>
<td>Utilities and construction</td>
<td>3.4</td>
<td>5.3</td>
<td>4.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Transportation &amp; communication</td>
<td>1.6</td>
<td>1.0</td>
<td>-0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Other Services</td>
<td>1.8</td>
<td>1.6</td>
<td>0.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>


The excepted areas are those where the Lao economy faces on-going comparative advantage challenges i.e. for example in heavy industry. Labour and Capital will also face challenges and their demand story reflects the reality of economic change in the textiles/clothing and utilities/construction, and the move away from the traditional economic base of the country i.e. agriculture and light industry.

In terms of societal welfare the estimated changes were also small but nonetheless, important. Rural Lao was estimated to lag progress in urban Lao and the largest net gain was estimated to occur in the larger industrialised and concentrated centres of Lao PDR. That said the gain overtime will be small i.e. 1.1% and the GINI index remains unchanged with the impact on poverty estimated to be almost negligible.

To sum, the benefits overtime for Lao PDR joining the WTO were estimated to be subdued but positive and associated with the slow process of economy wide gains in allocative
efficiency. The policy challenges for the GoL were assumed to lie in the arena of future FTA agreement negotiations and further capacity building in the areas of resource allocation and income distribution as these were seen as being attendant to and potentially at risk from the effects of liberalisation and the reallocation of economic resources.

In clarification of uncertainty, the dynamism of resource allocation, income distribution and liberalisation in Lao PDR was analysed viz. RCA analysis (Vixathep, 2011). An examination of the data for the years 1985-2005 indicated that Lao’s exports (during the study period), were concentrated in some agricultural products and crude natural resources, and this was not found to have changed significantly over time. These were not the sectors identified for us by Kyophilavong et al (2004, 2010) as being potential beneficiaries of future FTA development.

Future growth within specific sectors was however indirectly flagged in Vixathep (2011). He did find that over time the labour intensive garment industry had continued to gain competitiveness while other sectors had declined or remained static. In addition the mining industry returned a positive trend in competitiveness. These results reinforce the findings of the GTAP analysis discussed above i.e. Kyophilavong et al (2004 & 2010).

 Nonetheless, while focusing the benefits of liberalisation and FTA’s the findings reported here have little to add to the debate on the challenges of acceding to FTA’s and for future RCEP negotiations. Therefore, as Vixathep (2011) informs us; his findings imply that Lao, or rather the process of economic growth in Lao PDR, is conforming to the neoclassical path of industrialisation. The difference however is that Lao PDR does not currently have the agricultural base that many of the developed nations started with.

Therefore, by assumption, growth in Lao PDR will initially have to leverage of the base of minerals and natural resources such as hydropower and expand in the identified areas where Lao has an growing RCA i.e. textiles/clothing and utilities/construction. This in turn, it is assumed, will then extend into the more traditional areas of the Lao economy – overtime, and subject to the creation of a stronger structural framework for the economy of Lao PDR, and thus enable sustained growth.

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9 RCA refers to revealed comparative advantage.
Returning to the growth poverty nexus; Kyophilavong (2011) notes that few studies have been carried out for Lao PDR on the subject of Trade liberalisation, pollution and Poverty. Incidentally, services and investments are not included in the study. That aside, our view is that in respect of the impact of trade liberalisation the estimated results suggest that the contribution (percentage wise) is unchanged from earlier studies. Again the comment is made of similar data, similar techniques and only subtle variation in the key parameters. Thus, the conclusion is still that of trade liberalisation having a positive impact on growth, but its impact is relatively small.

Surprisingly though, in Kyophilavong (2011) further trade liberalisation is estimated to decrease CO2 emissions but this is also very small. Furthermore trade liberalisation is found to increase resource depletion in sectors such as coal, gas and minerals. Change in household welfare is heterogeneous (as per previous studies). The winners of liberalisation are households in urban areas principally Vientiane and the non-poor households in rural areas. Outside of this household income is estimated to drop and poverty to increase. The view herein is that if services and investments had played a larger part in the analysis then the results may have being quite different.

A change in the estimation approach is notable in as the discussion shifts focus to the Indian-ASEAN FTA which came into effect January 1, 2010. Multiple GTAP simulations were run concerning India’s trade liberalisation with the ASEAN region. The results were used to assess the impact on India’s external sector and the domestic macroeconomic variables of India, South Asian, and ASEAN member states. The welfare effects for all involved were also studied.

There were thirty five sectors in the GTAP model utilised by Sikdar& Nag (2011) and the three options were full liberalisation, and two partial liberalisations which take account of normal track/sensitive track and exclusion list products. Testing was further complicated by different model specifications. All simulations were run with perfect competition and constant returns to scale however the final simulations were also run with imperfect competition and increasing returns to scale as a model specification.

The consideration of normal track/sensitive track and exclusion lists is of interest to us here. Tariffs are divided into four broad categories; normal track, sensitive track, special products, highly sensitive lists and excluded products and this is apparently according to
the intensity of tariff reduction or elimination commitments. Table 3.2 (below) compares the commitment of the ASEAN nations with that of India.

Table 3.2 Proportion of Tariff Lines by Category: ASEAN Members & India

<table>
<thead>
<tr>
<th>Categories</th>
<th>Country</th>
<th>EL</th>
<th>NT-1</th>
<th>NT-2</th>
<th>SP</th>
<th>ST</th>
<th>HSL-A</th>
<th>HSL-B</th>
<th>HSL-C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>India</td>
<td>10.7</td>
<td>63.9</td>
<td>10.3</td>
<td>0.3</td>
<td>14.8</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Brunei</td>
<td>12.8</td>
<td>68.6</td>
<td>11.3</td>
<td>Nil</td>
<td>7.4</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Cambodia</td>
<td>2.0</td>
<td>80.4</td>
<td>4.1</td>
<td>Nil</td>
<td>13.2</td>
<td>0.2</td>
<td>Nil</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>7.6</td>
<td>41.8</td>
<td>4.7</td>
<td>Nil</td>
<td>39.5</td>
<td>0.1</td>
<td>6.3</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Lao PDR</td>
<td>2.8</td>
<td>69.5</td>
<td>8.6</td>
<td>Nil</td>
<td>19.2</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>9.9</td>
<td>59.2</td>
<td>14.6</td>
<td>Nil</td>
<td>15.1</td>
<td>Nil</td>
<td>0.3</td>
<td>0.9</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Myanmar</td>
<td>14.1</td>
<td>64.4</td>
<td>7.5</td>
<td>Nil</td>
<td>14.0</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>13.0</td>
<td>58.9</td>
<td>17.0</td>
<td>Nil</td>
<td>6.8</td>
<td>Nil</td>
<td>Nil</td>
<td>4.4</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Viet Nam</td>
<td>18.3</td>
<td>60.3</td>
<td>8.9</td>
<td>Nil</td>
<td>7.0</td>
<td>0.4</td>
<td>1.2</td>
<td>4.0</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>12.2</td>
<td>67.0</td>
<td>8.9</td>
<td>Nil</td>
<td>11.7</td>
<td>0.2</td>
<td>Nil</td>
<td>Nil</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: EL – exclusion list; NT-1 & 2 – are normal track one and two; SP is special products; ST is sensitive track; and HSL refers to the highly sensitive list A, B, and C.
Singapore is not included as it follows near perfect free trade policies.
Source: Harilal (2010, p. 7) in Sikdar & Nag (2011, p. 3)

In general, Lao PDR has very few lines in the exclusion list and twenty percent are sensitive track lines with the vast majority (80%) NT-1 and NT-2. Relative to each other the only standout feature between countries is that Lao and Cambodia have very few lines in the exclusion list. That said, in accordance with the AFTA agreement, Lao PDR has until December 2018 to eliminate tariffs under NT-1 and until 2021 for NT-2 lines. To ascertain how Lao PDR is faring relative to its ASEAN dialogue partners and those of the +6 group Table 3.3 is found below.
Putting aside India; Lao’s three largest trade partners: Thailand, China, and Vietnam have some of the highest average applied tariff rates. While Vietnam and China are incrementally reducing the average applied tariff rate across all products, both Thailand and Lao PDR appear to have moved to increase the average applied tariff rate across all goods – there does appear to be a tension between agreed trade policy and domestic policy. Sadly, the latest data for Lao PDR is not available. Further perusal of Table 4.3 is left to the interested reader.

Returning to Sikdar& Nag (2011); their detailed results appear to conflict with the findings of earlier estimations i.e. Kyophilavong et al (2004, 2010). Wherein, they record an estimation result for a percentage change in GDP that is negative. Yet, the datum value is almost negligible at -0.5%. There is however a strong positive result for Lao PDR in the form of an 18.7% (over baseline) increase in employment. All other results could almost be termed “all else remaining the same”. This includes the Welfare, Terms of Trade and the Investment/Savings effect. The abridged data table of macroeconomic variables is placed below (entitled Table 3.4).
Table 3.4 Change in Selected Macroeconomic Variables

<table>
<thead>
<tr>
<th>Country</th>
<th>(% Change in value GDP)</th>
<th>(% Change in Employment)</th>
<th>(% Change in GDP Price Index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>-1.07</td>
<td>-58.62</td>
<td>-1.25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.54</td>
<td>52.70</td>
<td>0.57</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.61</td>
<td>31.79</td>
<td>0.59</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.31</td>
<td>4.82</td>
<td>0.29</td>
</tr>
<tr>
<td>Cambodia</td>
<td>-0.14</td>
<td>-4.29</td>
<td>-0.12</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.08</td>
<td>-21.53</td>
<td>1.06</td>
</tr>
<tr>
<td>Lao PDR</td>
<td><strong>-0.05</strong></td>
<td><strong>18.7</strong></td>
<td><strong>-0.04</strong></td>
</tr>
<tr>
<td>Myanmar</td>
<td>3.18</td>
<td>-172.62</td>
<td>3.19</td>
</tr>
<tr>
<td>Philippines</td>
<td>-0.02</td>
<td>7.53</td>
<td>-0.02</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>0.34</td>
<td>-15.00</td>
<td>0.37</td>
</tr>
<tr>
<td>Rest of ASEAN</td>
<td>0.45</td>
<td>209.77</td>
<td>0.43</td>
</tr>
</tbody>
</table>

Source: Sikdar & Nag (2011, p. 17)

Aside from the information which pertains to Lao PDR there is much of interest in terms of bilateral responses to regional policy changes. GDP changes are small across all of the individually named countries in the study yet Myanmar will benefit the most. The wealthiest members of ASEAN + appear to be the largest beneficiaries of employment changes and the (arguably) poorest, Myanmar, faces the largest loss in employment. A consequence of the growth estimated for Myanmar is the rise in prices. The assumption is that much of the result is determined by the changes in trade and thus we have the trade estimation results displayed below (Table 3.5).

