

LDC STATUS GRADUATION, THE WAYS FORWARD FOR LAO PDR

Regional Capacity Building Workshop

Formulating National Policies and Strategies in Preparation for
Graduation from the LDC Category

Organized by

United Nations Economic and Social Commission for Asia and the
Pacific and the Royal Government of Bhutan

Thimphu, Bhutan

14-16 November 2017

By Mana Southichack, PhD



- ▶ Lao PDR as a small, SE Asian landlocked LDC
- ▶ Lao PDR is expected to meet 2 LDC graduation thresholds in the 2018 review
- ▶ Benefits and costs of graduation
- ▶ Challenges to overcome
- ▶ Recommendations—the ways forward

WHAT'S IN THIS PRESENTATION?

Lao PDR as a small, SE Asian landlocked LDC

Lao PDR and its immediate neighboring countries:

Key figures	Lao	Cambodia	China	Myanmar	Thailand	Vietnam
Population (million)	6.7*	15.5	1,378.7	52.4	68.7	91.7
Population density (person per sqm)	28.9	87.9	146.1	80.2	134.4	295.8
Rural population (% of total population)	61.4**	79.3	44.4	65.9	49.6	66.4
GNI per capita (US\$, atlas method)	2,000	1,070	7,940	1,190	5,690	1,990
GDP growth rate (3-yr av., 2014-16)	7.30	7.00	6.97	7.26	2.36	6.29
Agricultural share in GDP (%)	19.7	28.6	8.8	26.7	8.7	18.9
Employment in agriculture (% of total employment)	72.0	54.1 ('10)	28.3	62.7 ('98)	32.3	43.6

Notes: * Lao PDR's latest Population and Housing Census 2015 reports 6.5 million. ** Population and Housing Census 2015 reports 67%. Unless otherwise specified, all data are for 2015.

Data source: <https://data.worldbank.org/indicator/>. Accessed October 7, 2017.

Lao PDR as a small, SE Asian landlocked LDC
Lao PDR experienced high economic growth

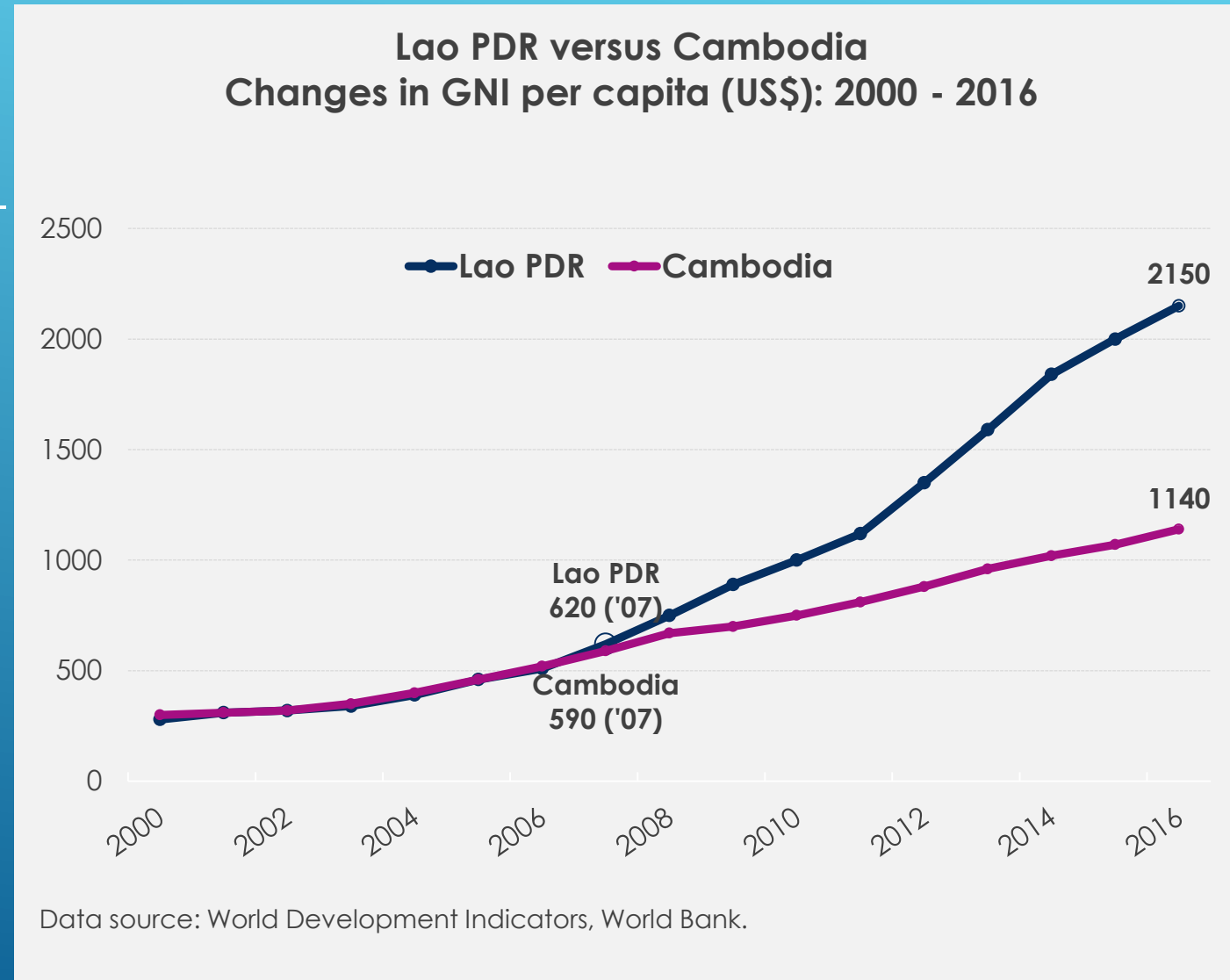
Lao PDR has been quite successful in raising income in the past decade.

GDP growth: 7.3% annually over 2000 - 2015

Lao PDR's GNI per capita surpassed Cambodia's in 2007, due both to high growth and domestic currency appreciation.

