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TRÉSOR-ECONOMICS

What are the prospects of economic catch-up for the least developed countries of Southeast Asia?

- Only eight of the 48 least developed countries (LDCs) listed by the United Nations are located in Asia. This sets them apart among both Asian countries and LDCs. Three–Myanmar, Cambodia and Lao–are located in the Greater Mekong Subregion (GMR) of Southeast Asia. The World Bank includes them among its "Olympians of growth"-countries with some of the highest growth rates over the past 20 years.

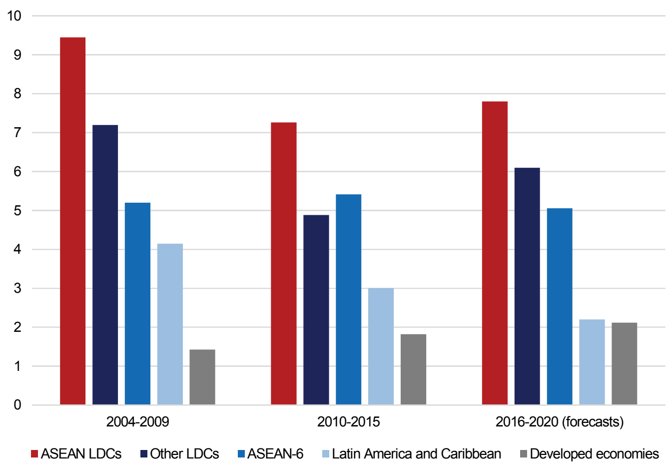
- Are the ASEAN LDCs like other LDCs? The question can be answered by considering what is specific to their growth paths, identifying their drivers and assessing their development prospects. A comparative analysis shows that they are better poised than the other LDCs to graduate from the UN category, while remaining pre-emerging economies (see chart below). In addition to strong economic growth and the quality of their human capital, what sets them apart from their peers is their geographical location in a region that is a global magnet for foreign direct investment (FDI) and, in addition, shares a border with China.

- The ASEAN LDCs exhibit a persistent gap with Vietnam, the pre-emerging reference economy for this study, which attracted 7% of inward FDI to Southeast Asia in 2014 versus 2.5% for the three LDCs combined. This gap is mainly attributable to a different form of international insertion. The ASEAN LDCs are still rural economies specialised in low value-added products-the textile industry for Cambodia, and raw materials for Lao and Myanmar-and they have few trading partners. By contrast, Vietnam's economy has diversified, reducing its dependence on raw materials exports while developing a competitive industrial offering.

- The economic and financial interdependence of ASEAN LDCs with China has intensified over the past decade. Trade has virtually quadrupled since 2010, and has grown 18-fold since 2000. The combined stock of Chinese investment in the three LDCs approached $12bn in 2014, or three times the level of 2010, and 150 times the level of 2003. China has thus become a vital source of external financing.

- Myanmar, Cambodia and Lao are therefore on the front line of Chinese economic expansion in Southeast Asia. They also border two regional economic powers: Thailand and Vietnam. This proximity does not mean, however, that their catch-up with the club of Asian Tigers would require the same degree of industrialisation and internationalisation. The countries in the GMR must leverage their comparative advantages.

Average annual GDP growth by period and by region (%)



Source: World Economic Outlook (October 2015), International Monetary Fund (IMF), authors' calculations.

MINISTÈRE DES FINANCES ET DES COMPTES PUBLICS

MINISTÈRE DE L'ÉCONOMIE DE L'INDUSTRIE ET DU NUMÉRIQUE

1. The ASEAN LDCs are different from other LDCs

1.1 ASEAN LDCs[1] differ from their peers, based on United Nations criteria

Under UN criteria for defining a least developed country (see Box 1), the ASEAN LDCs have far higher **gross national income (GNI) per capita** than the African LDCs, with Lao and Myanmar ranking 3rd and 11th among the 48 LDCs. They are also in a stronger position than most LDCs regarding **human capital** despite the persistence of steep challenges in all three countries, such as infant mortality rates and secondary enrolment rates. Their economic vulnerability index (EVI) value is lower than the LDC average, and indeed very near the cut-off for exclusion from the category (see Box 1). With an index value of 33.7, Myanmar ranks as the 13th least vulnerable LDC (see Table 1).