The estimations for Lao PDR indicate that the increase in exports will be negligible and in contrast to all other studies, imports will remain virtually unchanged. This begs the question of where the 18.7% increase in jobs will come from. Furthermore, all other variables such as: allocative efficiency, the welfare effects, and investments and savings are also – negligible. These results when compared with other recent studies are similar in only one respect, the small changes that are recorded.
Table 3.5 Change in Trade Variables

<table>
<thead>
<tr>
<th>Country</th>
<th>(% Change in Volume of Exports)</th>
<th>(% Change in Volume of Imports)</th>
<th>Change Balance of GDP in Trade as a (%)</th>
<th>(% Change in Terms of Trade)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>5.39</td>
<td>4.70</td>
<td>-0.002</td>
<td>-0.65</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-0.09</td>
<td>0.35</td>
<td>-0.003</td>
<td>0.32</td>
</tr>
<tr>
<td>Singapore</td>
<td>-0.01</td>
<td>0.24</td>
<td>-0.001</td>
<td>0.21</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.06</td>
<td>0.58</td>
<td>-0.004</td>
<td>0.14</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.27</td>
<td>0.32</td>
<td>-0.004</td>
<td>-0.13</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.22</td>
<td>0.88</td>
<td>0.0003</td>
<td>0.76</td>
</tr>
<tr>
<td>Lao PDR</td>
<td><strong>0.11</strong></td>
<td><strong>-0.09</strong></td>
<td><strong>0.002</strong></td>
<td><strong>-0.09</strong></td>
</tr>
<tr>
<td>Myanmar</td>
<td>-0.34</td>
<td>0.73</td>
<td>0.004</td>
<td>1.94</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.13</td>
<td>0.16</td>
<td>-0.0003</td>
<td>-0.02</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>0.25</td>
<td>0.49</td>
<td>-0.0003</td>
<td>0.23</td>
</tr>
<tr>
<td>Rest of ASEAN</td>
<td>-0.09</td>
<td>0.13</td>
<td>-0.001</td>
<td>0.31</td>
</tr>
</tbody>
</table>

Source: Sikdar& Nag (2011, p. 18)

Overall, from consideration of Table 3.4 and table 3.5, a plausible suggestion is that the changes (especially since the only positive result is exports), is indicative of the Lao adopting the liberalisation process but perhaps due to domestic economic constraints – the process is slower. This is evident in that the extensions of Sikdar& Nag’s 2011 paper leave Lao out. However we are tempted here to suggest that because of data validity issues the GTAP model may not truly reflect the actual reality of Lao PDR.

This reality has not however slowed the output of interested parties to any RCEP agreement. At the ASEAN Business and Investment Summit Hidetoshi (2012) informed us that integration matters. By way of data from Itakura (2013) he indicated that as a result of comprehensive liberalisation (trade, services and logistics) GDP for Lao PDR would grow by 2.3%. With accession to the RCEP GDP would be boosted by 3%. The requirement was that participant nations continue institutional reforms, ensure implementation and undertake regulatory reform.

Putting aside the Rhetoric of interested parties leveraging of the work of others, events such as the TPP\(^{10}\) and the RCEP draw closer to fruition the focus of the peripheral empirical work narrows. For the first time in an empirical study under review ASEAN is

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\(^{10}\) TPP refers to the American initiated and driven Trans Pacific Partnership – a multiregional FTA which does not include China and is not ASEAN centric. In contrast to the RCEP – the Regional Comprehensive Economic Partnership is ASEAN initiated and driven, and includes China.
aggregated and estimations were run for all ASEAN and the +3 nations individually and as a group. For example: ASEAN-PRC\textsuperscript{11}, ASEAN-Japan, ASEAN-Korea, and ASEAN+3. (See Table 3.6 below for a summary of results from ADB, 2012).

Table 3.6 Estimation Result of CGE Simulations for the ASEAN+3 FTA

<table>
<thead>
<tr>
<th></th>
<th>Static CGE Model</th>
<th>Capital Accumulation CGE Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP (%)</td>
<td>Welfare (%)</td>
</tr>
<tr>
<td>ASEAN</td>
<td>0.15</td>
<td>0.44</td>
</tr>
<tr>
<td>PRC</td>
<td>0.53</td>
<td>0.04</td>
</tr>
<tr>
<td>Japan</td>
<td>1.51</td>
<td>0.25</td>
</tr>
<tr>
<td>Korea</td>
<td>2.76</td>
<td>0.91</td>
</tr>
</tbody>
</table>

Source: ADB (2012).

The findings in ADB (2012) are as follows: after analysing the four different options for ASEAN to further liberalise trade with the big three, ASEAN is found to gain the most, in excess of bilateral FTA’s, from A+3; intuitively, since a larger FTA generates more trade opportunities and larger dynamic efficiency gains which is why multilateral WTO liberalisation is always preferable to regional liberalisation ADB (2012, p. 21). However, the more fundamental finding is that whichever trade agreement is selected will result in output and welfare gains for ASEAN as a region.

Lao PDR is a part of ASEAN and will also share in the estimated gains from further liberalisation and FTA association. Especially interesting is the aggregated results for Welfare, they are soundly positive. Thus, estimations imply that setting up the A+3 FTA would help galvanise intra-regional trade in goods and services increase societal welfare and boost sustainable growth overtime. All of this is required if conditional convergence is to become a reality in the region.

The challenge identified however is that in the real world, as opposed to an ideal world, special interest groups and vested interests stand in the way of free trade. For example, trade liberalisation will highlight that Japanese and Korean agricultural producers do not have a comparative advantage and expose them to competition from cheaper imports. Thus negotiating a ASEAN+3 agreement is much more difficult than negotiating a bilateral agreement since it requires reconciling not just the interests of ASEAN and a bilateral

\textsuperscript{11} PRC refers to the Peoples Republic of China.
partner but the interests of ASEAN and the big three which are complicated by historical and geopolitical factors.

3.3 Section Discussion

The comment is made that a decade of CGE and GTAP models find the benefits to Lao PDR of liberalisation, and FTA’s, are small in size, but positive. However, even growth rates that seem small when written in percentage terms seem large after they are compounded for many years (Gans et al, 2012, p. 187). Compounding is the accumulation of a growth rates over time and is implicated in the speed of convergence for developing economies.

According to the rule of 70 – if a variable grows at the rate of x per cent a year then that variable doubles in approximately 70/x years. If x is Lao GDP and the growth rate is 3% annually then it takes 23 years to double incomes (a generation). If the growth rate is 6% then it takes 12 years and a 1% increase to 7% brings the time down to 10 years (Gans et al, 2012, p. 187). Thus, even small (in this case GDP) percentage changes in growth rates, over the GTAP baseline, matter.

What also matters for growth is the non positive estimation values derived in the empirical analyses. While they are also small in size and reflect preferences, following the benefits of resource reallocation – a process of economic change - the impact will show up via the terms of trade, the exchange rate and the current account. Thereafter, according to the accounting identity of \( Y = C + I + G + NX \), the rebalancing will occur by way of the capital account. The citizens/government of Lao PDR will receive grants in aid, borrow from, or sell more capital assets to foreigners. This phenomenon is commented on in a later section of the study.

In respect of past and future accession to FTA’s and the ongoing process of liberalisation, the review indirectly indicates that the determination and application of macroeconomic policy, as a result of these policy shocks, could present challenges for Lao PDR (Kyophilavong et al, 2004). Of note however is the staged (long run) approach to the reduction and elimination of barriers to trade in goods, services and investments agreed to by the GoL in previous FTA’s. Finally, earlier work identified that there was estimated to be an uneven distribution of the benefits associated with openness and FTA association.
That Lao PDR was already on the path of neoclassical industrialisation was identified for us by Vixathep (2011) so there is little surprise to find that sector shares are changing. Further, as a later section of the study will indicate the poverty rates in Lao PDR, since the policy of liberalisation began, have fallen considerably yet uncertainty between the distinct groups of studies allow the comment that societal welfare for some groups and sectors is uncertain in the long term. This will remain a long run challenge for the GoL – whether to intervene or to let the market determine the incentive structure.

Finally, a recommendation made in an early study, and empathised throughout the review when peripheral work was presented, was that the GoL should engage further in capacity building and strengthening the nation’s institutional framework as this would allow the accrual of greater benefits from subsequent FTA’s. While the suggestion is sound (on the basis of results from the wider literature), and the theory of conditional convergence may well concur; however, nothing in the CGE and GTAP estimation results review herein, in our opinion, directly suggest that.