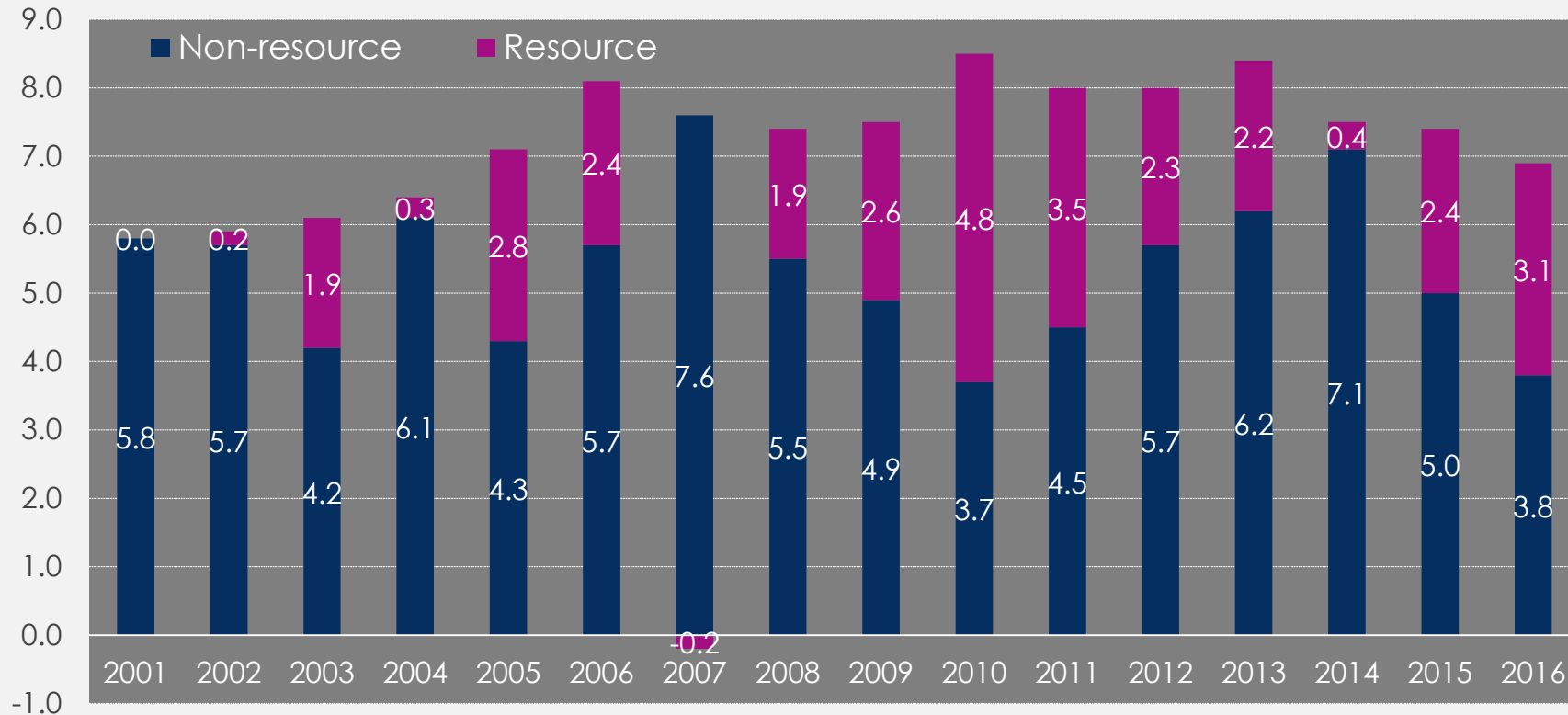
Poverty declined from 33.5% (2002) to 23.2% (2013).

But inequality, measured by the Gini coefficient, increased from 32.5 (2002) to 36.2 (2013).



Lao PDR as a small, SE Asian landlocked LDC

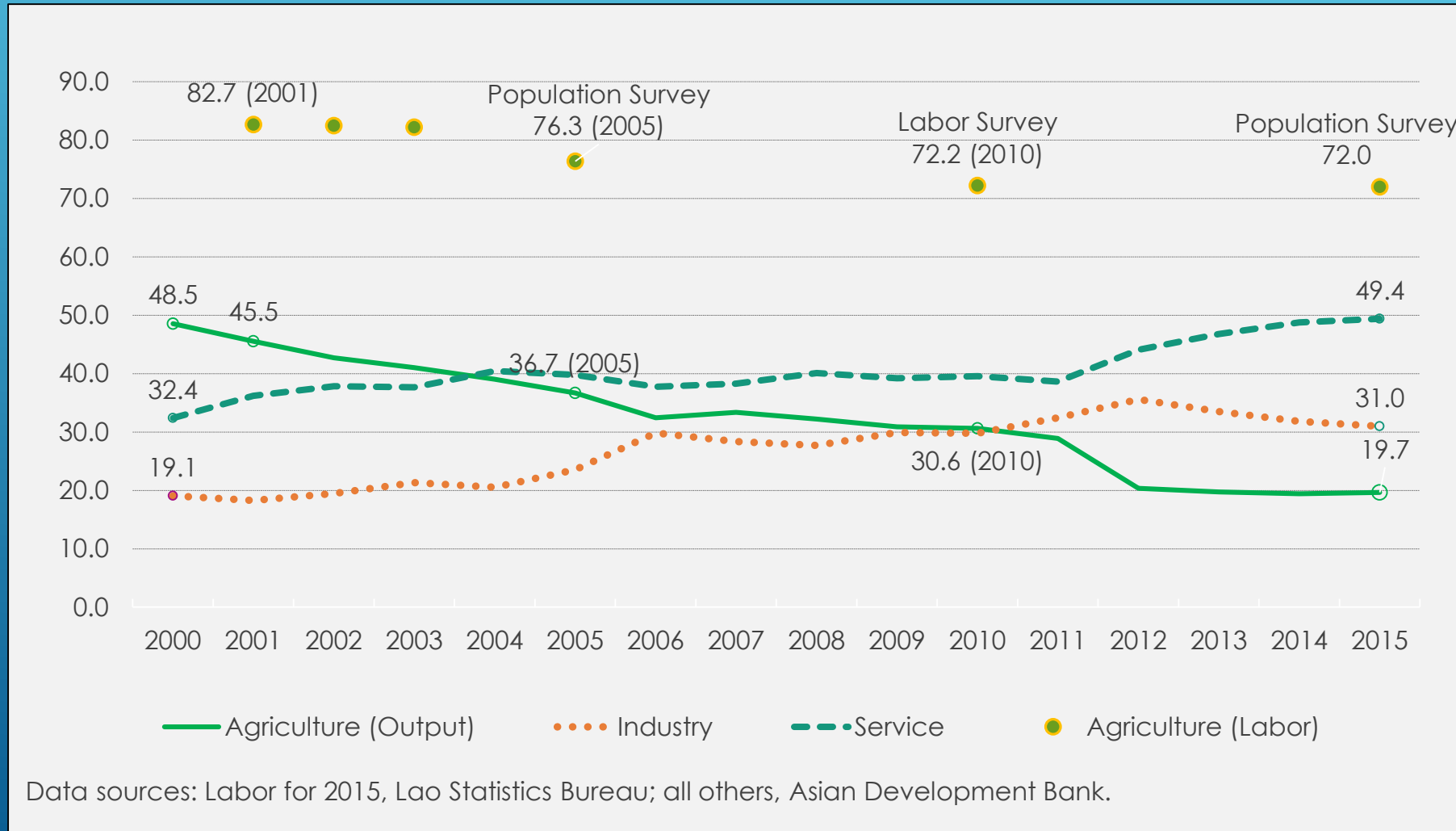
GDP growth driven by the resource sector (mining and hydropower)



