



## **Geo-economic Factors of an Intensification Development of Laos in Association of Southeast Asian Nation Conditions**

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### **ABSTRACT**

In Association of Southeast Asian Nation (ASEAN) since 2015 came into force the creation of the project "ASEAN Economic Community." In this regard, it is important to examine the consequences of this process, particularly with regard to individual countries, in particular – the least developed, which include Laos. Laos is a member of ASEAN, is also directly involved in the process of formal and actual regional economic integration and the formation of the ASEAN Economic Community. In the XXI century the world economy undergoes a significant transformation, increased global instability. Among them – the deepening of regional economic integration processes in different regions of the world – in Western European Union North American Free Trade Agreement, ASEAN. The ASEAN countries occupy a strategic location on the route from the Indian Ocean to the Pacific, being at the crossroads connecting the Pacific basin to the Middle East, Africa and Europe.

**Keywords:** Association of Southeast Asian Nation, Laos, Regional Economic Integration, Association of Southeast Asian Nation Economic Community

**JEL Classifications:** O53, O50, F02

### **1. INTRODUCTION**

Sustainable economic union countries speaker attracts attention of researchers, including – in the conditions of the global financial crisis of 2008-2009, and in the subsequent period (Prakash and Ikumo, 2012). The researchers said: "In the aftermath of the Asian financial crisis, Association of Southeast Asian Nation (ASEAN) countries had two important aspects of economic growth. The first is the proliferation of bilateral and multilateral free trade agreements (FTA) and the second is the presence of a unique and complex production network, including both large firms and small and medium-sized businesses. As a result of the global financial crisis there was a need to further strengthen the interdependence in the region and the ASEAN countries have begun to conclude agreements on the FTA first with neighboring countries – China and Korea and then to Japan, India, Australia and New Zealand."

It is of interest the growing role of ASEAN in world trade: ASEAN retained not only high rates of economic growth, but also to foreign

trade, as the intra-regional and extra-regional, including – with the Russian Federation, the mutual trade cooperation between Russia and ASEAN actively growing. Bilateral trade grew by 13%, from \$19.9 billion in 2013 to \$22.5 in 2014 (Reshetnikova, 2012).

It is interesting to analyze the fact that ASEAN countries are increasing their presence in the global investment processes, so that the subject of several studies. Interest in FDI in ASEAN is largely predetermined by the protection of intellectual property in these countries, which is important in terms of transfer of high technologies.

And finally, a great interest is the growth of regional economic integration in ASEAN, its existence "can be considered as one of the most successful examples of creating a regional integration grouping in the eastern world" (Shkvarya et al., 2014).

However, some authors consider it is trade in services as an engine of integration into ASEAN and its liberalization are also on the agenda in the ASEAN (Panfilov and Strygin, 2011).

However, trade liberalization as K. Itakura studies suggest mixed effects on the integrating countries. In some cases, such as the author's calculations show, even the negative impact of liberalization is possible some countries, such as Laos and the Philippines (Itakura, 2014).

The same applies to production integration in ASEAN. Although ASEAN as in any other developing region of the world, actively carried out industrial cooperation, which supports a number of studies (Kimura and Ayako, 2011), the effects of this cooperation are also different for individual countries. The aim of this study is based on analysis of the current state of socio-economic and external trade provisions of the ASEAN, to identify the role of Laos in ASEAN and to establish the possible directions of its participation in ASEAN, in particular, run under the ASEAN Economic Community in 2015, as well as the possible consequences this initiative for Laos.

## 2. RESEARCH METHODS

For the purposes of analysis and critical scientific discussion, we turned to modern research and reports of international organizations (World Trade Organization [WTO], International Monetary Fund, etc.), The ASEAN official sources and articles in academic economic journals.

The theoretical aspect of this study is to identify the current trends in the socio-economic dynamics and the role of the ASEAN integration process. The practical component of this research include the development of policy recommendations for the government of Laos.

Total ASEAN area is 4.487 million km<sup>2</sup>, the total population of over 622 million people. (2014) and is growing rapidly, presenting

a capacious (and growing) market, and a combined gross domestic product (GDP) of ASEAN countries exceeded \$2.4 trillion at high and sustained its dynamics (Table 1 and Figure 1). All this enables the participating countries to have access to this vast market combined. This is especially important for Laos – a small country with no access to the sea.