3.3 Section Summary

To summarise the findings of the Section; herein, subject to regional FTA’s, the review finds for output and welfare gains across all of ASEAN. The better option for increased growth is either ASEAN +3 (or ASEAN+6 (effectively, the RCEP). For Lao PDR, the benefits are acknowledged as being small but overtime could be much large due to compounding. Exports will grow and employment will rise, in sectors. Imports will also rise and the associated externalities will be of interest to the GoL’s strategy focus and its macro policy settings.

The distribution of benefits across the Lao economy are estimated to be uneven and the challenges for the GoL were identified as being associated with those who accrue the least, plus the interests groups and inter-regional interests. Furthermore, there remains the challenge of negotiating future agreements and this is especially difficult when there are 16 separate dialogue partners – and Table 3.3 emphasises that point. Finally, there is the question mark over the ability of Lao PDR’s institutional capacity to deliver, and the ability of Lao’s economic structure to speedily evolve - in the author’s opinion, both are unable to be determined herein. The task now is to fully describe the study’s methodology.
4. Methodology

Methodology is not method. Methodology is a detailed account of the principles and practices that underpin and organise research in a given field or discipline. These principles and practises determine how analytical tools are used and the consequent results then interpreted. Thus, the author’s understanding of political economy provides the philosophical principle which grounds this study.

4.1 Conceptual Understanding

In consideration of the multiple secondary objectives of the study (see the study guidelines section of the TOR, Appendix 1); the work is first postulated according to political economy and specifically the understanding developed in Colignatius (2005), and previously utilised in Heagney (2009). Political Economy is the science of the management of the state wherein, economic method is not the focus of the study; rather, the subject is. The subject here is the RCEP and Lao PDR not CGE models or GTAP simulations. This approach allows the work to adopt/apply multiple methods, where appropriate in order to derive a determination.

Accepting that multiple (quantitative) methods (dependent on requirements) are provided for in the WTO (2012) guide to trade policy analysis, the approach is deemed satisfactory. That said, at least one of the WTO quantitative methods are accepted as being the benchmark for analysis. This position does however rely on availability and reliability of data for Lao PDR – a known challenge. In addition, time constraints also ensure that the approach needed to be accommodating if output/deliverables targets were to be met.

Acknowledging that Political Economy is rather abstract the temptation is to seek strong secondary understanding of the reality which fits the Lao PDR and the RCEP. The default position is that of Swe & Chambers (2011) i.e. Post Classical Realism (hereafter, referred to as PCR). PCR is “a most useful tool for explaining regional economic relations in the Mekong basin....” Swe& Chambers (2011, p. 17-22). By extension herein, to a tool that is useful for understanding how and why the ASEAN+6 grouping of nations have in the past and might still behave in the future.

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12 In the context of the study’s TOR developing a questionnaire is very different to the empirical analysis of trade flows or the determination of macroeconomic policy.
The key features which determine PCR are: international politics is a highly competitive process of engagement, States are the principal units of analysis and they are acknowledged as engaging in self-help. A point of note is that material factors trump ideas or institutions in influencing international relations and short term security requirements do not always come before long term. Instead, states can make tradeoffs between competing objectives. Furthermore, nation states recognise that the growing integration of global markets is a cornerstone of national economic progress and this knowledge reinforces the choice of economic progress over short term security gains.

The method they utilise to achieve the end game (economic progress) is to actively seek changes in international trade patterns and to create more efficient domestic institutions. Nation states will also see to reduce transaction costs and better ensure property rights as this is also acknowledged as factors related to progress. In conjunction the competing nation states will use whatever economic leverage they have to secure supplies of inexpensive raw materials and other supplies (for example low cost labour) from weaker states and by reducing their domestic non-productive expenditures to free up resources for national economic advancement.

Putting aside Swe& Chambers (2011, p. 17-22) ideas on military capacity, national security and the role of domestic level phenomena as being unnecessarily detailed for this study the structural understanding posits that any analysis of the process should be undertaken in stages which concurs with the ideas of political economist such as Anderson (2004). First, at the systemic level and then, if necessary, at the domestic level. Here we are very much concerned with the domestic as it pertains to the systemic (general/universal) level.

The final concept of worth is where developing countries seek cooperation to enhance economic capacity through participation in international institutions (such as the WTO) which can assist individual nation states to achieve and sustain economic growth. International institutions are the method of choice because they enhance negotiating power, provide alternative markets for a nation’s export products, aid in attracting FDI, assist in opening opportunities for outward investment and strengthen economic competitiveness, and they also allow member states to reduce transaction costs and utilise economies of
scale. The final comment is in the form of a question – why should the economies of ASEAN+ wish to behave in the manner detailed above?

4.2 Economic Theory

Given the study’s adherence to the philosophical principle of political economy, and the digression to the physical understanding of ASEAN nations recent economic behaviour - provided by the framework of understanding from Swe & Chambers (2011) the work still requires a grounding in economic theory. This is especially so if an attempt is to be made on answering the question postulated in the paragraph above was, why should the economies of ASEAN+ behave in the manner detailed above?

The answer to the above question is simple - economic growth – which is “an increase in the capacity of an economy to produce goods and services, from one period to another…. [it is plausible to posit] that the effect is only visible over time …. a year or two [or more], after the original [policy] change has occurred” (Timakova, 2011, p. 16). In other words, over time, a sustainable increase in wellbeing, via an increased standard of living for a country’s citizens. This leads us back to the study’s objectives; one being, understanding the rationale for Lao acceding to the RCEP.

This in turn leads back to information which came to our attention in the literature review, Vixathep (2011). Lao PDR appears to be following the neo Classical Path of Industrialism i.e. Neo Classical Growth Theory. The theoretical foundation for growth theory is the Solow Growth Model (Romer, 2006, p. 7). Neoclassical growth models attempt to explain long run economic growth by looking at productivity, capital accumulation, population growth, and technological progress.

As per the model, economic growth is measured by the rate of change of real GDP; technically per worker however it is more usual to use GDP per capita – in other terms output per worker in an economy. For a thorough understanding of economic growth theory the reader is directed to Romer (2006). There are however some findings that are widely agreed. For example, capital stock per worker, savings rates, investment, and population growth, density, migration and age distribution, have all been known to have an influence on economic growth (Kelly & Schmidt, 2000).
That is, on economic growth i.e. $Y/L = \text{output per worker}$. Furthermore, also agreed is that [while FDI plays a prominent role in economic growth]…. “it seems that domestic investment, as suggested by the Solow model, might instead play a more prominent role in growth” (Greenaway, et al., 2007). [However]…. “a certain level of human capital is imperative for a country looking to benefit from foreign direct investment (Berensztein et al, 1995). In addition, FDI might have a secondary effect on growth and only have a larger impact when a certain level of development has already been reached within the country. Nevertheless, FDI remains an important source of technological advancement and can play a very prominent role in economic growth (Timakova, 2011, p. 18).

Research has also found that the fiscal approach i.e. revenue and expenditure role of government is found to ambiguous when it comes to economic growth (Timakova, 2011, p.19). The original short run Solow model did indicate that policy measures like tax cuts or investment subsidies can affect the steady state level of output in the short run but not affect the long-run growth rate of output per worker. In the short run growth is affected by the rate of capital accumulation and this is influenced by savings and the depreciation rate. In the long-run, while savings plays an important role, the rate of growth is only affected the rate of technological progress and the rate of labour force growth.

4.3 Convergence

Pursuant to the above, the development of a reliable saving and investment environment is important for economic growth. If there are numerous opportunities to save and invest, then the country is likely to converge to the steady state faster (a sustainable higher level of income, consumption and wellbeing). Furthermore, investment in human capital and creation of opportunities for employment within the country would drive growth further, and allow the countries to escape the poverty trap.

However, “it would seem that the low income countries do not experience convergence…. This is an interesting result, as it tells us that the low income countries do not seem to be converging to a steady state level of income. One of the reasons for this result could be that the low income countries are currently far from their steady states, and thus, the impact of investment and human capital has not yet had its full effect on the level of income per worker” (Timakova, 2011, p. 41).
For the purposes of this study – the impact of liberalisation and FTAs on the economy of a developing nation - the discussion begins with detailing a key prediction of the neoclassical growth model and convergence. Expectations are that the income levels of poor countries will tend to catch up with or overtime converge towards the income levels of rich countries as long as they have similar characteristics. However, empirical work has established that the evidence is not strong for absolute convergence and therefore research has led to the adoption of conditional convergence.

Whereby; a country’s income per worker (or per capita) converges to a country specific long-run growth path, which is given by the basic structural characteristics of the country (Sorensen, et al., 2005). “Unlike the theory of absolute convergence, conditional convergence does not imply an eventual eradication of poverty. [Conditional convergence] does, however, suggest, that if a country can reach the same structural characteristics as the richer countries, it might, in time, become richer. Foreign aid policies seem more rational in the case of conditional convergence as they can help [a developing nation] achieve the necessary structural characteristics, if aimed properly” (Timakova, 2011, p. 14).

As mentioned above, whether convergence occurs or not depends on the characteristics of the country or region in question, and can depend on such as: a country’s institutional arrangements, whether or not there are free markets internally, and its trade policy with other countries, and even a nation’s domestic, education policy can affect convergence. The evidence for this is derived from the institutions augmented growth model and the first two items – institutions and trade are discussed further below.

From work undertaken using the augmented model it was determined that differences in the quality of institutions precluded convergence and decided both the level and the growth rate of output per worker. Furthermore, research suggests that poor institutions induce poverty traps and increase the income gap between rich and poor countries if poor countries’ institutions do not improve relative to their rich counterparts (Edinaldo, 2008). Thus, the importance of institutions is recognised as being of fundamental importance to the progress of developing nations.