Table 1: United Nations criteria - Position of ASEAN LDCs relative to peers

	GNI per capita* (2014)	Human Assets Index** (*CDP 2015 Review*)	Economic Vulnerability Index *** (*CDP 2015 Review*)
Myanmar	**1,270**	**72.7**	**33.7**
Cambodia	**1,010**	**67.2**	**38.3**
Lao	**1,600**	**60.8**	**36.2**
Average of LDCs	**1,219**	**51.4**	**41.4**
African LDCs, Haïti[a]	893	43.6	41.0
Asian LDCs[b]	1,266	63.0	33.8
Island LDCs[c]	2,653	73.9	52.0
Vietnam	1,890	88.5****	30.1****

a. African LDCs and Haiti: Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, DR Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea-Bissau, Haiti, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, South Sudan, Togo, Uganda, Tanzania, Zambia..
b. Asian LDCs: Afghanistan, Bangladesh, Bhutan, Cambodia, Lao, Myanmar, Nepal, Yemen.
c. Island LDCs: Comoros, Kiribati, Sao Tomé and Principe, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu.

*Equatorial Guinea has been excluded because its GNI of $13,340 makes the country an exception.
**The HAI ranges from 0 (low) to 100 (high).
***The EVI ranges from 0 to 100; the lower the index, the lower the country's vulnerability.
**** 2011, latest year available.

Sources: UNCTAD, World Bank, Fondation pour les Études et Recherches sur le Dévelopement International (FERDI).

1.2 They also differ because of their high growth rates and more developed human capital

The ASEAN LDCs have enjoyed strong economic growth. In 2010-2015, when LDCs overall grew at an average annual rate of 5.4%, GDP rose by 7.0% in Cambodia, 7.3% in Myanmar and 7.8% in Lao, ranking them among the ten LDCs with the highest growth rates. Further, all three reported higher **GDP per capita growth** than the 3.1% average rate for the period (see Table 2).

Table 2: GDP growth - Position of ASEAN LDCs relative to peers

Growth rate	GDP (%, yoy)		GDP per capita (%, yoy)	
Country	2015	2010-2015	2015	2010-2015
Myanmar	8.5	7.3	7.6	6.4
Cambodia	7.0	7.0	5.4	5.3
Lao	7.5	7.8	5.5	3.8
All LDCs	**3.8**	**5.4**	**1.6**	**3.1**
African LDCs, Haïti	4.2	5.5	1.5	2.7
Asian LDCs	3.2	5.3	1.8	3.8
Island LDCs	3.2	5.0	0.4	2.1
Vietnam	*6.5*	*6.0*	*5.4*	*4.9*

Sources: UNCTAD, World Economic Outlook (October 2015), IMF, authors' calculations, year-on-year (yoy) percentage change.

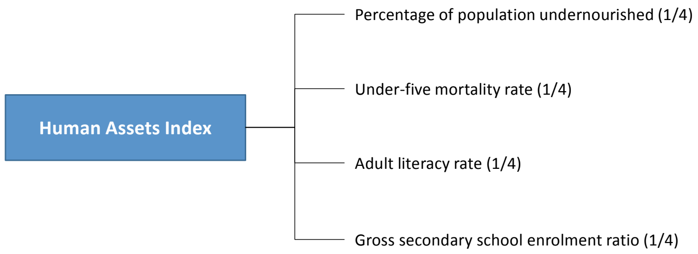
(1) Timor-Leste is not a member of ASEAN and is classified in the category of island LDCs. Because the economy is almost exclusively dependent on its oil and gas sector, it is not included in the comparative analysis.

Box 1: **Which are the 48 countries identified as least developed countries (LDCs) by the UN?**

1. Four criteria are used to define LDCs

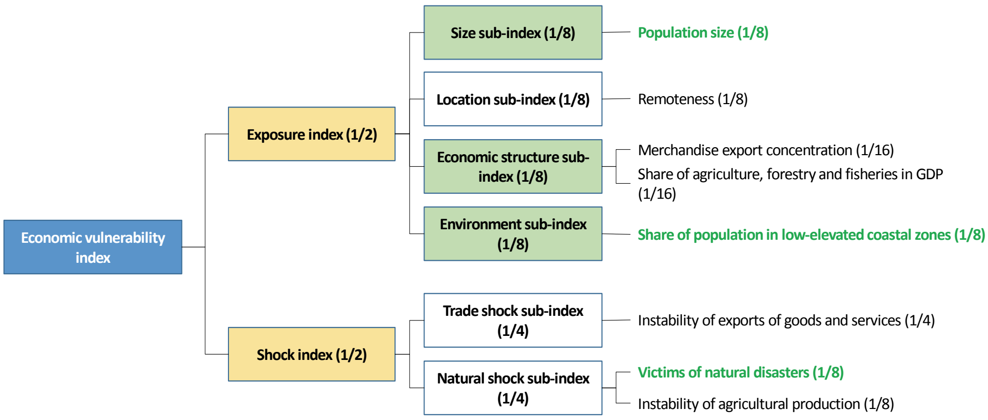
a) The income per capita criterion, based on an estimated 3-year average GNI per capita. The graduation threshold ($1,242 in March 2015) is set 20% higher than the inclusion threshold ($1,035).

b) The human capital criterion, based on a composite Human Assets Index (HAI) that averages 4 indicators. The graduation threshold is set 10% above the inclusion threshold.



