



CICP Commentaries

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Global Economic Crisis and CLMV

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Cambodia, Laos, Myanmar, and Vietnam (CLMV) are the poorest countries in East Asian region. In the beginning, it might have thought that the financial and economic crisis hit hard the well developed countries such as United States, Japan, South Korea, and Europe and developing countries would not be seriously impacted by the crisis due to their financial markets have not strongly integrated into the world financial market yet. However, that assumption proved wrong as time passing by. Developing countries seem to be impacted even more than developed countries in terms of socio-economic livelihood. Statistically, real Gross Domestic Products of developing countries have been contracted less than developed countries but looking from human livelihood perspective developing countries suffer more from the global economic crisis. This is due to the lack of social safety nets and basic socio-economic infrastructure to respond in a short term to economic turbulence or shocks. This has put developing countries into a prolonged and deeper social crisis. It takes longer time for developing countries than developed countries to recover from this.

Why and how global economic crisis hit us, CLMV? CLMV countries have integrated with regional and global economic system since late 1990s and early 2000s after they became the members of ASEAN and WTO. Their economic structure depends much on external sources of growth. Their export mainly depends on the US and Europe market and their investment much depends on the foreign capital and technology, tourism industry which is very vulnerable to external shocks contributes largely to these countries' economy. It is therefore safe to say that these countries are not immune from global economic crisis.

Crisis hit these countries at different level but similar sectors in two ways. First, the shrinking demand for goods especially textiles and raw materials in the US and Europe market adversely impacts on the production and employment these countries. Second, the capital and

tourist flow into these countries have been remarkably plummeted rendering these countries into decreased investment capital and shrinking tourism services industry.

It is noted that Vietnam is the most resilient in the Mekong region in the context of the crisis. This is due to the high level of hard and soft infrastructure and the diversification of production and income generation of its economy. In addition, investment climate in this country can be regarded as the most attractive in the region.

What we have learnt from the crisis?

- a. We are living in an unstable globalization in which uncertainties and risks are always with us. It is therefore necessary to stay together and find solutions for the problems together. Stronger regional integration is required to create a network of rapid responses. National, regional, and global policies should be vertically and horizontally integrated.
- b. Rebalanced growth is necessary for the world. The widening gap between rich and poor is threatening world system and order. We should have better distribution of production and income. We should have a mechanism to rebalance growth in this world economic system. One of the tools should be stronger integration among developing and developed countries in creating production network, supply chain, and consumption channel. Developing countries should not only be regarded as the suppliers of raw materials and cheap labor but also a market. Income generation and the creation of the middle class in developing countries should be much more emphasized. Domestic investment and consumption should be given priority.
- c. We are living in a much interdependent world. That is good but we should not rely too much on external sources for economic growth we should have our own sufficient growth at both national and regional level. Real regional integration East Asia should be accelerated. China, Japan, and South Korea should be the economic drivers in the region. East Asian Free Trade Area should be realized soon in order to promote trade and investment in the region. Open regionalism should be maintained and nurtured in the region.

What donor community should do?

- a. Assist the Small and Medium Enterprises (SMEs) in CLMV in both financial and technical aspects. SMEs could greatly reduce poverty and generate a pool of domestic middle class consumers.
- b. Build basic and necessary infrastructure to assist SMEs especially electricity and water supplies with low cost.
- c. Assist in human resources development in these countries especially in the field of entrepreneurship and sustainable science.
- d. Establish SMEs Training and Service Support Centers in each country in the region.
- e. Assist in creating regional production and consumption in the Mekong region. Private sector plays extremely important role in this but they need support from the government and donor agencies.
- f. Assist in building necessary infrastructure for agricultural development in these agrarian countries.
- g. Assist in creating an effective and workable social safety nets programs in these countries