In terms of the importance of trade; there are a number of channels through which international trade is thought to influence growth. The first is represented by the process of technology spillovers and diffusion which arises due to access to many new products or
various varieties of goods through international trade (Grossman & Helpman, 1991). These do not only include new finished products but also intermediate goods and access to new services. “The main benefit arising from this lies in the diversification and modernization of the already existing technology and production, allowing the country to reach for higher levels of growth” (Timakova, 2011, p.19).

External trade also enlarges the market in which the domestic firm can operate by allowing the firm access to international consumers. Furthermore, trade facilitates competition, through opening access to new markets and new competitors. This, in turn, facilitates gains from specialization as a result of competition between firms. However, trade openness on its own cannot boost economic growth. It is possible however that trade liberalization might be a sort of catapult towards a higher level of economic growth.

The two final aspects of interest are the system of government and the extent of available natural resources. Research points very clearly to a weak relationship existing between democracy and economic growth is very weak (Phillips et al, 2007., in Timakova, 2011, p. 21). Perhaps, it makes more sense to look at the level of governance, in connection to democracy. A study by Rivera-Batiz (2002) concludes that democracy is an important determinant of growth, but only when it results in improved governance. If this relationship does not hold, however, then democracy seems to have very little effect on growth.

The same holds for authoritarian countries, if the level of governance is high, growth is also expected to be high. Furthermore, it is important that a country is in a stable political condition. Political instability brings forth uncertainty and generates a less favorable environment for investment, thus hindering economic growth. A country such as Lao PDR has experienced more than three decades of political stability and this should be evidenced in the rate of economic growth.

Finally the more recent economic literature also looks at the impact of natural resources together with property rights. The literature suggests that weak ownership predicts low levels of investments into human and physical capital that are needed for economic development. Perhaps the problem here is that excessive use of natural resources for income and the level of economic growth might be dependent on the third variable:
property rights (Bohn & Deacon, 1997) and they only exist at the level required to maximize the potential of the natural resources available.

4.4 Section Summary

The view presented here is that sound economic theory underpins the approach and determination of nation states and NGO’s such as the IMF, WTO and the World Bank – economic growth and the theory of conditional convergence. This methodology has led to the construction of specific policies (methods) aimed at promoting growth in developed nations and LDC’s. In turn, and in relation to the study at hand, the RCEP, this has influenced the behaviour of nation states in accordance with the construct of Swe & Chambers (2011) – Post Classical Realism.

The understanding detailed immediately above brings the discussion back to the philosophical principle of the study – political economy. Here the subject is clearly the management of the state. Therefore, the first task, to provide the Lao Government with a better understanding of why they should accede to the RCEP Agreement and the rationale for doing so is explained by way of economic theory. The second task is to provide the Lao Government with a better understanding of the impact of the RCEP on the Lao economy. The approach taken to achieve the second task is briefly explained below.

4.4 Subordinate Methods

The subordinate methods of this study are purposively quantitative. From the understanding developed in Subsection 4.3 of Section 4 the study will undertake a simple econometric test of economic theory using the readily available macro data for Lao PDR (Manni et al, 2012). This is followed by an extensive empirical section which utilises the estimations from GTAP to determine the existence or otherwise of the possible benefits to Lao PDR of acceding to the RCEP (Itakura, 2013; and Fukunaga & Isono, 2013) and from that empirical exercise light may be shed on the possible challenges. The final method of the study, in accordance with the TOR, is where the results of the study are utilised to construct a questionnaire (Inthaboualy, 2012). The questionnaire will be available to ascertain the perceptions of key government representatives concerned with regard to accessing the RCEP.
5. Econometric Analysis

Econometrics is the application of mathematical and statistical techniques to economics in the study of problems, the analysis of data, and the development and testing of theories and models (Gujarati, 2009).

The method here is adopted from Manni et al (2012) and utilises Eviews 7 to undertake OLS regression analysis in an effort to shed further light on the study’s objective – what is the rationale for, and the economic impact of Lao PDR acceding to the RCEP? Here however the question is simpler – does the economic performance of Lao PDR conform to the theory?

5.1 Method and Data

The method is a truncated empirical investigation of Lao PDR’s trade openness and economic growth viz. GDP values and the key variables of exports and imports. Truncated because instrumental variables are unavailable, and the creation of dummy variables thought unnecessarily complicated. The method utilised here of Ordinary Least Squares regression is derived from Manni et al (2012), and is also similar to that of Azam (2009); and Li et al (2010). Analysis is conducted with the following real macro variables Exports, Imports and GDP. In addition a variable for Openness (Exports + Imports/GDP) is constructed\(^\text{13}\).

Data were obtained from the statistics website of the World Bank (2013). Irrespective of known data issues, the real data for total Exports of goods and services, total Imports of goods and services, and total domestic GDP were obtained for the years 1990 – 2011. The period chosen is post reform initiatives and immediately prior to the 1998 AFTA agreement and all subsequent FTA’s, inclusive of preparations for WTO accession in January 2013.

5.2 Trade in Goods and Services, Openness and Economic Growth in Lao PDR

Herein, GDP (the income of Lao PDR) is simply seen as a function of economic integration, and trade in goods and services (Imports and Exports). Imports are expected to increase as the country increases its demand for foreign goods and services (inputs). The

\(^{13}\text{For a detailed discussion of the worth of the trade openness variable the reader is directed to David (2007).}\)
import demand for intermediate and investment goods and services also rises, as per Manni et al (2012).

Similarly, greater openness (liberalisation) is expected to increase exports as the country becomes more integrated with (in our case regional and) world markets and begins to produce for those markets. Thus, the results are assumed to accord with the following hypothesis: Increased economic integration (liberalisation and FTA’s) via increased exports and imports of goods and services is growth promoting and in accordance with economic theory.

The simple linear regression model used in this subsection of the study takes the following form:

**Equation 5.1 Model Specification**

\[ Y_i = C + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \mu_i \]

In Equation 5.1, \( Y \), is the dependent variable; \( X_1, X_2 \) and \( X_3 \) are the explanatory variables (or regressors); \( U \) is the stochastic disturbance term, and \( i \) the \( i \)th observation (Gujarati & Porter, 2009, p. 188). Herein, \( Y \) is the log value of real domestic GDP for Lao PDR; \( X_1, X_2 \) and \( X_3 \) in the above equation are the logged values for the constructed variable openness and the real annual exports and Imports of Lao PDR.

\( C \) is the intercept term – the average effect on \( Y \) of all the variables excluded from the model (Gujarati & Porter, 2009, p. 189). The coefficients of \( \beta_1, \beta_2 \) and \( \beta_3 \) are the partial regression coefficients and they measure the change in the mean value of \( Y \) per unit of change in \( X \) holding the value of (in the case of a multiple variable regression) all other X constant (Gujarati & Porter, 2009, p. 191).

In addition, Equation 5.1 (above) also implies that the impact of each of the specified variables, individually and jointly, is expected to be positive. This assumption is in accordance with economic theory as discussed in Section 4. The estimation results are detailed below (entitled, Equation 5.2), and then briefly discussed.
Equation 5.2 Estimation of the Econometric Model

\[ \ln GDP = 0.27179 + 1.00774(\ln Openness) + 0.62332(\ln Imports) + 0.37862(\ln exports) \]

\[ \begin{array}{ccc}
  t \text{ test} & (-165.7850) & (68.2332) \\
  (51.00775) & & \\
\end{array} \]

\[ R^2 = 0.99994 \quad F = 112908.9 \quad D-W = 1.83778 \]

The results were subjected to the standard econometric tests. The \( R^2 \) is very high which suggests that the variables are very closely related and that all are trending upwards over time. Further, the three independent variables are found to jointly influence the dependent variable and all are significant to the 1% level. Testing indicates that there is no autocorrelation and that residuals are homoskedastic, and they are normally distributed – yet the histogram does raise concerns.

To summarise, there are concerns over the appropriateness of the openness variable and the final specification of the model. A plausible suggestion is that the estimators lack precision. On a positive note, all signs are positive (as expected) and statistically significant at the 1% level. Indicating, for a positive relationship between economic integration (openness), trade (in goods, and services), and growth. That said, the results do raise some interesting economic considerations.

Namely, do the gains from trade and increased economic integration lead to a long run improvement in GDP per capita, and what might be the possible long-run growth path of Lao PDR? Results indicate that a 1% increase in Openness equates to a similar 1.007% increase in GDP; that a 1% increase in Imports suggests a corresponding 0.62% increase in GDP; and a 1% increase in Exports – a 0.37% increase in GDP. Economic theory suggests that if the change in exports and Imports is larger than the change in GDP then there are still gains to be made from further trade liberalisation (Ghani, 2011, p. 13).

Intuitively then, if trade improves exports and imports (as indicated by the coefficient values above) then GDP increases and thus trade liberalisation can be seen as being positive (Ghani, 2011, p. 13). The concern here however is that imports (and herein their composition is unknown) have a larger effect on GDP (national Income) than exports. When imports are larger than exports this will impact the balance of payment (BoP) viz. a
trade deficit (World Bank, 2012). Hence, there will be a structural constraint to long run growth.

In the long run, the trade deficit will need to be financed by capital inflows and this will slow growth and ultimately lead to a period of economic readjustment. “Overall, it may be fair to say that openness, by leading to lower prices [evidenced in Kyophilavong (2004)], better information and newer technologies, has a useful role to play in promoting growth. But it must be accompanied by appropriate complementary policies (most notably, education, infrastructure, financial and macroeconomic policies) to yield strong growth results” (McCulloch, Winters & Cirera, 2001; in, Tussle & Aggio, 2006, p. 89).