As can be seen from the analysis of the data presented, the ASEAN economies were quite resistant to the global crisis, and now ASEAN is the 7<sup>th</sup> largest economy in the world, which is ahead of Brazil and Russia (Yoo, 2016). The methodology validation is based on the research of Stavropol region.

The combined GDP of grouping in 2015 exceeded \$ 2.5 trillion, and by 2020 it is projected to reach 4 trillion cumulative growth rate of ASEAN's GDP is quite high: It amounted to 4.9% compared to the world average of 3.5% in 2015, until 2020 the rate of growth is projected at 5.6%. This will enable ASEAN to become by 2050 the 4<sup>th</sup> economy in the world.

At the same time the analysis of the data presented, that ASEAN remains high differentiation of the levels of economic development of the member countries of the association. Laos, Myanmar, Vietnam, Cambodia, among the least developed ASEAN countries. It is interesting to note that during the monitoring period, the total GDP of ASEAN has increased by 4 times, while the GDP of Laos – 7, and the economy of Laos has been the most rapidly and steadily growing in the unit in 2011-2014, i.e., grew more rapidly than the ASEAN average.

In 2014, according to UNCTAD, the GDP growth rate was 7.3% in Laos, which is a very strong indicator amid global instability (Rylov et al., 2016), reaching a level of \$12.3 billion, according to UNCTAD. This is a historic maximum of Laos.

**Table 1: Dynamics of GDP of ASEAN countries in 2000-2015, mln. USD**

Country	2000	2001	2002	2003	2004	2005	2006	2007
Brunei Darussalam	6001.281	5601.02	5843.367	6557.404	7872.191	9531.437	11470.49	12247.35
Cambodia	3666.638	3991.795	4289.402	4664.899	5337.89	6293.048	7274.502	8639.241
Indonesia	165,473.8	160,921	196,146.3	234,772.4	256,836.9	285,868.6	364,570.5	432,216.7
Lao People's Democratic Republic	1665.31	1684.979	1758.293	2014.09	2376.062	2716.784	3541.451	4213.934
Malaysia	97,583.55	96,537.08	104,924.7	114,660.1	129,795.6	143,534.4	162,692.3	193,549.5
Myanmar	7275.326	7633.918	10,369.13	9924.908	10,253.85	11,930.83	13,851.58	18,232.53
Philippines	81,044.63	76,279.65	81,376.61	83,927.58	91,392.48	103,095.5	122,239.2	149,394.5
Singapore	94,308.33	87,701.14	90,640.32	95,956.61	112,697.3	125,429	146,014.2	178,259.1
Thailand	126,147.9	120,051.9	134,300.9	152,280.7	172,895.6	188,847.3	221,035.9	262,081.2
Vietnam	31,172.63	32,685.2	35,064.11	39,552.5	45,427.85	52,917.29	60,913.45	71,015.59
GDP ASEAN	614,339.4	593,087.6	664,713.2	744,311.2	834,885.7	930,164.2	1,113,603	125,8834
Country	2008	2009	2010	2011	2012	2013	2014	2015*
Brunei Darussalam	14,393.51	10,732.66	12,370.5	16,691.38	16,953.95	16,111.11	14,971.38	15,467.00
Cambodia	10,351.92	10,401.84	11,242.28	12,829.54	14,054.44	15,249.68	16,435.48	17,000
Indonesia	510,228.6	539,580.1	709,190.8	845,931.6	876,719.3	868,345.6	848,025.3	881,831
Lao People's Democratic Republic	5285.17	5585.017	6743.619	8060.6	9397.286	10,759.61	11,666.98	12,303.0
Malaysia	230,811.6	202,257.5	247,533.5	289,037.6	304,725.7	312,433.7	326,113.3	338,272
Myanmar	25,864.44	32,934.81	41,517.78	57,933.92	61,571.04	63,030.97	67,627.82	68,728
Philippines	174,235.5	168,373.6	199,637.2	224,147.2	250,240.1	272,066.7	285,098	297,036
Singapore	190,318	190,164.4	233,292.3	272,316.1	284,298.6	295,744	301,193.1	304,968
Thailand	290,174.3	279,982	338,778.3	366,946.4	393,185.4	420,167.4	405,533	409,799
Vietnam	91,094.05	97,180.25	115,931.8	135,539.5	155,820	171,222	186,598.6	194,096
GDP ASEAN	1,542,757	1,537,192	1,916,238	2,229,434	2,366,966	2,445,131	2,463,263	2,539,500