Note: GDP growth rates for 2013 and 2016 respectively are 8.5% and 7%, but the additions of the resource and nonresource sector shares in the chart for these two years fall 0.1% below, due to rounding. Data source: World Bank's Lao PDR Economic Monitor (various issues).

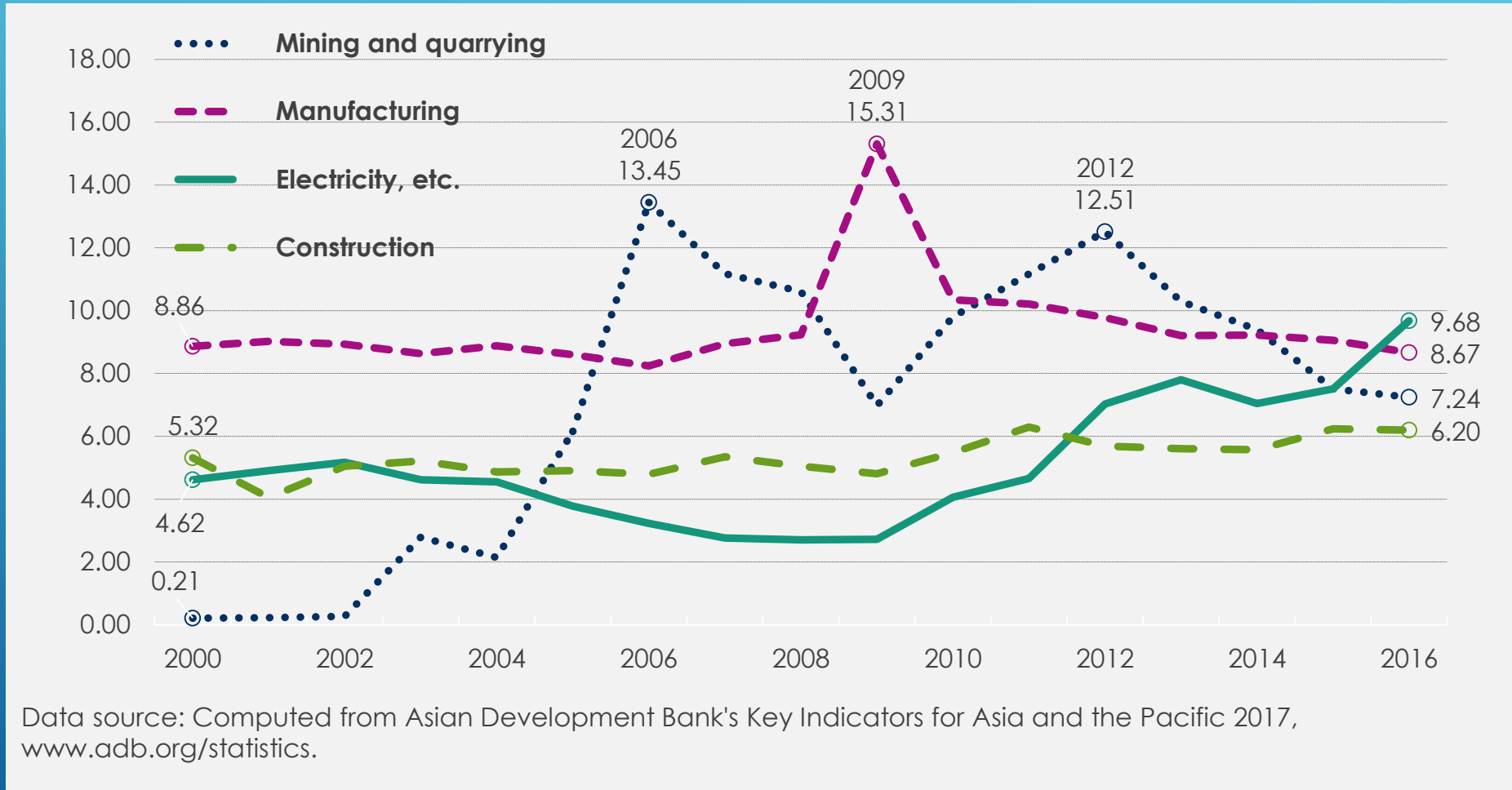
Lao PDR as a small, SE Asian landlocked LDC

Rapid structural change in output, but not in jobs, due to growth driven by capital-intensive sector



Lao PDR as a small, SE Asian landlocked LDC

Growing share in GDP of industry sub-sector: 2000 – 2016



Lao PDR as a small, SE Asian landlocked LDC

Some progress made

Key Figures	2000	2005	2010	2015
Population (million)	5.3	5.8	6.2	6.7
Rural population (% of total population)	78.0	72.6	66.9	61.4
GNI per capita (US\$, atlas method)	280	460	1000	2000
GDP growth rate (5-yr av.)*		6.2	8.0	7.8
Agricultural share in GDP (%)	45.2	36.2	31.4	19.7
Employment in agriculture (% of total employment)		76.3	72.2	72.0
Agriculture value added per worker (constant 2010 US\$)	798.9	827.9	893.0	918.8
Access to improved sanitation facilities, rural (% of rural pop.)	17.2	31.1	44.9	56
Access to improved water source, rural (% of rural pop.)	37.9	49.2	60.4	69.4
Access to improved water source, total (% of total pop.)	45.5	56.8	67.5	75.7
Access to electricity, rural (% of rural pop.)	28.9	43.8	56.6	68.1
Access to electricity, total (% of total pop.)	43.1	57.2	68.0	78.1
Life expectancy at birth, total (years)	58.9	61.7	64.3	66.3
Literacy rate, adult total (% of people ages 15 and above)	69.6	72.7		84.7
Mortality rate, under-5 (per 1,000 live births)	117.7	97.2	79.7	66.7
School enrollment, secondary (% gross)	34.2	43.6	46.1	61.7
Lower secondary completion rate, total (% of relevant age group)	35.3	44.9	41.5	60.7
Primary completion rate, total (% of relevant age group)	67.5	69.7	85.0	100.2

Note: *
Example, for
2005, it's an
average over
2001-2005.