5.3 Section Summary

Aside from the obvious limitations of the simplified model; the quantitative analysis undertaken in this section suggests that economic integration and both trade variables hold a positive sign. These results concur with theory and with the findings of the literature. Hence the conclusion is that a policy of increased liberalisation i.e. accession to the RCEP, will improve trade in goods, services and this reflects the very real and positive experience, over time, of economic growth for Lao PDR (GDP). This is reinforcement for any argument pertaining to the rationale for Lao PDR acceding to the RCEP.

However, initiatives which promote further trade liberalisation will (from the results) also increase imports at double the rate of exports and this reinforces the view developed herein of the importance of macroeconomic policy to initiating sustainable growth. Furthermore, “the mix of trade and other policies that is needed [to increase and sustain growth] will strongly depend on the specific circumstances of [a] country” (Tussie & Aggio, 2006, p. 89). There are obvious challenges for national strategists and macroeconomic policy makers (for example, see The World Bank, 2012), and this should determine the final form of any RCEP agreement. Thus, the RCEP negotiations process is of vital importance to Lao PDR.

In summary, these results aid in highlighting the benefits associated with the RCEP agreement. The results are positive and admittedly small yet they do assist and assist in broadening our understanding of the rationale for Lao PDR acceding to the RCEP agreement. Thus, the simple analysis undertaken herein has gone some way toward
answering the question – yes, the economic performance of Lao PDR, 1990-2011, a period of continual economic reform and regional integration, does conform to economic theory?
6. GTAP Analysis

This section follows the approach of Nishimura (2012), and Fukunaga & Isono (2013) by presenting a Lao PDR specific quantitative evaluation of the recent work and results from Itakura (2013). The focus of his work was on estimating the impact of liberalisation, and improved connectivity and facilitation in ASEAN. Mindful of the existing FTA’s which have been implemented or will be accomplished in the near future in East Asia (for example, the RCEP). The three key policy parameters of interest were trade in goods (tariffs), trade in services (services trade barriers), and the time cost of trade (logistics).

Using the most recent variant of the GTAP model (Ianchovichina & Mc Dougall, 2001) the dynamic modelling exercise utilised an input-output structure based on regional and national input-output tables (Dean & Wignaraja, 2007). The data base in use was version 7.1 (Narayanan & Walmsley, 2008). The database covered 112 countries/regions and 57 production sectors, international trade and consumption for the economic year 2004 and these were aggregated to 22 countries/regions and 23 sectors.

6.2 Simulation Design & Policy Scenarios

The work was begun by building a baseline scenario. This was established on the population projections of the U.S. Census Bureau (2011), real GDP (IMF, 2011), and labour (ILO, 2011) so that the constructed model of Itakura (2013) tracks all the projections. The baseline scenario utilises the 2004 input and output data to project from 2001 out to 2015 on the basis of selected policy scenarios (shocks). In this case there were eighteen established however only the sixteen represented in the results tabled herein are recorded below:

1. (A1): ASEAN (2011) Tariff changes only
2. (A5): ASEAN (2011–2015) Tariff changes only
5. (C): ASEAN–China FTA Tariff+Service+Time change over the 2011–2015 period.
10. (Ax5): Five ASEAN+1s; ASEAN–China, –Japan, –Korea, –India, –Australia and New Zealand with additional costs of compliance subject to the divergent rules of five FTAs, 2011–2015 period.
The eighteen scenarios represent a range of FTA possibilities in East Asia and all of which would have an impact on the economy of Lao PDR. In point of fact, like the entire ASEAN group of nations, Laos already has many existing FTA’s which conform (a flexible interpretation) to the policy scenarios detailed above. There is the extant multilateral agreement with all of ASEAN and four bilateral FTA’s: China, India, Japan, Korea; and a plurilateral arrangement with Australia and New Zealand.

Thus, the impact of these existing agreements is also derived in the GTAP estimations. The modelling approach is similar to Dean & Wignaraja (2007) however the difference here is the thirteen extra scenarios and the parameters of each scenario modelled. For example, here the scenarios can be divided in to five groups to aid understanding. Those groups are ASEAN, ASEAN+1, Individual+1’s, ASEAN+3, and ASEAN+6 (in other words, the RCEP).

For the first group the policy scenarios from A1 to AT (numbers 1-4) focus on ASEAN FTA’s with different settings of implementation timing, and liberalisation components. A1 assumes a one year completion of the 95% trade related reductions only which is then comparable to the scenario of A5, a more gradual implementation plan. AS and AT allow the model to determine an estimation for the effect of reducing goods trade barriers (tariffs), service trade barriers and the impact of improving logistics.

The second group (numbers 5-9) are concerned with modelling the impact of five pairs of ASEAN+1 FTA’s (C, J, K, N, U). For the numbers 10-12, Ax5 assumes that all of the ASEAN+1’s are concurrently implemented. Wherein each of the five ASEAN+1’s maintains own rules and regulations regarding liberalisation; for example, rules of origin. Complying with different rules and regulations implies added costs which in turn imply
reduced benefits from the liberalisation of trade in goods and services. Therefore the degree of reduction in (s) and (t) is reduced in this scenario.

Scenario CJK are for the implementation of China-Japan-Korea FTA (negotiations began January, 2013) in which no ASEAN member countries takes part (this was the reality). Scenario Ax5+CJK are a combination of the two scenarios and aims to make a contrast with scenario A+6. In relation to numbers 13-16; for A+3 and A+3t (+3 equals China, Japan, and Korea) the scenarios are run with and without a reduction in the barriers to services and logistics. Wherein (t) indicates that only tariff reductions are considered.

A similar estimation is conducted for ASEAN+6 and ASEAN+6t (China, Japan, Korea, India, Australia, and New Zealand). ASEAN+^ and ASEAN+6t are different to Ax5 where the bilateral are not implemented among the 6 countries. For simplicity we can assume herein that ASEAN+6 will represent the RCEP. To better understand GTAP and the results which are thus derived from running the model Figure 3.1 is repeated below as Figure 6.1.

**Figure 6.1 Understanding GTAP**

![Figure 6.1 Understanding GTAP](image)

Figure 6.1 illustrates how the impact of a policy change such as an FTA can be measured in respect of variable Y (the vertical axis). The horizontal axis is a measure of time. The base line is the trend path of that variable (the variable of interest; for example, exports). An event such as the RCEP is termed a policy shock and subject to baseline data, and the specifications/parameters of the model, the response to change is predicted out to a set point in time (herein, 2015). The difference between the baseline and the policy scenario is measured in percentage terms and is the accumulated difference over time.
### 6.3 Estimations and Projections:

The estimations for the economy of Lao PDR relating to the impact of the various FTA’s, policy shocks, are reported below. For most ASEAN countries the estimation results are positive indicating that participation will lead to higher economic welfare. However, Lao PDR is the one country to indicate negatively in some categories (indicative of the sensitivity of the Lao economy and the current economic and trade structure). The results table is entitled Table 6.1.

#### Table 6.1 GTAP: Macro Estimation Results

<table>
<thead>
<tr>
<th>Lao PDR</th>
<th>GDP</th>
<th>Welfare</th>
<th>Exports</th>
<th>Imports</th>
<th>Investments</th>
<th>Ownership of Foreign Capital</th>
<th>Foreign Ownership of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>1.2</td>
<td>-0.23</td>
<td>7.4</td>
<td>7.8</td>
<td>6.2</td>
<td>-4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>A5</td>
<td>0.7</td>
<td>-0.38</td>
<td>6.5</td>
<td>7.6</td>
<td>5.8</td>
<td>-2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>AS</td>
<td>0.8</td>
<td>0.13</td>
<td>6.2</td>
<td>8.6</td>
<td>6.7</td>
<td>-1.8</td>
<td>4.0</td>
</tr>
<tr>
<td>AT</td>
<td>2.3</td>
<td>1.62</td>
<td>5.9</td>
<td>9.8</td>
<td>9.6</td>
<td>-2.4</td>
<td>5.8</td>
</tr>
<tr>
<td>C</td>
<td>2.9</td>
<td>2.94</td>
<td>4.3</td>
<td>11.5</td>
<td>12.3</td>
<td>-1.1</td>
<td>9.7</td>
</tr>
<tr>
<td>J</td>
<td>2.4</td>
<td>1.47</td>
<td>5.7</td>
<td>8.5</td>
<td>8.7</td>
<td>-2.2</td>
<td>5.5</td>
</tr>
<tr>
<td>K</td>
<td>2.4</td>
<td>1.65</td>
<td>6.1</td>
<td>9.8</td>
<td>9.5</td>
<td>-2.4</td>
<td>5.8</td>
</tr>
<tr>
<td>N</td>
<td>2.4</td>
<td>1.89</td>
<td>5.4</td>
<td>10.2</td>
<td>10.3</td>
<td>-1.8</td>
<td>7.1</td>
</tr>
<tr>
<td>U</td>
<td>2.5</td>
<td>1.63</td>
<td>5.8</td>
<td>9.8</td>
<td>10.3</td>
<td>-2.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Ax5</td>
<td>2.2</td>
<td>1.80</td>
<td>4.8</td>
<td>9.6</td>
<td>9.8</td>
<td>-0.7</td>
<td>8.4</td>
</tr>
<tr>
<td>Ax5+CJK</td>
<td>2.0</td>
<td>1.48</td>
<td>5.8</td>
<td>9.0</td>
<td>8.3</td>
<td>-1.4</td>
<td>6.5</td>
</tr>
<tr>
<td>CJK</td>
<td>-0.1</td>
<td>-0.28</td>
<td>0.8</td>
<td>-0.5</td>
<td>-1.2</td>
<td>-0.4</td>
<td>-1.2</td>
</tr>
<tr>
<td>A+3</td>
<td>2.9</td>
<td>2.53</td>
<td>5.5</td>
<td>9.5</td>
<td>9.3</td>
<td>-1.6</td>
<td>7.3</td>
</tr>
<tr>
<td>A+3t</td>
<td>0.5</td>
<td>-0.80</td>
<td>7.3</td>
<td>6.1</td>
<td>4.0</td>
<td>-2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>A+6</td>
<td>3.0</td>
<td>2.49</td>
<td>5.7</td>
<td>9.1</td>
<td>9.1</td>
<td>-1.7</td>
<td>7.0</td>
</tr>
<tr>
<td>A+6t</td>
<td>0.6</td>
<td>-0.99</td>
<td>7.5</td>
<td>6.0</td>
<td>4.1</td>
<td>-2.7</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: Itakura (2013)

### 6.3.1 GDP & Welfare:

For Lao the result are subtly different to all of the other countries tested. Needless to say, the structural dynamics of the Lao PDR economy differ from most of its dialogue partners. Nonetheless, in terms of GDP growth under all the FTA scenarios modelled, bar one (CJK), a small but positive result was recorded. The CJK result is indicative of the strength of the three big economies on the periphery of ASEAN. Lao PDR is a very small economy with little economic leverage. In GDP terms the best result overall for Lao PDR is to accede to the ASEAN+6 (RCEP).