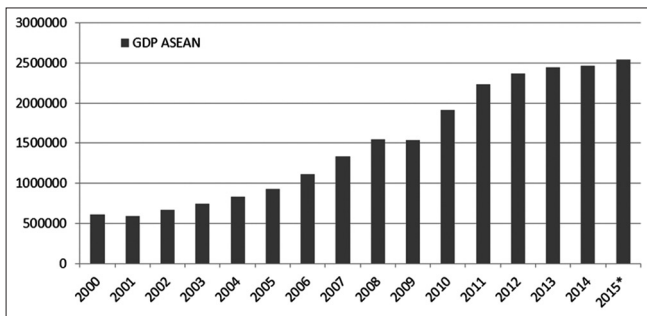
GDP: Gross domestic product, ASEAN: Association of Southeast Asian Nation

Finally, the stable growth of per capita income in the unit, as seen from Figure 2. GDP per capita average of the ASEAN in 2014 amounted to 3.9 thousand dollars (in the world – \$10.7 thousand). the highest rates in Singapore and Brunei – \$54.6 and \$35.4 thousand, respectively, in 2014.

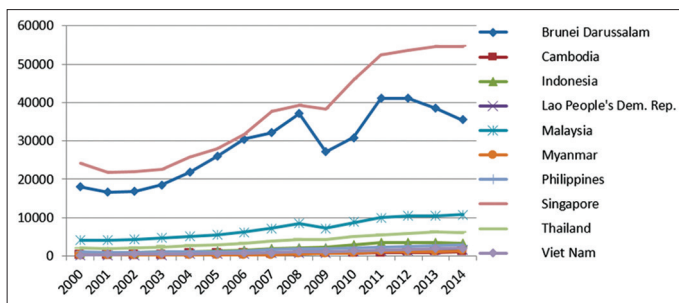
In 2014, Laos has reached a historic high for the value of turnover – both exports and imports - for the study period (Table 2). Statistics show that the role of Laos in the foreign trade of ASEAN (as well as in the regional GDP) is minimal, although it has steadily increased. Thus, in 2000 the turnover of Laos in ASEAN's total trade turnover amounted to 0.07%, and 0.2% in 2014 (Table 3 and Figure 3).

Favorable foreign policy and the accession to the WTO in February 2013 allowed Laos more actively integrate into the regional and international economy and diversify its geographic markets. The traditional – and largest – trade partners are Laos, Thailand,

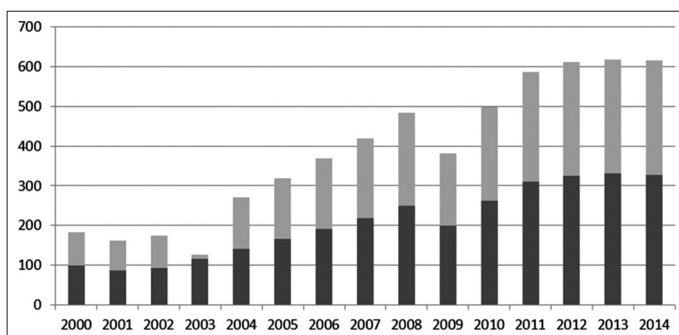
**Figure 1:** Dynamics of gross domestic product in Association of Southeast Asian Nation countries in 2000-201, mln. USD



**Figure 2:** Dynamics of per capita gross domestic product in the Association of Southeast Asian Nation countries in 2000-2014



**Figure 3:** Intra-regional trade in Association of Southeast Asian Nation countries in 2000-2014, bln. USD



Vietnam and China, and Thailand account for up to 2/3 of the foreign trade turnover of Laos. At the same time, Laos is exporting its products to the markets of over 40 countries, including the US, Japan and Australia, the UK, France, Germany and other European Union countries, as well as in Russia.

As can be seen from the analysis of the presented data (Table 4), for the typical Laotian trade deficit (as a whole, and in the regional trade). In 2014, it amounted to \$40.6 billion, i.e. 10% of the foreign trade balance of the country. And although its volume was reduced in comparison with the 2011-2013, the trade deficit recorded in the country for long periods due to inadequate infrastructure and non-diversified export base. These same problems as the research shows, are stored in foreign trade and Laos, and the ASEAN countries (Table 4).