Fractions in brackets indicate each variable's weighting in the overall HAI.

c) The economic vulnerability criterion, based on a composite Economic Vulnerability Index (EVI). Since 2000, the EVI has been the third criterion for identifying LDCs. The EVI aims to reflect the risk that exogenous shocks bring to bear on a country's development.



Green indicates items that were changed recently (i.e., which differ from the EVI 2006/2009 design). Numbers in brackets indicate the coefficient of an EVI item or sub-index.

d) The country's population must not exceed 75 million

Population size is included in the EVI calculations, and it is a decisive criterion for a country's eligibility for inclusion in the LDC category. In 1991, the UN Committee for Development Policy decided that countries with a population over 75 million would no longer be eligible for inclusion. The decision did not affect LDCs that had previously joined the category. Population size is not a criterion for graduation from the list.

2. Conditions for inclusion in and exclusion from the LDC category

A number of thresholds are applied to the first three criteria to determine which countries should be added or excluded. **A country fulfils the conditions required for recognition as an LDC** if it satisfies the thresholds for the three criteria and if its population does not exceed 75 million. But eligibility is not enough; the country must formally notify the UN Secretary-General of its acceptance. **To graduate from the LDC category,** a country must satisfy the thresholds for at least two of the three criteria during at least two consecutive triennial reviews of the list. A country graduates three years after the UN General Assembly recognizes its eligibility for graduation. For example, **a country that satisfies the criteria in 2015 and in 2018 will not graduate from the LDC list before 2021.** However, if an LDC's GNI per capita has risen to a level at least twice the graduation threshold, the country is eligible for graduation regardless of its performance under the other two criteria.

3. International solidarity to support LDCs

Targeted efforts by the international community seek to address the structural handicaps that characterise LDCs. The two main aspects are (1) trade policy, including preferential access of LDC exports to markets, special and individualised treatment by the World Trade Organisation as well as technical assistance for capacity building in trade facilitation; (2) official development assistance. Donor countries reaffirmed in May 2011 their commitment to allocating the equivalent of 0.15-0.20% of their GNI in bilateral aid to LDCs under the Istanbul Programme of Action for the Least Developed Countries for the Decade 2011-2020. The commitment was reiterated in December 2014 by the members of the OECD Development Assistance Committee, and again in July 2015 in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

Sources: UNCTAD (2015), The Least Developed Countries Report 2015: Transforming Rural Economies; Guillaumont, P. (2015, revised version), Measuring Structural Vulnerability to Allocate Development Assistance and Adaptation Resources, Fondation pour les Études et Recherches sur le Développement International (FERDI), Working Paper no. 68.

All three ASEAN LDCs have a higher level of development than the LDC average, with Human Development Index (HDI[2]) values above the 0.47 average. Cambodia (0.58) ranks 136th, Lao (0.57) 139th and Myanmar (0.52) 150th. The Multidimensional Poverty Index (MPI[3]) ranks Lao and Cambodia among the top 15 LDCs. The populations in the three countries tend to be better educated, with one of the highest youth literacy rates (ages 15-24) among the LDCs.

1.3 Will the ASEAN LDCs be graduating from the category circa 2020?

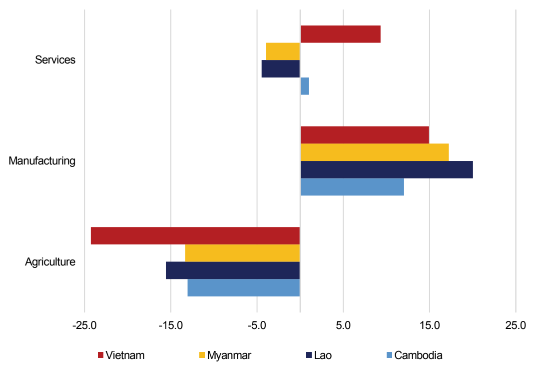
Southeast Asian LDCs have the distinctive feature of being located in an area marked by growing regional integration, as evidenced by the launch of the ASEAN Economic Community on 31 December 2015. Moreover, the GMR includes provinces of China and is close to Bangladesh and India. In other words, it is situated at the heart of a region with nearly 50% of the world's population[4] and with very large markets. Regional dynamics help to drive the countries' growth and contribute to their prospects for graduating from the LDC category. **Indeed, their stated intention is to graduate by the early 2020s.** While the objective is ambitious, in 2014 they succeeded in attracting 15% of total FDI inflows into the LDCs, and drew the largest individual shares of the total (7.4% for Cambodia, 4.1% for Myanmar and 3.1% for Lao)[5].