In respect to the approach Lao PDR may take to instituting agreed reforms (a short or long term approach to implementing and completing reforms) welfare in Lao PDR will be negatively impacted. Tariff reductions reduce revenues and this indirectly affects income
and thus leads to a national welfare loss. If service costs (i.e. trade costs) are lowered in line with tariffs then the welfare gains turn positive and even more so if procedures to reform time delays (logistics) are undertaken. The preferred options for increased welfare are ASEAN+6, ASAEAN+3, and ASEAN+C respectively.

This result is possibly indicative of the growing role now being played by China in the economy of Lao PDR. That aside, all ASEAN record the highest estimation results for welfare from ASEAN +6 (the RCEP). The gains outweigh those of ASEAN+3 however the only exception, as noted above is Lao PDR. Also worth mentioning is that when just tariff reform is the focus then the welfare effect for Lao PDR is negative. It does appear that the improvement in GDP and economic welfare. The GDP and welfare estimations pertaining to the sixteen scenarios are shown below in Figure 6.2.

**Figure 6.2 All Scenarios: Percentage Change in GDP & Welfare, 2011-2015**

![Graph showing percentage change in GDP & Welfare, 2011-2015](image)

Adapted from Fukunaga & Isono (2013) using data from Itakura (2013).

ASEAN +6 (the RCEP) leads to the largest gains in real GDP. A key contributor to GDP gains is the service component of the liberalisation. However, for Lao PDR the time component, in the form of logistical improvements (i.e. better procedures) is more important than the further liberalisation of services. ASEAN+C leads to the largest gains in both GDP and welfare inclusive of tariff reduction and a 20% reduction in trade costs i.e. services and logistical procedures. In addition the increase in welfare is posited as being
the result of no reduction in revenue. That said both FTAs raise income and welfare via increased exports and imports.

6.3.2 Exports and Imports

In Table 6.1 (see above) both exports and imports are positive regardless of the pace of reform or who and how many nations Lao PDR chooses to partner with (or continued with). The exception is the very one sided CJK agreement identified earlier. Under the latter agreement export growth would be less than one percent and imports would remain virtually unchanged. The largest increase in exports for Lao PDR would come from agreeing to an ASEAN+6t FTA. Wherein, only the trade in goods is affected by the agreement and the quicker the response by Lao PDR (A1) the better the outcome.

On the other hand, imports display a different response to reform and liberalisation. Time to impact makes little difference but the inclusion of services and logistical reform certainly does. In respect of the largest percentage change in imports – this would be realised with an ASEAN+C and an ASEAN+N FTA respectively (China, and India). Once again the CJK FTA poses the only real difference in the estimation results with imports to Lao remaining virtually unchanged under this scenario. The export and import estimations pertaining to the sixteen scenarios are shown below in Figure 6.3.

**Figure 6.3 All Scenarios: Percentage Change in Exports & Imports, 2011-2015**

Of the sixteen scenarios modelled and detailed above in Table 6.1 the import estimation results are of great interest (considering the findings of Section 5 i.e. the BoP constraint). Pursuant to Figure 6.3 (immediately above) the CJK agreement would derive a positive trade balance and effect capital flows. The closet to balance is A1 – the full tariff reform in year one. If the BoP is simply the concern (and not capital flows) then ASEAN+3t and ASEAN+6t provide the largest surplus of exports over imports. Under the latter scenarios only tariff reduction is the focus of the agreement. If capital flows are of importance then the choice may defer to ASEAN+3 and ASEAN+6 (the RCEP). Here the trade deficit is similar under virtually all other scenarios.

6.3.4 Investment and Capital Ownership

Liberalisation also fosters an economic environment which attracts investment (Itakura, 2013, p. 31). Thus, the estimations of Table 6.1 indicate that investment in Lao PDR will increase under all scenarios modelled. The largest increase for investments is estimated for ASEAN+C. Subject to a pending BoP constraint the economically sound result for Lao PDR and capital ownership might be the CJK scenario. The investment, ownership of foreign capital/foreign ownership of capital estimations pertaining to the sixteen scenarios are shown below in Figure 6.4.

**Figure 6.4 All Scenarios: Percentage Change in Financial Flows, 2011-2015**

![Figure 6.4 All Scenarios: Percentage Change in Financial Flows, 2011-2015](image)

The rationale given for this in Itakura (2013) is that regional households find increased opportunities at home and shift their portfolio of ownership in capital from foreign to home markets. In that case, from Figure 6.4 under an ASEAN China FTA the Chinese community in Laos will increase their investments and Lao nationals will invest less in other countries. Under all other scenarios foreign regional households will supposedly adjust their portfolio of capital ownership towards ASEAN member nations where FTA’s stimulate ASEAN economies to hire more capital inputs to increase production and subsequently output.

This increase in others owning the capital of Lao PDR is evidenced in the estimation results seen above in Figure 6.4. The result also accords with the estimation results for exports and imports. Subject to the accounting equation needing to balance, the deficit is offset by an increase in capital inflows. All scenarios modelled, and aside from the ASEAN+CJK FTA the absolute values are the only difference. With Lao PDR already a partner to multiple FTA’s and in the process of completing its requirements under several of the scenarios modelled the RCEP (ASEAN+6) offers little that is different in the way of response to liberalisation.

6.4 Section Summary

The final comments for this section build on the argument begun in Section 4. Economic Theory underpins the rationale for Lao PDR acceding to the RCEP agreement. Section 5 utilised econometric analysis to connect economic growth theory to the long run economic performance of Lao PDR. The results agreed with theory and with the findings of the literature. Hence the conclusion that economic integration did improve trade in goods, services and this was reflected, overtime, in the economic growth performance of Lao PDR (GPD). Thus the rationale for Lao acceding to the RCEP Agreement was that it would deliver increased incomes and welfare, over time. The final step is to determine the benefits of accession.

The case has being argued in Section 6, using the extensive GTAP modelling derived from Itakura (2013), that there are benefits to Lao PDR of implementing regional trade agreements. However the argument took the form of comparative analysis. There were sixteen scenarios run and the RCEP was exposed to the light of its past and present competitors (excepting the TPP). In some instances the RCEP faced a challenge.
Nonetheless, the estimations associated with the RCEP scenario – which is the subject of the study – are positive. The specific results are recorded below in Table 6.2

Table 6.2 GTAP: RCEP Estimation Results

<table>
<thead>
<tr>
<th>Lao PDR</th>
<th>GDP</th>
<th>Welfare</th>
<th>Exports</th>
<th>Imports</th>
<th>Investments</th>
<th>Ownership of Foreign Capital</th>
<th>Foreign Ownership of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+6</td>
<td>3.0</td>
<td>2.49</td>
<td>5.7</td>
<td>9.1</td>
<td>9.1</td>
<td>-1.7</td>
<td>7.0</td>
</tr>
<tr>
<td>A+6t</td>
<td>0.6</td>
<td>-0.99</td>
<td>7.5</td>
<td>6.0</td>
<td>4.1</td>
<td>-2.7</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Source: Itakura (2013)

Results indicate that by 2015, and subject to Lao PDR acceding to the RCEP agreement, GDP growth will be 3% above the baseline predicted trend path. Welfare will improve 2.49% above the baseline predicted trend path. Exports, imports and investments are all predicted to increase 5.7%, 9.1%. 9.1% respectively above the baseline. Ownership of foreign capital does decline but foreign ownership of capital increases; -1.7% and 7% respectively. The numbers are small but they are positive.

From the previous subsection of Section 6 there is evidence to support the view that liberalisation should be as wide ranging as possible. A+6t, also shown above, is indicative of a process that includes tariff reform only. While the result for exports, imports and foreign ownership of capital are interesting the result for long run GDP, investment and welfare are not. Furthermore, while not detailed in the table immediately above, the speed of reform was also shown to be an important factor in the liberalisation of logistics - something crucial to crucial to long run performance.

The conclusion therefore is that the benefits of the RCEP agreement are positive, small numbers initially but they will compound over time. From the literature review also known is that the benefits will be uneven but economic growth is along run phenomenon. Furthermore, the challenges of negotiating an agreement which benefits Lao PDR still remain. The long-run impact on the Lao economy of RCEP accession will ultimately depend on the final negotiated agreement that is arrived at, the speed of reform and the magnitude of that reform in Lao PDR, in as much, as on the policies and actions of other dialogue partners.
7. Policy Implications

The behaviour of many nation states in the ASEAN+6 (RCEP) dialogues will be in accordance with the construct of Swe & Chambers (2011) – Post Classical Realism (see Section 4). This approach is perceived to be fully supported by such as the IMF, WTO and the World Bank viz. sound economic theory which underpins the determination of these nation states to promote sustainable development i.e. economic growth subject to the theory of conditional convergence. For developing nations and LDC’s there are many tangible benefits associated with regional economic integration.