In general, as research shows, intra-regional trade in Laos is on the rise in terms of value (Table 4). As our research shows, the volume of trade with Laos, the ASEAN countries increased during the study period (Wisnu, 2013), more than 5 times, including export – by 6.2 times, imports – by 3.4 times, indicating that faster growth of exports to Laos ASEAN countries in the XXI century.

An example of the intensified development of Laos after the country's entry into ASEAN confirms the inevitability of cumulative, not only the effect of socio-economic development, but also can serve as a model for the construction of regional geo-economic models (Panfilov and Strygin, 2011) economic integration of other regions of the planet.

### 3. DISCUSSION

Transformation of ASEAN Economic Community in 2015 is the subject of comprehensive research. Many authors, based on the whole a positive experience of ASEAN's development, it is believed that this is the direction of ASEAN activities will be successful in the long-term (Pismennaya et al., 2015; Prakash and Ikumo, 2012).

However, we close the view that the success of this project cannot be expected to automatically, and it assumes a solid job in each country “in dealing with internal reforms, gaps in infrastructure, lack of adequate human resources and institutions. In addition, this company, whose decisions and actions will contribute to the effective integration” (Bas Das, 2012).

In addition, the negative effects of regional economic integration remain, in particular, the erosion of MFN (Shkvarya et al., 2014) that can uniquely affect the national interests of Laos and its economy.

It is saved and amplified the need for Laos to conduct serious work “in dealing with internal reforms, gaps in infrastructure, the continued lack of adequate human resources and institutions. In addition, it is necessary the development of private companies, whose decisions and actions will contribute to the effective integration” (Shkvarya et al., 2014).

**Table 2: Foreign trade of ASEAN countries in 2000-2014, bnL. USD**

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Export</b>															
Brunei	3.9	3.6	3.7	4.4	5.1	6.2	7.6	7.7	10.3	7.2	8.9	12.5	13.0	11.4	10.5
Cambodia	1.4	1.5	1.9	2.1	2.8	3.1	3.7	4.1	4.7	4.2	5.1	6.7	7.8	9.3	10.8
Indonesia	65.4	57.4	59.2	64.1	70.8	87.0	103.5	118.0	139.6	119.6	158.1	200.8	188.5	183.3	176.3
Laos	0.3	0.3	0.3	0.3	0.4	0.6	0.9	0.9	1.1	1.1	1.7	2.2	2.3	2.3	2.7
Malaysia	98.2	88.0	94.1	104.7	126.6	141.6	160.7	176.0	199.4	157.2	198.6	228.1	227.5	228.3	234.1
Myanmar	1.6	2.4	3.0	2.5	2.4	3.8	4.6	6.3	7.0	6.7	8.7	9.2	8.9	11.2	11.0
Philippines	38.1	32.1	35.2	36.2	39.7	41.3	47.4	50.5	49.1	38.4	51.5	48.3	52.1	56.7	62.1
Singapore	137.8	121.8	125.2	159.9	198.6	229.6	271.8	299.3	338.2	269.8	351.9	409.5	408.4	410.3	409.8
Thailand	68.963	65.0	68.108	80.324	96.248	110.936	129.722	153.9	177.8	152.4	193.3	222.6	229.2	228.5	227.6
Vietnam	144.5	150.3	167.1	201.5	264.9	324.4	398.3	485.6	626.9	571.0	72.2	96.9	114.5	132.0	150.5
Total of export	560.163	522.4	557.808	656.024	804.748	945.436	1128.222	1302.3	1376.3	1327.6	1050	1224.3	1252.2	1273.3	1295.4
<b>Import</b>															
Brunei	1.1	1.2	1.6	1.3	1.4	1.5	1.7	2.1	2.6	2.4	2.5	3.6	3.6	3.6	3.6
Cambodia	1.9	2.1	2.4	2.6	3.2	3.9	4.8	5.4	6.5	5.8	6.8	9.3	11.0	13.0	13.5
Indonesia	43.6	37.5	38.3	42.2	54.9	75.7	80.7	93.1	127.5	93.8	135.3	176.2	190.4	187.3	178.2
Laos	0.5	0.5	0.4	0.5	0.7	0.1	1.1	1.1	1.4	1.5	2.1	2.4	3.1	3.0	3.3
Malaysia	82.0	73.7	79.8	83.3	105.2	114.3	130.4	146.2	156.3	123.8	164.6	187.5	196.4	206.0	208.9
Myanmar	2.4	2.9	2.3	2.1	2.2	1.9	2.6	3.3	4.3	4.3	4.8	9.0	9.2	12.0	16.2
Philippines	37.0	34.9	41.1	42.6	46.1	49.5	54.1	58.0	60.4	45.9	58.5	63.7	65.4	65.1	67.5
Singapore	134.5	116.0	116.4	136.2	173.6	200.0	238.7	263.2	319.8	245.8	310.8	365.8	379.7	373.0	366.2
Thailand	61.9	62.0	64.6	75.8	94.4	118.2	128.8	140.0	179.2	133.7	182.9	228.8	250.0	250.7	228.0
Vietnam	156.4	162.2	197.5	252.6	319.7	367.6	450.2	626.8	807.1	699.5	848.4	106.8	113.8	132.0	149.3
Total of import	521.3	493	542.8	596.6	801.4	932.7	1093.1	1339.2	1665.1	1356.5	1716.7	1153.1	1222.6	1232.7	1234.7
Turnover	1081.46	1015.4	1100.6	1252.6	1606.1	1878.1	2221.3	2641.5	3041.4	2684.1	2766.7	2377.4	2474.8	2506.0	2530.0
Change (%)		-6.1	8.4	13.8	28.2	16.9	18.3	18.9	15.1	-11.7	3.1	-14.1	4.1	1.3	1.0