Data source:
<https://data.worldbank.org/indicator/>.
Accessed
October 7,
2017.

Lao PDR as a small, SE Asian landlocked LDC

Lao PDR in comparison with immediate neighbors

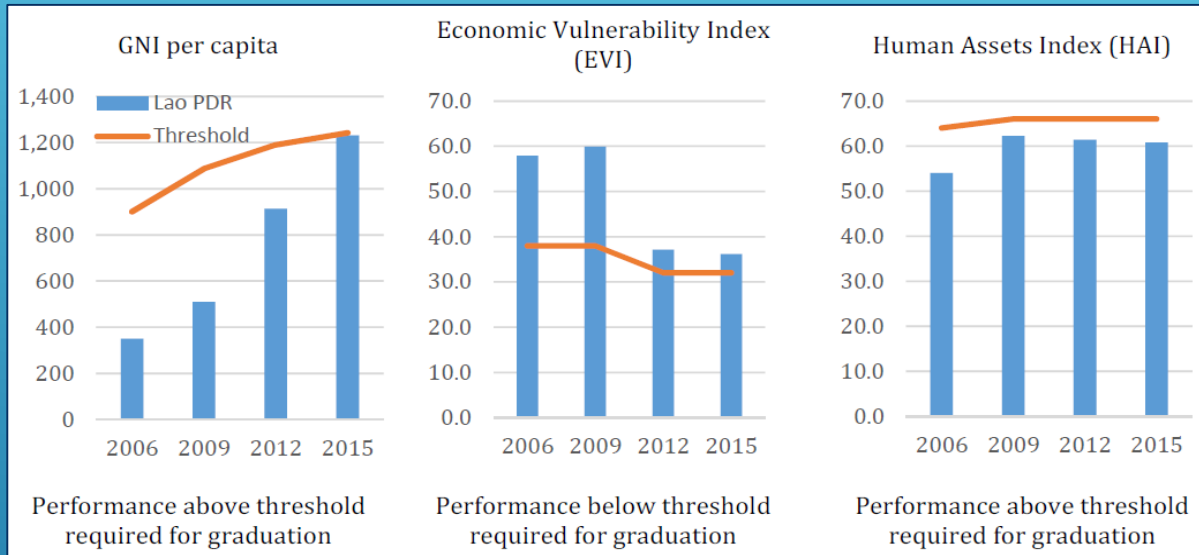
Key figures	Lao	Cambodia	China	Myanmar	Thailand	Vietnam
Access to improved sanitation facilities, rural (% of rural pop.)	56.0	30.5	63.7	77.1	96.1	69.7
Access to improved water source, rural (% of rural pop.)	69.4	69.1	93.0	74.4	98.0	96.9
Access to improved water source, total (% of total pop.)	75.7	75.5	95.5	80.6	97.8	97.6
Access to electricity, rural (% of rural pop., 2014)	68.1	49.2	100.0	49.0	100.0	98.9
Access to electricity, total (% of total pop., 2014)	78.1	56.1	100.0	52.0	100.0	99.2
Life expectancy at birth, female (years)	67.8	70.6	77.7	68.8	79.0	80.7
Life expectancy at birth, male (years)	64.8	66.5	74.6	64.1	71.4	71.3
Literacy rate, adult total (% of people ages 15 and above)*	84.7	73.9	95.1	75.6	92.9	93.5
Mortality rate, under-5 (per 1,000 live births)	66.7	28.7	10.7	50.0	12.3	21.7
School enrollment, secondary (% gross)**	61.7	45.1	94.3	51.3	129.0	na
Lower secondary completion rate, total (% of relevant age group)***	60.7	48.0	98.6	48.7	84.0	99.6

Notes: Unless otherwise specified, all data are for 2015. * Lao PDR, 2015, from Population and Housing Census 2015; Cambodia, 2009; China, 2010; Myanmar, 2016; Thailand, 2015; and Vietnam, 2009.

Data source: Unless specified, <https://data.worldbank.org/indicator/>. Accessed 7 October 2017.

Lao PDR's qualification for graduation from LDC status

Graduation thresholds for **income** and **HAI** are expected to be broken in the 2018 review



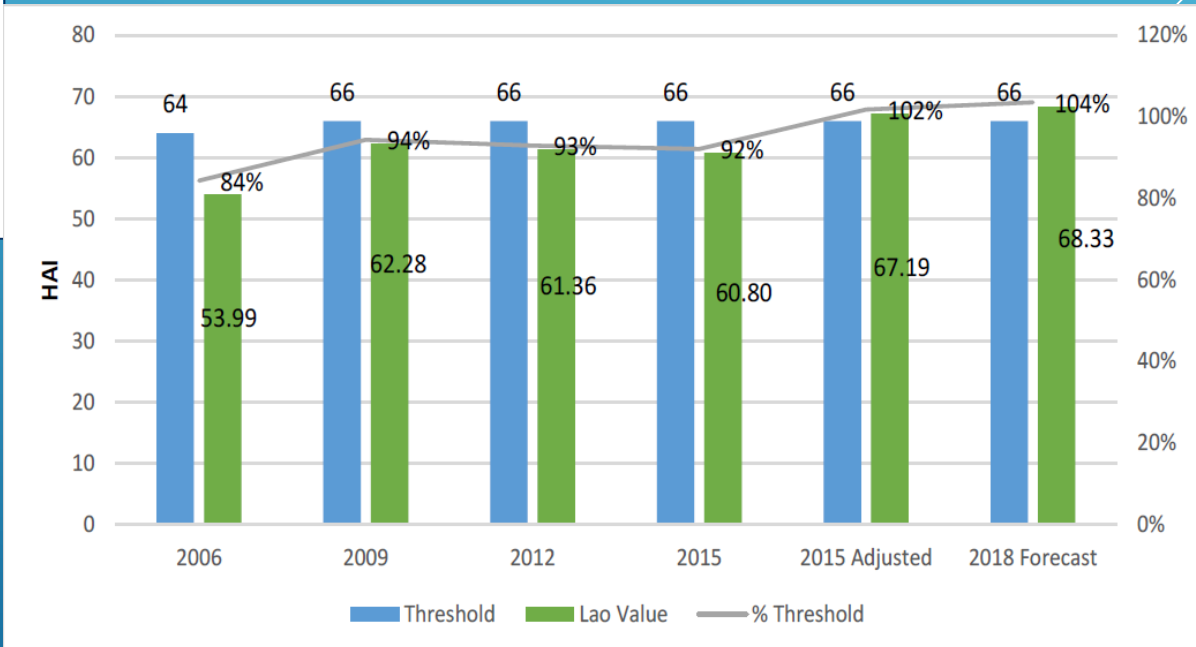
Source: Borrowed from Lao PDR Systematic Country Diagnostic (World Bank, 2017b).