The most recent projections available for potential graduation from the LDC category, based on the relevant criteria and the UN procedure (see Box 1), indicate that **Myanmar, Cambodia and Lao could be eligible for graduation at the next triennial review in 2018** (before graduation takes effect in 2021)[6]. But graduation from an officially recognised category, under which rich countries are encouraged to engage in international solidarity would not necessarily mean that they had moved through a crucial stage in transforming their production systems and internationalising their economies[7].

2. Are ASEAN LDCs following Vietnam's lead in "virtuous" internationalisation?

2.1 Wealth and production diversification: Vietnam leads the way

Chart 1: Sector shares of total value added, 1980-2013



Sources: UNCTAD, authors' calculations.

While the ASEAN LDCs, which have posted some of the world's highest growth rates[8], may seem to be following **Vietnam's lead, a significant distinction is Vietnam's transformation of its production structures.** From 1980 to 2013, Vietnam substantially reduced the relative size of its agricultural sector, as both manufacturing and services expanded (see Chart 1). By contrast, while the share of the agricultural sector in value added also declined–albeit to a lesser extent–in the Greater Mekong LDCs, agriculture continues to be the biggest source of employment in Lao (over 70% of the total) and Myanmar (close to 60%), while agricultural productivity remains low in all three countries.

2.2 The export sector of the ASEAN LDCs continues to concentrate on a limited range of low value-added products, compared with Vietnam

Diversification must also be measured in terms of trade, as exports compete for international markets[9]. **While LDCs have doubled their share of world trade in the past decade, it remains low at around 1%**[10]. Exports are concentrated on a small number of products, often low value-added goods, widely considered to be insufficient growth drivers. Export diversification–as evidenced by the number of trading partners and the products exported-contributes to economic development[11].

(2) A composite indicator combining life expectancy at birth, the level of education (mean years of schooling and literacy rate), and GDP per capita.
(3) The MPI uses a set of weighted indicators to measure nonmonetary "overlapping deprivations suffered at the same time".
(4) ASEAN, China, India and Bangladesh.
(5) In 2011-2014, Cambodia ranked 6th among LDCs for inward FDI; Myanmar ranked 12th.
(6) United Nations ESCAP (2015), *Asia-Pacific Countries with Special Needs Development Report*, pp. 45-49. Note that between 1991 and 2014, the only countries to graduate from the list were Botswana (1994), Cape Verde (2007), the Maldives (2011) and Samoa (2014).
(7) For an analysis of ODA eligibility cut-off levels for GNI per capita: Kenny C. (2014), "The Strange and Curious Grip of Country Income Status on Otherwise Smart and Decent People", Center for Global Development.
(8) In 2000-2015, Myanmar, Cambodia and Lao had average annual growth rates of 9.7%, 7.8% and 7.3% respectively, versus 6.5% for Vietnam.
(9) Papageorgiou, C., Spatafora, N. and Wang, K. (2015), "Diversification, Growth, and Volatility in Asia", in *Frontier and Developing Asia: The Next Generation of Emerging Markets*, pp. 59-79.
(10) Combined merchandise exports of the three LDCs of ASEAN account for 0.13% of world exports, compared with 0.8% for Vietnam in 2014.
(11) Imbs and Wacziarg (2003) showed that an increase in export diversification is positively correlated with GDP per capita up to a certain level of development (GNI of $22,000). Hausmann et al. (2007) demonstrated that countries with a more sophisticated export basket tend to grow faster: Imbs, J. and Wacziarg, R. (2003), "Stages of Diversification", *American Economic Review*, 93 (1): 63-86; Hausmann, R., Hwang, J. and Rodrik, D. (2007), "What You Export Matters", *Journal of Economic Growth*, 12: 1-25.