ASEAN: Association of Southeast Asian Nation

**Table 3: Intra-ASEAN trade in 2000-2014, bln. USD**

Index	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Export	98.2	86.3	91.9	116.6	141.8	165.4	191.0	217.2	250.6	198.9	263.0	310.4	325.1	330.2	327.1
Import	84.3	75.6	81.6	10.4	128.8	154.3	178.4	200.8	233.7	181.7	236.3	275.1	286.5	286.7	287.6
Turnover	182.5	161.9	173.5	127.0	270.6	309.7	369.4	418.0	484.3	380.6	499.3	585.5	611.6	616.9	614.7
Change (%)		-11.3	7.16	-26.8	113.1	14.4	19.3	13.2	15.9	-21.4	31.2	17.3	4.5	0.9	-0.4

ASEAN: Association of Southeast Asian Nation

**Table 4: Trade with ASEAN in Laos in 2000-2014, mln. USD**

Index	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Export	165.8	151.5	139.1	153.0	156.2	307.2	583.0	572.1	693.7	526.5	884.7	1150.6	1202.1	1204.8	1020.8
Import	429.3	396.9	344.2	340.9	506.2	689.4	837.8	835.1	1083.0	1043.3	1502.7	1775.8	2162.9	1923.9	2031.3
Turnover	595.1	548.4	483.3	493.9	662.4	996.6	1420.8	1407.2	1776.7	1569.8	2387.4	2926.4	3365	3128.7	3052.1
Change (%)		-7.8	-11.87	2.2	34.1	50.45	42.56	-0.96	26.3	-11.6	52.1	22.6	15	-0.7	-2.4

ASEAN: Association of Southeast Asian Nation

Consequently, the government of the country need to carry out further reform of the national economy – how to strengthen it, and to improve its participation in ASEAN, in particular, to strengthen the process of regional economic integration. These efforts – internal and external – will enable the country to diversify the national economy, to reform and strengthen the private sector, to promote the development of export potential, as well as the transport component

#### 4. CONCLUSION

Conducted a retrospective analysis of the socio-economic development of Laos, taking into account the specifics of its geo-strategy in particular South-East Asia, the geopolitical development of the region in terms of the integration of convergence ASEAN countries showed the real value of cumulative, a factor for

intensification of the economic growth of both the Lao and the wider possibilities of using its geostrategic resources in the whole region. At the same time, the results of the analysis in regional and international economic relations make it possible to talk about the creation of a more attractive investment climate for the further intensification of socio-economic development of Laos, geostrategic resources that are of interest not only in the Asian sub-region, but also become the subject of the Asia-Pacific region generally.

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