The average GNI per capita for 2014-2016, using the more conservative World Bank data is US\$1,746.

(Data from World Development Indicator yields a higher average.)

LDC graduation is integrated in the country's overall National Socioeconomic Development Plan.

Lao PDR's prospect of meeting HAI threshold



Source: Borrowed from National Human Development Report, Graduation from Least Developed Country Status, Lao PDR 2017 (Acharya & Rasphone, 2017).

Benefits of graduation from LDC status

Tangible benefits:

- Stronger human assets, improved economic structure to deal with market and natural disaster shocks.
- Most tangible benefits of graduating from LDC status are realized prior to graduation through LDC-linked and LDC-status-guided technical and financial assistances from development partners.
- Lao PDR (as all LDC countries) is eligible for assistances to prepare for graduation to intensify development focusing on key areas to raise human assets and improve country's capacity to absorb shocks.

Intangible benefits:

- With a higher income, improved human assets and economic structure, country would be more positively viewed by international investors, leading to increased access to international private finance for both public and private sectors.
- Stronger position in international negotiation, especially in the ASEAN, ADB, UN, WB, WTO frameworks (but with more responsibilities).
- Psychic benefit--Ridding the LDC status lifts collective self-confidence of the people and leaders of the country, providing a motivation to achieve more.
- Government leaders to improve performance and having a higher sense of responsibilities (leaders are held at a higher standard).

Costs of graduation from LDC status

Cost in foreign assistance:

Lao PDR will lose

- a) Foreign grant aids and technical assistance that are linked to LDC status.
- b) LDC status-linked concessional loans and debt relief.
- c) Special facilities at the WTO that allows flexibilities in international trade rule enforcement (and to assist Lao PDR in capacity building in rule enforcement, trade negotiation).

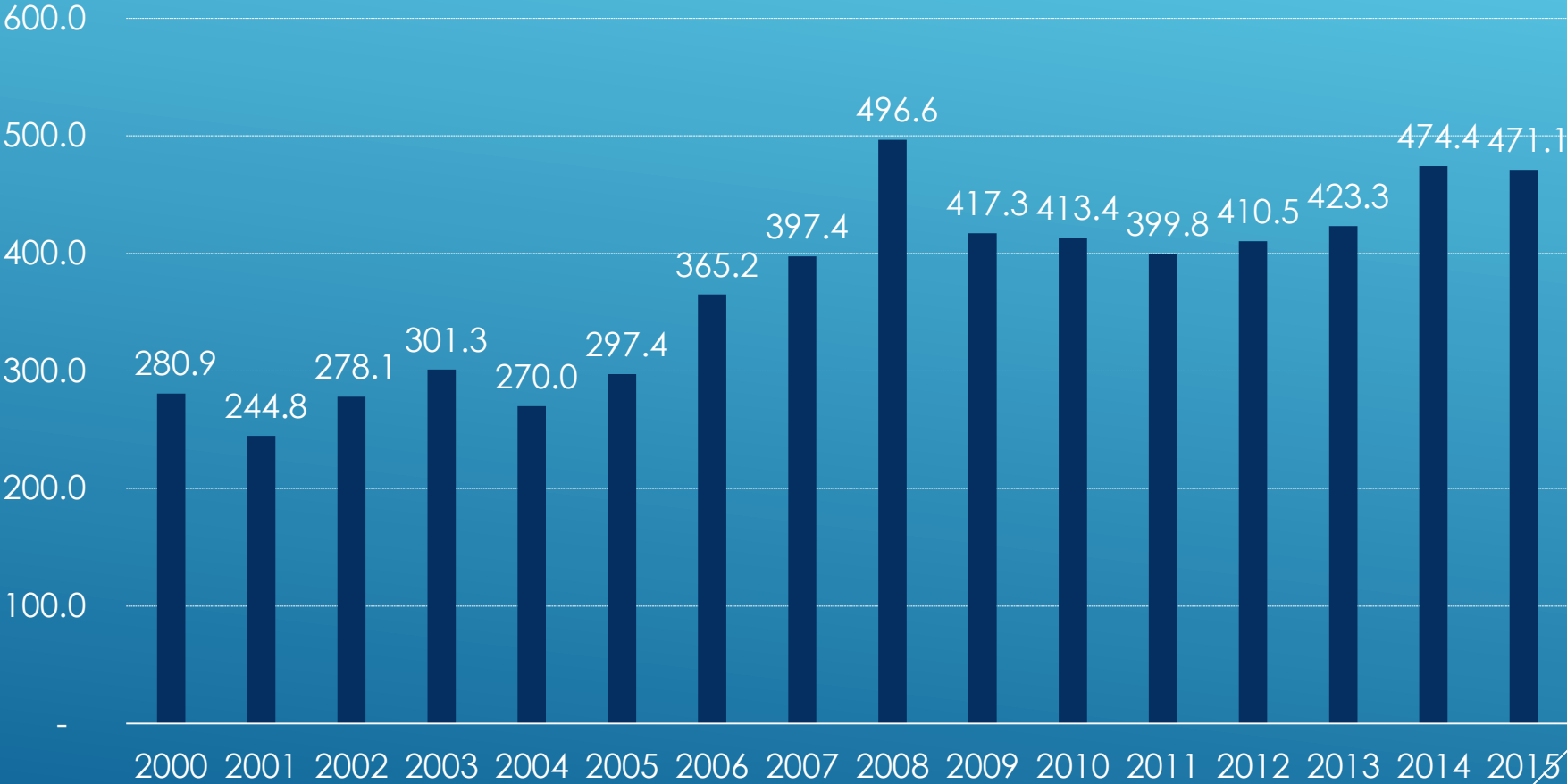
Cost in preferential treatment for exports:

Lao PDR will lose

- a) Generalized System of Preferences (GSP) that allows access to exports from LDCs into the United States, EU and other OECD countries—garment industry will be affected most significantly.
- b) Global System of Trade Preferences (GSTP) used among developing countries and implemented based on reciprocal principles—Lao PDR does not use this.

