

## **I. Executive Summary**

Although it is commonly referred to in the official ASEAN documents that the ASEAN Economic Community (AEC) will be a “single market and production base by 2020”, ASEAN is unlikely to achieve the status of a “single market” in the economic sense of the term. Instead, it is more likely that the AEC will be a FTA-plus which is an arrangement akin to the ASEAN Free Trade Area (AFTA) with elements of a common market. This definition of the AEC is very important not only for the ASEAN member countries but also for China, Japan and South Korea. If the AEC is an “FTA-Plus”, then it is conceptually a subset of the proposed East Asian Free Trade Area (EAFTA) comprising of the ASEAN “FTA-Plus” and a Northeast Asia FTA comprising of China, Japan and South Korea. As a subset of EAFTA, the implementation of the AEC must be completed before the start of the negotiation of the establishment of the EAFTA.

Economic optimality dictates that the EAFTA should be pursued under the ASEAN+3 framework in order to minimise duplication and overlapping in the trade and investment agreements. However, in practice, regional integration in East Asia proceeds under the framework of a series of ASEAN+1 because of the absence of regional integrative structure in Northeast Asia. Consequently, there is currently a real and high risk of trade fragmentation resulting from the uncoordinated proliferation of bilateral and subregional FTAs in East Asia.

The EAFTA is likely to be more beneficial for the CMLV economies compared to the AEC. This is due to the larger economic size of EAFTA and the ability of the more developed Northeast Asian states to provide financial and technical assistance to CMLV. However, the real or net impact of either the AEC or the EAFTA will depend largely on the structure and manner in which they are implemented as well as the ability of the CMLV economies to maintain their current economic reforms.

Of the CMLV countries, Vietnam and Cambodia are likely to benefit from either subregional arrangement relatively more than Laos and Myanmar. Despite the fact that all of the CMLV countries are undergoing various stages of economic and institutional reforms, Vietnam and Cambodia have undertaken more comprehensive and sustainable reforms in their economic transition. This is not only due to the reforms required under the AFTA but also due to the ongoing reforms taking place in Cambodia and Vietnam

as part of their preparation for accession to the WTO. Cambodia was admitted to the WTO in October 2004 and Vietnam is expected to be admitted at the end of 2005.

The extent to which the CMLV countries will be affected by either arrangement is dependent on their domestic conditions, structure in which the integration is pursued and the level of involvement of the ASEAN-6, China, Japan and South Korea. The ASEAN-6, China, Japan and South Korea could be involved in various aspects e.g. investing in human resource development, infrastructural investment, institutional and capacity-building of CMLV as well as providing more regional public goods.

Expectations by the CMLV countries on China, Japan and South Korea to play active roles in the development of CMLV are high. China's geographical proximity to the CMLV countries means that it is in its national interest to play a more dominant role vis-à-vis Japan and South Korea in the economic development of these CMLV countries. In particular, Myanmar is strategically the most important CMLV country from the Chinese perspective.