2.2.1 Limited diversification of the ASEAN LDCs' trading partners

ASEAN LDCs depend on a small number of markets for the bulk of their export revenues. This makes them even more vulnerable to a shock affecting one of their partners. Between 2005 and 2014, ASEAN LDCs reduced their exposure to developed country markets. This trend permits greater geographical diversification in Cambodia, overexposed to demand fluctuations in the developed economies, which represent 76% of its total exports. By contrast, the trend increases the regional dependence of Lao and Myanmar on the rest of Asia, which accounts for 87% and 93% of exports respectively. **In all three ASEAN LDCs, the top two markets account for over half their exports.** Sixty percent of Cambodia's exports go to the U.S. and the EU–with the latter it benefits from the EU's Everything but Arms trade preference initiative. China and Thailand together account for 80% of exports by Lao and Myanmar. By contrast, less than 40% of Vietnam's exports go to the country's top two export destinations: the U.S. and the EU[12].

2.2.2 Export diversification: experiences have varied in the three LDCs, while Vietnam has pursued diversification and moved up the value chain

In a decade, Cambodia exports have grown somewhat more diversified, with the textile industry's share declining from over 80% in 2005 to less than 70% of exports in 2014. Exports by Myanmar and Lao remain concentrated in low value-added products (raw materials and food). **Vietnam, on the other hand, has managed to increase at a faster rate the share of manufactured goods, machines and transport equipment,** up from 50% of total exports in 2005 to over 70% in 2014. This export diversification has been driven by high-technology, high-skills goods[13], which now account for 26% of Vietnamese exports of manufactured goods, up from 6% in 2005.

This analysis is confirmed by the other indicators–the export concentration index or HHI[14] and the economic complexity index[15]–which illustrate **the gap in industrial development between the three LDCs and Vietnam**. The latter country has implemented a strategy to internationalise its economy based on promoting exports and welcoming FDI, which supports the growing sophistication of its export sectors. Vietnam is a case of successful economic diversification relying on the combined virtues of size (a domestic market of over 90 million[16]), agglomeration effects, learning effects and the institution of efficient special economic zones (SEZs). The environment thus appears more conducive to economic diversification in Vietnam than in ASEAN LDCs.

2.3 The States in ASEAN LDC are not as developmental as in Vietnam

Institutional factors (financial assistance and governance), industrial and trade policy (international openness and regional integration policy), as well as other structural factors such as innovation, human capital and infrastructure are among the determinants that explain the degree of diversification of low-income economies[17].

- **There is a considerable governance gap between ASEAN LDCs and Vietnam.** Despite persistent deficiencies, the Vietnamese government has been relatively more efficient in a context of broad political stability, which probably explains how it generated greater leverage from official development assistance (ODA) in 2000-2014. While Vietnam received more ODA in absolute terms, Lao and Cambodia received a significantly larger share as a percentage of GDP[18].
- **Vietnam has a higher degree of trade openness**, estimated at 81% versus 61% for Cambodia and 22% for Lao and Myanmar[19]. Vietnam's accession to the World Trade Organisation in 2007, its participation in the Trans-Pacific Partnership, its commintments under in the ASEAN Economic Community launched on 31 December 2015, and the signing of the declaration on the conclusion of the negotiations of a free-trade agreement with the EU at the end of 2015: all attest to Vietnam's deepening insertion the international economy.

(12) These figures are calculated using the UNCTAD database (extracted 5 February 2016).

(13) Electronic and telecommunications goods, in particular. Samsung has transferred a large portion of its cellphone production from China to Vietnam, where it has invested over $11bn since 2011. In addition to advantageous tax conditions and factories located near airports, monthly labour costs come to an estimated $145 in Hanoi versus $456 in Beijing (source: CEPII). Samsung accounts for over one fourth of Vietnam's exports, and 95% of its phone exports.

(14) The Herfindahl-Hirschmann index (HHI) measures market concentration.

(15) The economic complexity index (ECI), developed by Hausmann and Hidalgo (2009) and calculated by the Observatory of Economic Complexity (MIT) for 128 countries, provides a synthetic view of information on product ubiquity and diversification. The ubiquity of a product is measured by the number of countries that produce it, while an economy's diversification is closely linked to the diversity of its productive capacity. Accordingly, it is defined as the capacity to produce different goods.

(16) Compared with 7 million in Lao, 15 million in Cambodia, and 51 million in Myanmar.

(17) United Nations (2013), *Diversification and Sophistication as a Lever for the Structural Transformation of North African Economies*, United Nations Economic Commission for Africa; World Bank (2015), "Low-Income Countries: Graduation, Recent Developments, and Prospects", *World Economic Outlook*, pp. 40-46.