Potential impact on foreign aids

ODA in absolute term remains important



Data source: World Development Indicators. <https://data.worldbank.org/indicator/>

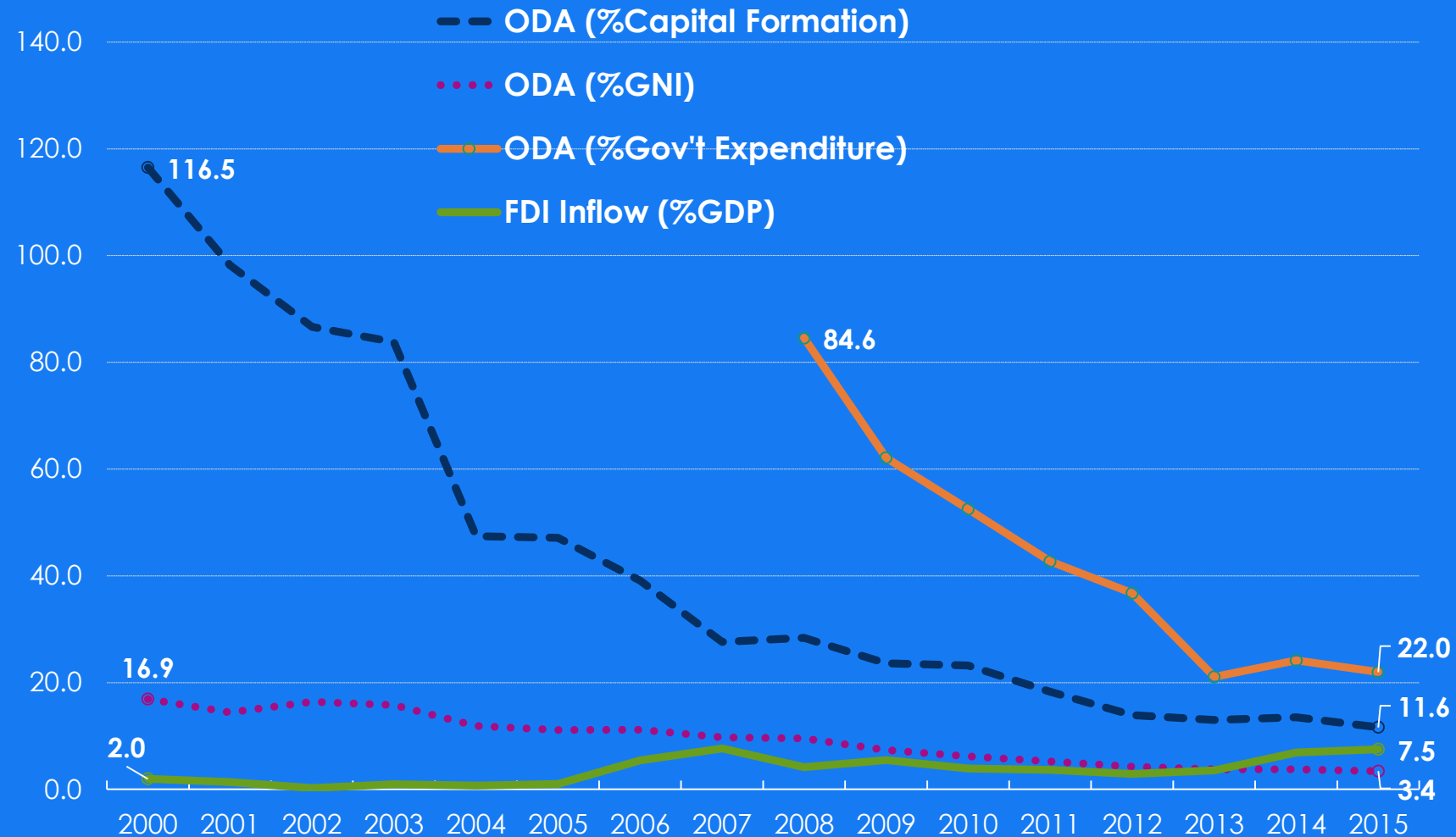
Potential impact on foreign aids

But the relative importance of ODA has been rapidly declining

FDI (and domestic private investment) has played an increasingly significant role in boosting economic growth and government coffers.

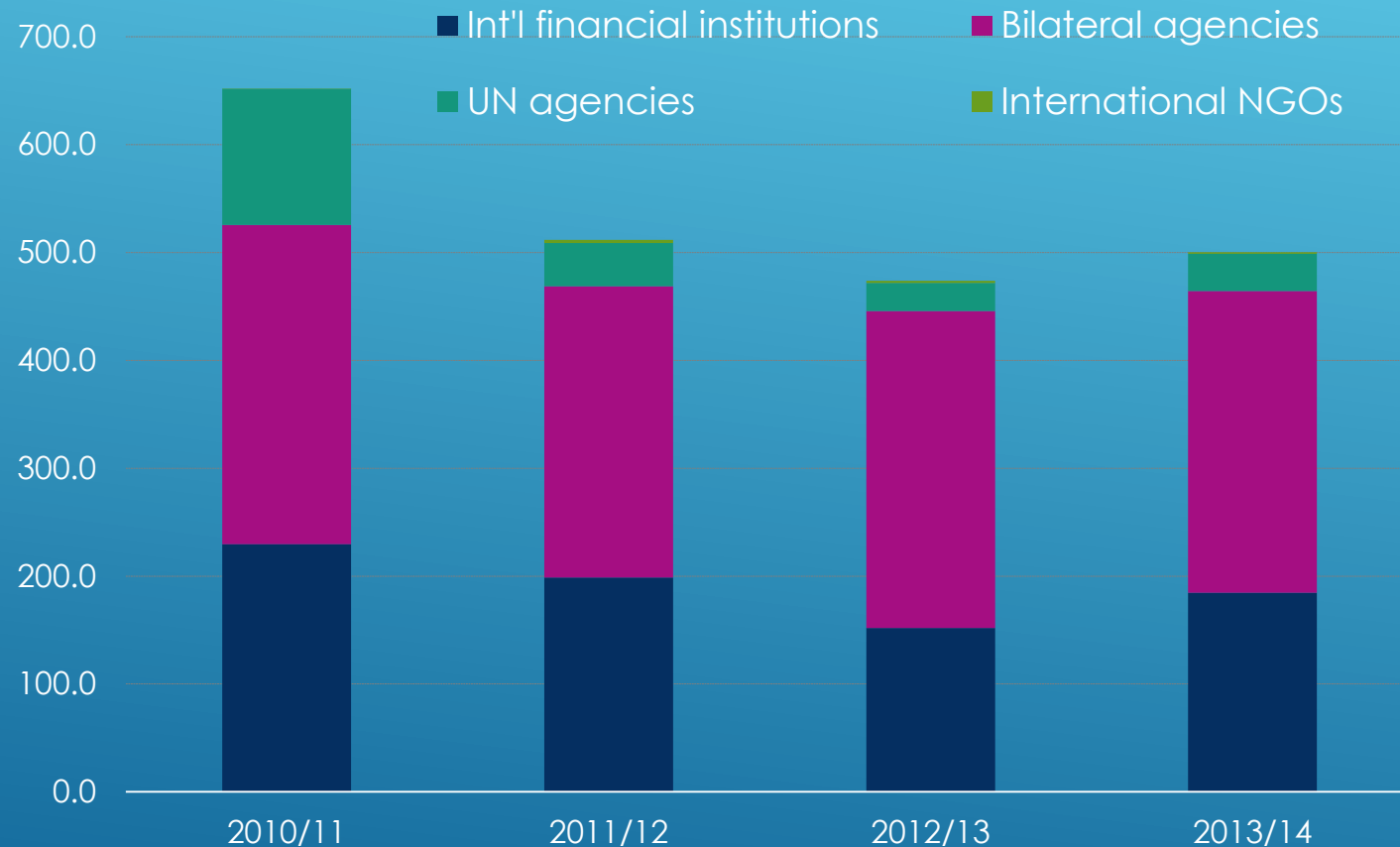
FDI inflow as percent of GDP grew, from 2% in 2000 to 7.5% in 2015.