7.1 The Benefits of Lao PDR Acceding to the RCEP Agreement

Research undertaken herein has shed much light on the rationale for Lao PDR acceding to the RCEP – growth theory and the sound application of that economic theory. The benefits of Lao PDR continuing with its strategy of economic integration are detailed throughout this study. For example, ASEAN, (2012a) suggested that such an agreement would galvanise intra-regional trade and lead to substantial output and welfare gains.

In the long run a nation’s standard of living is closely associated with its ability to produce goods and services (Gans et al, 2012, p. 210). Econometric tests using macro data for Lao PDR suggests that GDP growth is a function of trade openness, exports and imports. Furthermore all three variables hold a positive sign. These results concur theory and with the findings of the literature. Therefore, a policy of increased liberalisation i.e. accession to the RCEP, will improve trade in goods, services.

Clearly there are benefits to Lao PDR of implementing a regional trade agreement such as the RCEP. This reality is reflected the very real experience, over time, for Lao PDR. GDP growth has been dynamic over the last decade and incomes and welfare have improved – although the distribution is acknowledged as being uneven. Nonetheless the growth in welfare and the increase in the standard of living in Lao PDR are very real. Yet what is the magnitude of the benefits estimated to be attached to accession to the RCEP?

Results indicate that by 2015, and subject to Lao PDR acceding to the RCEP agreement, GDP growth will be 3% above the baseline predicted trend path. Welfare will improve 2.49% above the baseline predicted trend path. Exports, imports and investments are all predicted to increase 5.7%, 9.1%. 9.1% respectively above the baseline. Ownership of
foreign capital does decline but foreign ownership of capital increases; -1.7% and 7% respectively. The numbers are small but they are positive.

The benefits are derived via the utilisation of minimal barriers to trade in goods services and investments, stronger economic linkages, increase intra-regional trade and investment, and the creation of wider markets and larger economies of scale for the private sector (ASEAN, 2012a). The better option for increased growth in Lao PDR then is supposedly wide ranging and fully comprehensive agreement with either ASEAN +3 or ASEAN+6 (effectively, the RCEP).

7.2 The Challenges Associated with Lao PDR Acceding to the RCEP Agreement

There are a number of potential challenges facing Lao PDR and its accession to the RCEP. Not the least of which is the finding by Ghani (2011, p. 10) that there may be a five year lag between policy implementation (liberalisation) and the full accrual of benefits. If Ghani’s (2011) finding holds then policy makers need to be aware that, as per economic growth theory, the fiscal policy initiatives of Kyophilavong (2004), will be ineffective in altering the long run trend path of the economy and promoting a more evenly distributed growth pattern.

Kyophilavong’s concerns are derived from this finding that the distribution of benefits, from FTA’s, across the Lao economy are estimated to be uneven and most challenging for those who accrue the least. That said, poverty rates in Lao PDR, since the policy of liberalisation began, have fallen considerably yet changing policy, further economic integration, and acceding to regional and global FTA’s are estimated to only make the adjustment process more difficult, and the increasing speed of change will only compound the issue. Finding a solution will remain an ongoing challenge for the GoL – whether to intervene or to let the market determine the incentive structure.

However, initiatives which promote further trade liberalisation will (from the results) also increase imports (and herein their composition is unknown) at double the rate of exports. The concern is that imports will have a larger effect on GDP (national Income) than exports. When imports are larger than exports this will impact the balance of payment (BoP) viz. a trade deficit. Hence, there will be a constraint to long run growth. Even the World Bank’s (2012) report comments that the challenge of maintaining robust growth
already means that the GoL should consider managing domestic demand to preserve macro stability and sustainable growth.

In the long run, the trade deficit will need to be financed by capital inflows and this will slow growth and ultimately lead to a period of economic realignment. “Openness…. has a useful role to play in promoting growth. But it must be accompanied by appropriate complementary policies (most notably, education, infrastructure, financial and macroeconomic policies) to yield strong growth results” (McCulloch, Winters & Cirera, 2001; in, Tussle & Aggio, 2006, p. 89).

Hence the importance of macroeconomic policy settings to initiating sustainable growth in Lao PDR as “the mix of trade and other policies that is needed [to increase and sustain growth], will strongly depend on the specific circumstances of [a] country” (Tussie & Aggio, 2006, p. 89). There are obvious challenges for national strategists and macroeconomic policy makers and this should be incorporated in the understanding which determines the final form of any RCEP agreement. Thus, the RCEP negotiations process is of vital importance to Lao PDR.

There still remains however the challenge of negotiating future agreements and this is especially difficult when there are 16 separate dialogue partners. Finally, there are question marks over the ability of Lao PDR’s institutional capacity to deliver, and the ability of Lao’s economic structure to speedily evolve. Further capacity building and strengthening the nation’s institutional framework are assumed to allow the accrual of greater benefits from subsequent FTA’s. While the suggestion is sound (on the basis of results from the wider literature), and the theory of conditional convergence - nothing in the CGE and GTAP estimation results review herein, in our opinion, directly suggest that.

There are two final challenges worthy of note. First, with election to the WTO (January, 2013), the relevance of Lao’s many existing FTA’s is now thought to be under threat. This issue will only be exacerbated by accession to the RCEP. Second, published reports identified that ratification, implementation and institutional efficiency issues were already slowing the process and hindering Lao PDR’s economic progress (MoIC, 2012). Research undertaken herein cannot determine if that is in fact the case however, if found to hold, then this will further hinder progress post RCEP accession. The question remains – does
Lao PDR have the capacity to accrue the full benefits from further multilateral trade agreements?

Finally, the ADB (2012) report commented that in the real world [the politics of international trade], historical and geopolitical factors, special interest groups and vested interests often stand in the way of free trade and this will make negotiating (such as the RCEP) a much more difficult than any of the previous bilateral FTA’s. In addition, competing with the to the ASEAN centric RCEP there are other regional and global FTA’s in the process of advancement or agreement.

The China-Japan-Korea FTA (first round conducted January 2013), and the Non ASEAN led Trans-Pacific Partnership (TPP) about to start its 16th round of discussions with selected dialogue partners (March, 2013). Both of the initiatives pose engagement challenges for Lao PDR as the focus of future trade initiatives could potentially, and very quickly, shift from the core of ASEAN to the +3 periphery and beyond (to the US and the EU).

7.3 Recommendations

The study makes only two recommendations.

1) Further detailed research is required on the identified challenges associated with the accession of Lao PDR to the RCEP. Then, and only then, can policy makers, working with full information, focus on determining the final form of any RCEP agreement, and on the post accession task of fine tuning the economic response of the Peoples Democratic Republic of Laos.

2) Conclude a high level, and as comprehensive as possible, RCEP agreement by 2015 (inclusive of services, logistics, and investments). An agreement that rises above the complexity of existing FTA’s and which all dialogue partners agree to fully converge with i.e. the agreement should be a WTO/GATT commitments, sector wide, plus approach (Fulunaga & Isono, 2013, p. 23-27).
8. Stakeholder Survey

The penultimate section of the study, in accordance with the TOR, is the development of a survey instrument. The TOR guidelines indicate that it should be formulated from the results of the study. Aside from the guidelines there is little else to assist in the process of survey development.

Conducting any survey involves a number of well recognised steps and a stakeholder survey is no different. The ones described below are broad headings only since a detailed description of is beyond the scope of this study. Nonetheless, the eight specific steps are as follows.

1), define the objective of the study; 2), undertake stakeholder mapping; 3), a sampling is conducted of the survey stakeholders; 4), the survey instrument is then designed and pretested; 5), final survey implementation; 6), data entry of results and analysis; 7), presentation of findings and recommendations for actions; 8), the follow-up (Solomon et al, 2012).

Time and resource constraints negate the possibility of even attempting all of the above eight steps. Suffice, the approach adopted here develops the base material, the survey’s objective and presents a first draft of the possible survey instrument. Both of these are form the necessary requirements for further discussion and determination by the client.

8.1 Introduction

A stakeholder is any individual, group, organisation or department that has either a stake or an interest in the matter at hand – the RCEP (Roberts, 2012). Stakeholder surveys are a quantitative method based on a questionnaire to gather information pertaining to the RCEP from the selected stakeholders. Here the interest is in the gathering of fact and opinion as to the nature and level of their understanding (in this case) of the RCEP, their preparedness for the RCEP accession, and possibly of their intentions thereafter.

Stakeholders are extremely important to achieving successful outcomes as key stakeholders (even at the level of the individual) can greatly influence what you achieve or don’t achieve (Full Circle Feedback, 2013). Therefore, in addition to asking the right questions great care should be taken to prepare a survey instrument that will enable, and allow, stakeholders to feel free to express own feelings, facts and opinions.
In addition, the initiating entity should be aware that all of the stakeholders surveyed will be well aware of their own stake or and that of your own department. The endeavour therefore is to not harm or disadvantage that stake or interest through a confusing or negative survey experience (Pgexchnage, 2013). Thus, the process of constructing/developing the stakeholder survey instrument is very important.

8.2 Methodology

Initial thoughts were formulated on the premise that the possible outcome of the survey was a better understanding of the values and beliefs of key GoL representatives. Thus, the inception report spoke of market segmentation and values and beliefs. However, subject to the task at hand, the requirement is for a quick and dirty (QD) approach which meets the need and initiates the discussion/development process.