(18) In 2000-2014, ODA accounted for an average 10% of GDP a year in Lao and 8% in Cambodia, compared with 3% in Vietnam. Total ODA over the period came to $40bn in Vietnam, $9bn each in Myanmar and Cambodia, and $5bn in Lao.

(19) (Exports + Imports)/2*GDP.

- Vietnam also has a decisive lead in terms of innovation[20] and higher-quality human capital. **The transition to a mid-range manufacturing sector has been facilitated by the quality of primary education** and the improvement in secondary and tertiary education. In barely twenty years' time, Vietnam has increased by 50% the mean years of schooling of its labour force.

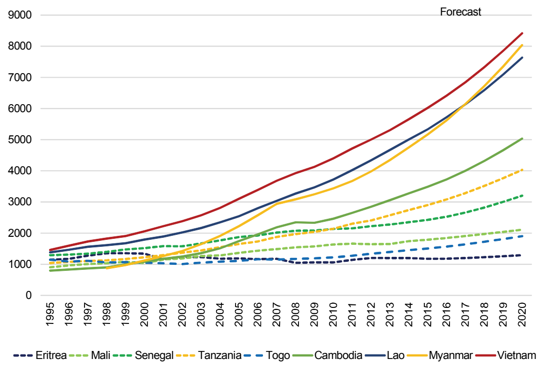
Box 2: **Diverse paths for economic catch-up in the Greater Mekong Subregion**

The World Bank defines as "Olympians of growth" those countries whose **GDP per capita growth has ranked among the 40 fastest in the world economy for two decades.** By this standard, Cambodia, Lao and Vietnam are members of the club, which also includes Bhutan, China, India, Mozambique and Uganda. The direct consequence of the rapid, sustained GDP growth in ASEAN LDCs is the stylized fact illustrated by the first chart: **Lao, Myanmar and–to a lesser degree–Cambodia, are distinguishable from other LDCs with an equivalent population by their strong GDP per capita growth**.

Their impressive growth path in 1995-2015 and favourable outlook over the 2020 horizon should not, however, obscure **the development gap observed with respect to Vietnam. The gap is explained not only by the fact that the economic take-off by the Greater Mekong LDCs began later**, but also by differences in their internationalisation processes, industrialisation prospects and economic policy choices. **The most likely scenario is one of differing paths.** The second chart shows the following stylised fact: the three ASEAN LDCs did relatively more to close the gap in GDP per capita between 2000 and 2015 than the ASEAN-4 countries* (the LDCs were poorer to begin with, and their growth rate is higher, illustrating **absolute [i.e., beta] convergence**).

The choice of Malaysia as the reference for calculating differences in GDP per capita is consistent with the empirical literature on the existence of **convergence clubs in Asia**–in other words, the finding that in the long run, countries or subgroups of countries tend towards a GDP per capita determined by their individual characteristics, and not by those of the most advanced economies (this is known as the **conditional convergence** process). As the richest of the ASEAN-4 countries, Malaysia thus provides a more relevant basis for comparison than either Singapore or an index based on average GDP per capita of the ASEAN-4, because of the disparity in wealth within ASEAN. As Robert Barro recently noted with respect to Chinese convergence, "The notion that a tendency for the poor to grow faster than the rich implies a negative trend in dispersion or inequality is a fallacy". The different paths of the three LDCs confirm the idiosyncratic nature of their development prospects, as they are distinguished by geographical, institutional and other factors.

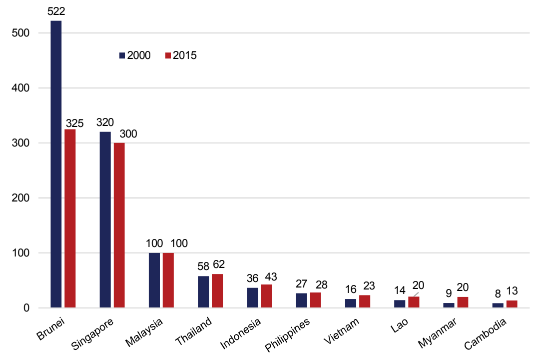
Chart 2: GDP per capita, PPP (current US$)



Sources: World Economic Outlook (October 2015), IMF, authors' calculations.

Note: ASEAN LDCs are compared with LDCs with a similar population size. Cambodia is compared with Mali and Senegal, Lao with Eritrea, and Myanmar with Tanzania. Vietnam appears on the chart as a frontier market for comparison purposes; note that Vietnam has never been classified among the LDCs.