ODA as percent of government spending dropped from 84.6% in 2008 to 22% by 2015.



Potential impact on foreign aids

ODA has been trending downward

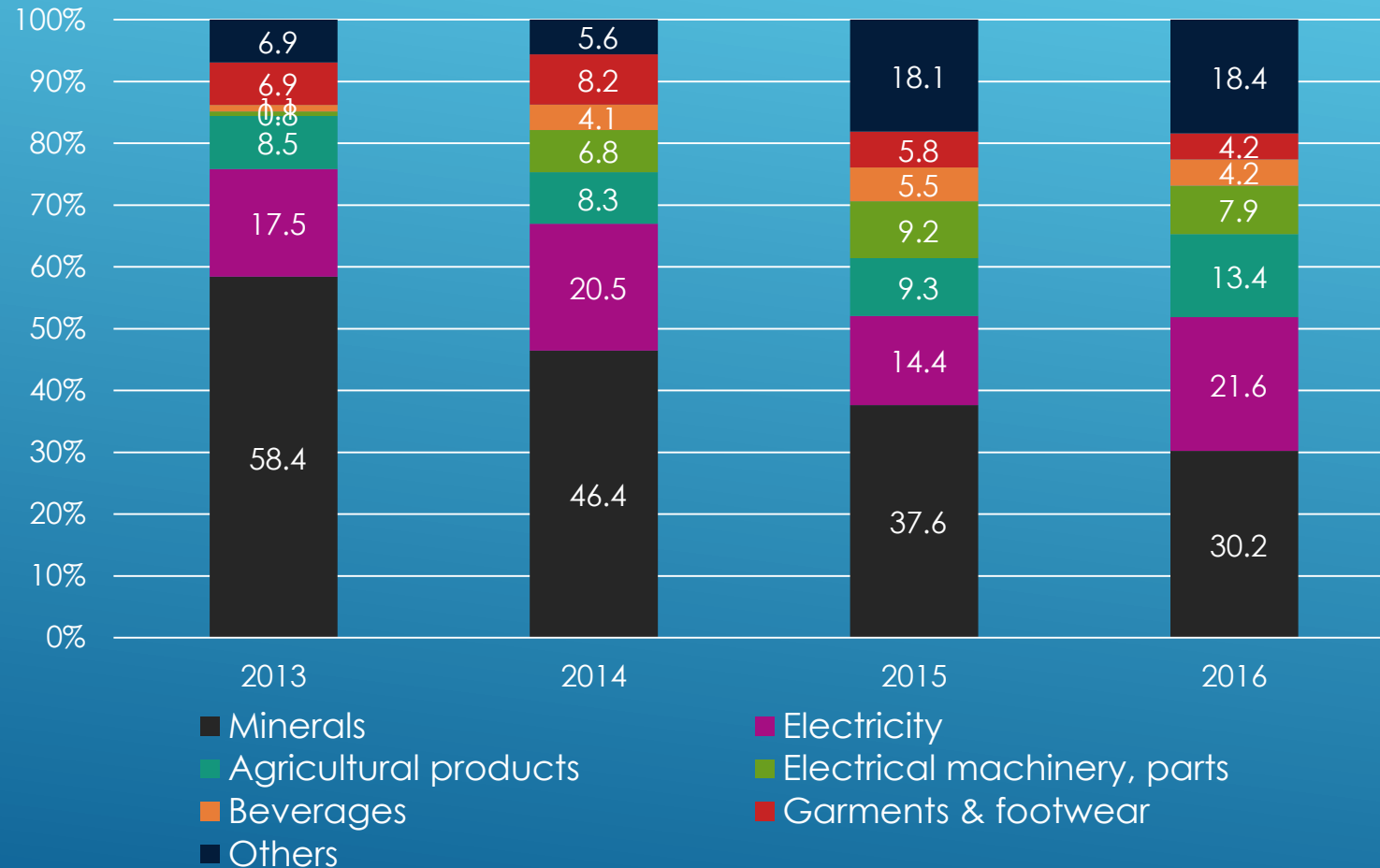


Data source: AMP Database, MPI, Vientiane; in 5th National Human Development Index Report 2017.

- Of US\$2,369.9 million ODA Lao PDR disbursed over 2010/11 - 2014/15 (up to May 2015 only):
 - 54.5% bilateral
 - 34.7% multilateral
 - 10% UN agencies
 - < 1% INGOs.
- Bilateral aids and UN disbursements are not LDC related.
- Multilateral (int'l financial institutions) aids are increasingly technical assistance & loans.
- If Lao PDR is doing fine with ODA going downward before LDC graduation, then graduation will matter little.