Therefore, seeking similar studies which could be utilised for comparison, and which had been demonstrated in a similar environment, research unearthed the work of Inthaboualy (2012). Wherein, twenty semi-structured interviews were conducted with senior GoL officials in respect of Lao PDR’s national competitiveness. The approach adopted was that of the case study; a method which has at its core the stakeholder survey.

The approach is widely used across disciplines. For example, determining public access to water (DCR Massachusetts, 2005); restructuring government services (Madanmohan et al, 2006); CGIAR challenge program on water and food (2007); understanding he issues and constraints to implementing legislation (PWC, 2009); and finally, identifying strengths and weakness of the government’s approach (Scottish Government, 2009). However, Inthaboualy (2012) provides us with a simple benchmark.

8.3 Method

For the purposes of this study only the probable objective of the survey is defined and then a truncated process is undertaken wherein a first draft only of a possible survey instrument is developed for later use/further development by the client. Mapping is assumed to have already being undertaken by the client as per the understanding derived from the TOR. The very important consideration of sampling procedure is not dealt with herein at all. Finally a first draft survey instrument is designed and presented for discussion.
8.4 The Objective

A survey starts off with an overall guiding question which pertains to the study’s objective. The objective here is to ascertain the perceptions of key GoL representatives concerned with accession to the RCEP (TOR, 2012, p. 2). The question then becomes; what is level of awareness of, and degree of preparation for Lao PDR’s accession to the RCEP? The question requires an answer such that a measurable result can be determined, and one that signifies whether or not organisational change has occurred (Pgexchnage, 2013).

8.5 Developing a Survey Instrument

The survey/questionnaire was developed between January and February, 2013 based on the previous questionnaire of (Inthaboualy, 2012). Assuming that the key stakeholders have already been mapped by the MoIC then the method of data collection is either online, by mail, or by using the semi structured interview. The selected sample itself will determine the exact form that will be used to collect data i.e. the answers to the questions asked.

The survey begins by asking the demographic questions which put the respondent at ease. This is followed by five differentiated blocks of questions. Those questions are derived from the study’s objective/question which, as explained, are broken down into specific subjects and then a series of open ended queries on that subject are developed i.e. what do you think about......? The survey/questionnaire design herein follows the basic form of Inthaboualy (2012).

The survey is comprised of six sections: 1) Factual statements about the respondent and the department they work for the DCR; and four sections which explore the values and beliefs of the respondents. Heading two 2) contains questions about the respondent’s personal beliefs as they relate to their department and the accession of Lao PDR to the RCEP; 3) these questions are designed to gather information which pertains to their respondent’s specific professional knowledge of the RCEP and Lao PDR.

Headings 4), and 5), combine values and beliefs questions which are attuned to discerning the respondents and his /her departments world view of the RCEP and Lao PDR. In combination the questions of the survey may enlighten us of the level of awareness of, and degree of preparation for Lao PDR’s accession to the RCEP and importantly of the response by key GoL personnel to RCEP Accession. The first draft completed – the next
The task is to open discussions with the client to determine the development of the stakeholder survey analytical tool and the. The first draft of the questionnaire is found below (entitled, First Draft: Questionnaire/Survey Instrument).

8.6 First Draft: Questionnaire/Survey Instrument

Ascertaining the perceptions of the key GoL personal who are concerned with Lao PDR’s accession to the RCEP

1. General Information about the Participant:
   - Age.
   - Gender.
   - Job Title.
   - Department you work for.
   - Experience with the department.
   - A brief overview of the department i.e. size, and such as relative standing.
   - Past knowledge of, and experience with previous FTA’s

2. The RCEP (Regional Comprehensive Economic Partnership)
   - How would you define the RCEP?
   - Comment on the current preparedness of your department for the RCEP.
   - Do you have any particular views on Lao PDR’s accession to the RCEP?
   - How much do you think that the RCEP is committed to helping Lao PDR develop?

3. Lao PDR and the RCEP
   - Subject: the RCEP - What are the key factors that will determine the outcome for Lao PDR?
     - Discussion follows on each of the identified factors
   - What do you see as being the key constraints (factors) associated with Lao’s accession to the RCEP?
     - Discussion follows on each of the identified factors
   - What can Lao PDR learn from past FTA’s while embracing liberalization and globalisation (i.e. joining the RCEP)?
4. The RCEP and Lao’s National Competitiveness

Will Lao PDR’s regional competitiveness be increased by joining the RCEP?

And Why do you think so?

What benefits will Lao PDR realise by joining ASEAN?

And Why do you think so?

What challenges will Laos face in the RCEP context?

And Why do you think so?

5. Concluding Remarks

What challenges do you see Lao PDR facing in a globalised environment?

If you were in the position where you could enhance the Lao economy, what three things would you do?

And why?
9. Conclusion

The dialogue partners of ASEAN+6 recently declared their intention to begin RCEP negotiations (Lim, 2012; and ASEAN, 2012a). The problem; there existed limited work concerning the possible economic impact of the RCEP on Lao PDR. The Regional Trade Policy Division of the MoIC, herein undertook a foundation study in respect of the RCEP’s potential impact on the economy of Lao PDR. The question; RCEP, what are the benefits, and what are the challenges for Lao PDR?

Searching found no substantive extant work for Lao PDR and the RCEP. Existing quantitative trade studies for, and those that included Lao PDR, were also limited (for example: Kyophilavong, 2004, 2010, and 2011; Sikdar & Nag, 2011; Fukunaga & Isono, 2013; and Itakura, 2013). Nonetheless, the literature review found for small but positive benefits for Lao PDR from continuing the process of economic integration however the distribution may be uneven, and macro and micro challenges remained.

The study adopted a methodology from political economy (Colignatius, 2005), and a framework of understanding from regional economics (Swe & Chambers, 2011). Economic growth theory then linked Lao PDR’s macroeconomic data to substantiate the rationale for Lao acceding to the RCEP. Thereafter, GTAP estimations were mined to ascertain the possible benefits of accession and to shed light on the associated challenges. Finally, a stakeholder questionnaire (developed from the analytical results) is presented for consideration.

The argument herein was that the rationale for Lao PDR acceding to the RCEP is the sound economic theory which underpins the determination of the dialogue partners to promote sustainable development i.e. sustainable economic growth subject to the theory of conditional convergence. Econometric tests using macro data for Lao PDR find that GDP growth is a function of increasing openness, exports and imports. These results concur with theory and with the literature. Therefore, accession to the RCEP, will improve trade in goods, services and promote growth; thus, the rationale for Lao PDR acceding to the RCEP.

An evaluation of the most recent, and by far the most extensive, GTAP analysis to date (Itakura, 2013) estimates that the benefits to Lao PDR from association with the RCEP, on the basis of the liberalisation being as wide ranging as possible, will be positive. By 2015,
and subject to Lao PDR acceding to the RCEP agreement, GDP growth will be 3% above the baseline predicted trend path. Welfare will improve 2.49%; exports, imports and investments are all predicted to increase 5.7%, 9.1%. 9.1% respectively. Ownership of foreign capital does decline but foreign ownership of capital increases; -1.7% and 7% respectively.

Nonetheless, the challenges facing Lao PDR in acceding to the RCEP are many and varied. The national strategy and macroeconomic policy will be tested. This understanding should determine the final form any RCEP agreement takes. With sixteen dialogue partners the challenge of negotiating an agreement which benefits Lao PDR may remain elusive. As a consequence of WTO accession and the looming approach of the RCEP current FTAs will lose their relevance.

In addition there are currently competing regional and global FTA initiatives which may not favour Lao PDR and their momentum will also pose challenges for Lao. The long-run impact on the Lao economy of RCEP accession will ultimately depend on the final negotiated agreement that is arrived at, the speed of reform and the magnitude of that reform in Lao PDR, in as much, as on the policies and actions of other dialogue partners.

Herein, the objective of the study (in accordance with the above) was twofold. First, to provide the Lao Government with a better understanding of why they should accede to the RCEP agreement – economic growth theory and the theory of conditional convergence. Second, to shed light on the possible impact of the RCEP on the Lao economy – the benefits (in percentage terms) are positive for Lao PDR however they are be small initially but will compound over time. In essence, the work has taken a positive step toward determining whether accession to the RCEP agreement would be good for Lao PDR.

Recommendations were succinct. In fact, there were only two. The first was concerned with further research into the areas identified as presenting possible challenges associated with Lao PDR and the RCEP. The second was more specific. Lao PDR should conclude a high level, and as comprehensive as possible, RCEP agreement as speedily as possible (inclusive of services, logistics, and investments). An agreement that rises above the complexity of existing FTA’s and which all dialogue partners agree to fully converge with i.e. the agreement should be a WTO/GATT commitments, sector wide, plus approach.
The penultimate section of the study sought to define, from the results of the empirical sections, the objective of a stakeholder survey and to design a first draft of a stakeholder questionnaire. The objective of the survey is to ascertain the perceptions of key GoL representatives concerned with accession to the RCEP (TOR, 2012, p. 2); what is the level of awareness of, and degree of preparation for Lao PDR’s accession to the RCEP? The first draft of the questionnaire is found in Subsection 8.4, ready for further discussion and determination by the client.

The study’s hypothesis was the following: theory and empirical analysis can only provide us with an awareness/better understanding of, but not enlighten us greatly of, any real long run economic reality. Thus, to conclude, the answer given above is not simply a philosophical one, it was imminently practical. The potential impact on the Lao economy of the RCEP will depend, as it does in any economy, on the policies of others, and most especially, on the policies and approach of the GoL (short, medium, and long term). The hypothesis is found to hold.
References