Chart 3: Differences in GDP per capita of the ten ASEAN countries in 2000 and 2015 (PPP, Malaysia=100)



Sources: World Economic Outlook (October 2015), IMF, authors' calculations.

*ASEAN-4: Indonesia, Malaysia, Philippines, Thailand.

Sources: Barro, R. (2016), Economic Growth and Convergence, Applied Especially to China, NBER Working Paper Series no. 21872, p. 9; Zhai, F. (ed.) (2009), From Growth to Convergence. Asia's Next Two Decades, ADB-Palgrave Macmillan, pp. 5-13; Jones, C. I. (2015), The Facts of Economic Growth, NBER Working Paper Series no. 21142, pp. 36-45.

3. Economic and financial interdependence between ASEAN LDCs and China is intensifying

3.1 Trade ties with China are rapidly strengthening

China accounts for a larger share of imports and exports in ASEAN LDCs than in other, higher-income ASEAN members, which have a more diversified range of trading partners. Trade between China and the three LDCs totalled $14.4bn in 2014, of which $9bn with Myanmar, $3.3bn with Cambodia and $2.1bn with Lao[21]. This represents a fourfold increase since 2010, compared with a twofold increase with the rest of the world; the increase was 18-fold for China and sevenfold for the rest of the world since 2000.

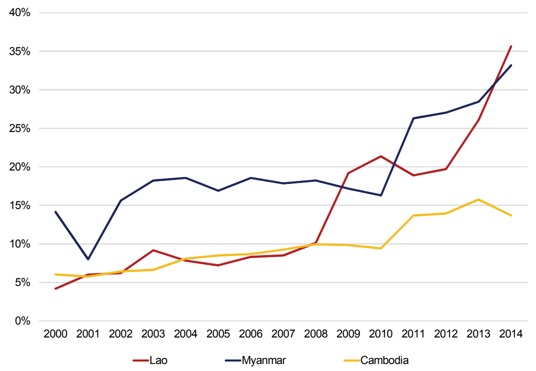
While the lifting of U.S. and EU sanctions could erode China's position in Myanmar, **China is the country's leading trading partner, accounting for over 30% of its trade** in 2014. Interdependence has grown substantially with Lao, as China's 35% share of trade makes this landlocked LDC the **Southeast Asian country most dependent on the Chinese market. Cambodia is an exception**, as most of its exports go

(20) Among the 141 economies included in the Global Innovation Index 2015, Vietnam ranks 52nd, Cambodia 91st and Myanmar 138th. Lao is not ranked.

(21) These figures should be treated with caution. In this paper, they are taken from national sources for Myanmar (through the CEIC database), and from UNCTAD for Lao and Cambodia. The investment statistics are from the Chinese Ministry of Commerce (through CEIC). National sources and the Heritage Foundation database were nevertheless useful for explaining the FDI breakdown by sector. The authors wish to thank the Economic Services of the French embassies in Rangoon, Phnom Penh and Vientiane for providing valuable information.

to the advanced countries (see §2.2.1). China nonetheless accounted for 15% of Cambodia's trade in 2014 (see Chart 4).

Chart 4: Share of trade with China (%)



Source: UNCTAD, national source through the CEIC database (Myanmar), authors' calculations.

ASEAN LDCs have similar trade flows with China, exporting mainly natural resources (food materials, wood, jade, natural gas, electricity, rubber) and clothing (for Cambodia), and importing primarily manufactured goods–machines and transport equipment–as well as textile inputs for Cambodia.

This bilateral trade specialisation translates into a widening trade deficit with China, up for the three countries altogether from $500 million in 2000 to $3.1bn in 2014. The deficit is particularly large with Cambodia and Myanmar. This raises questions regarding the potential for the three countries to shift to more-sophisticated, higher value-added exports, in light of the size and nature of their trade with China.

In addition to trade flows, **tourism flows are also gaining pace**. Increasing numbers of Chinese are travelling abroad, with 20% annual growth over the 2010-2014 period[22]. Chinese tourists are a major source of earnings, especially in Lao and Cambodia, where they now account for 10% and 12% of tourist arrivals, up from 4% in 2005.

3.2 Investment and financing by China have grown considerably in recent years

While China's outward direct investment has grown swiftly in recent years, **ASEAN accounts for less than 6% of the stock of China's global direct outward investment**[23] **and ASEAN LDCs for 1.3%**. Conversely, China is one of the leading investors in the three countries[24], with an investment stock of $11.6bn in 2014[25], three times higher than in 2010 and 150 times higher than in 2003. The **Chinese investment stock is high in all three countries, particularly Lao, where it is equivalent to 38% of GDP, followed by Cambodia and Myanmar, at 19% and 6% of GDP** respectively.

China's direct outward investment has grown since its initial investment in these countries in 2008-2009, with a focus on exploiting natural resources, and textiles in Cambodia. But it is increasingly targeting infrastructure development, property and services (such as the construction of casinos, shopping centres and hotels in Lao). Chinese firms are involved in numerous projects and many Chinese small businesses have relocated to these countries as well. **Chinese investment has thus become a major structural component of their economic development.**

China also provides rapidly growing amounts of assistance in the form of concessional and non-concessional loans, technical assistance and grants. China is now Cambodia's largest bilateral creditor (accounting for 62% of bilateral external debt), Myanmar's second-largest creditor (after Japan) and one of Lao's largest creditors, along with Thailand[26]. This escalation in ASEAN LDCs supports the claim that **over half of China's global assistance is allocated to LDCs**[27].

3.3 The three countries have different degrees of economic and financial interdependence with China

The ASEAN LDCs are on the front line of Chinese expansion in Southeast Asia[28]**.** The most visible sign is the growing Chinese footprint on border areas in Lao and Myanmar, which combined share a roughly 2500-km-long border with the world's second-largest economy. China's growing weight in the GMR is currently exemplified by **its large diaspora, widespread use of the renminbi, and sizeable infrastructure projects**. In addition, through the membership of Yunnan province and the Guangxi Zhuang Autonomous Region in the programme, China is present in the Greater Mekong Subregion Economic Cooperation Program that began in 1992 and is supported by the Asian Development Bank.

China's increased power in trade and finance, however, came at a time when the economies of Cambodia and Lao had already taken off the ground. Normalisation of Myanmar's relations with the international community and the subsequent resumption of activity by the multilateral development

(22) China National Tourism Administration (through CEIC).
(23) As reported by the Chinese Ministry of Commerce (through CEIC). The Heritage Foundation puts the figure at 8%.
(24) While the numbers vary depending on the source, China is the leading investor in Myanmar (ahead of Thailand) and in Lao (ahead of Thailand and Vietnam). China reportedly accounts for one-third of the FDI stock in Cambodia (source: The Council for the Development of Cambodia).
(25) $4.5bn in Lao, $3.9bn in Myanmar and $3.2bn in Cambodia.
(26) IMF Article IV reports on Cambodia (2015), Lao (2014), and Myanmar (2015).
(27) Snell, S. (2015), *China's Development Finance: Outbound, Inbound, and Future Trends in Financial Statecraft*, U.S.-China Economic and Security Commission, Staff Research Report, p. 20.
(28) Salidjanova, N. and Koch-Weser, I. (2015), *China's Economic Ties with ASEAN: A Country-by-Country Analysis*, U.S.-China Economic and Security Commission, Staff Research Report, pp. 31-38.

institutions have bolstered its economic development, but only since 2012-2013. This timing difference between the three LDCs, and whether or not the countries share a common border, explain the differences in their interdependence with China. The imbalance in bilateral negotiating powers that already characterises their relationships with Thailand and Vietnam has been amplified with China, as evidenced by its key role in exploiting natural resources in Myanmar and Lao[29]. The First Lancang-Mekong Cooperation Leaders' Meeting in Sanya, on Hainan Island, on 23 March 2016, marked the first time China participated in discussions on the management of the Mekong River basin. The event confirmed the strategic importance that Beijing places on cooperation with ASEAN LDCs. The joint declaration at the end of the meeting refers to the involvement of the Asian Infrastructure Investment Bank, which was established following an initiative by China and officially began operations in January 2016.

Deepening regional economic integration in the GMR can benefit ASEAN LDCs in several ways, including gains derived from lowering the cost of trade and facilitation of investment, or by helping to reduce the vulnerability of national economies to external shocks[30]. But these positive effects are contingent on the implementation of appropriate cooperation policies that take the interests of the three LDCs into account, possibly in the context of stronger economic and financial ties with China.

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(29) Joint Development Research Center of the State Council and Chatham House report (2016), *Navigating the New Normal: China and Global Resource Governance*, pp. 46, 67-68.

(30) Asian Development Bank Institute (2014), *ASEAN 2030: Toward a Borderless Economic Community*, pp. 54-79; Hugon, P. (2014), "L'integration régionale peut-elle réduire la vulnerabilité?", FERDI.

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