Potential impact on trade

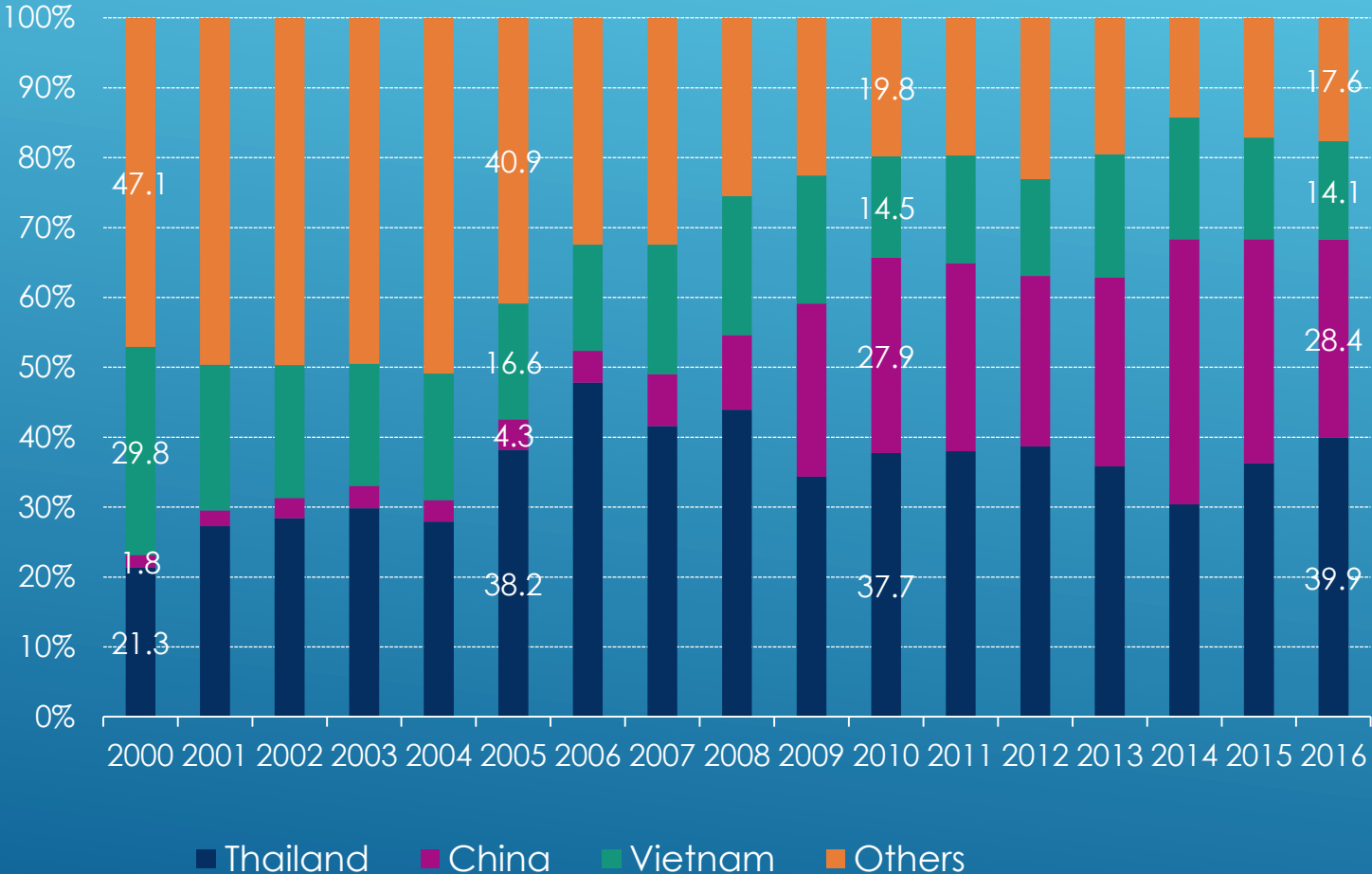
Most Lao PDR's exports do not rely on LDC preferential treatment



- Mineral products and electricity dominate.
- Great majority of agricultural products exported to neighboring countries.
- Other exports also mostly destined for neighboring countries.
- Garments, which benefitted from GSP, mainly to EU market, has been shrinking in importance, down from nearly 40% in total exports in early 2000s to 4.2% by 2016.

Potential impact on trade

More than 80% of Lao PDR's exports went to Thailand, China, and Vietnam



- Lao's exports to China has been growing rapidly.
- Lao's exports to China, Thailand, and Vietnam do not rely on LDC preferential treatment.

Recommendations: Challenges and the ways forward

Mitigating costs of graduation

On foreign aids:

While their importance is declining and that most ODA Lao PDR received is not LDC status-linked, foreign aids are still important.

- Identify all LDC-linked aids

While strengthening domestic resource mobilization:

- Lao PDR needs to reassess its ODA needs and sources to identify appropriate matches.
- Negotiate with bilateral development partners to increase aids for areas considered critical and fit national and partners' interests.
- Negotiate with multilateral agencies for soft loans through multilateral agencies' trust funds for specific purposes and certain technical assistance to cover domestic short falls.

On trade:

Lao PDR has until 2024 before the LDC preferential treatment on exports is lost to help raise exporters' competitiveness and readjustment in the export-oriented industries.

- Conduct industry impact assessment needed for intervention planning.
- Garment industry, which benefited most from LDC status, must become more competitive to maintain existing market or make readjustment in production and distribution.
- Lao PDR must examine and identify areas where government actions are required to help raising exporters' competitiveness.
 - Custom procedures, taxes, logistic, facilitate business match-making

Recommendations: Challenges and the ways forward

Measures and approaches for dealing with challenges going forward

Following areas needed most attention in the graduation criteria, Lao PDR to focus on:

- Improving (reducing) EVI
 - Mitigating natural disaster shock
 - Economic diversification is key
 - Mitigating negative size & remoteness effects
 - Promote non-agricultural jobs

- Raising HAI
 - Raising gross secondary school enrolment
 - Lowering U5MR
 - Raising literacy rate

Key Indicators	Lao PDR	Graduation Threshold
1) Gross National Income per Capita (US\$ atlas method)	1,232	1,242
Income-only graduation		2,484
2) Human Asset Index (HAI)	60.8	66 and above
Under-five mortality rate (U5MR)	62.8	
Percent of population malnourished	72.0	
Gross secondary school enrolment ratio	45.0	
Adult literacy rate	63.6	
3) Economic Vulnerability Index (EVI)	36.2	32 and below
Exposure Index:		
Size (population)	41.4	
Location (remoteness)	58.8	
Economic structure		
Merchandise export concentration	22.4	
Share of agriculture, forestry and fishing in GDP	41.9	
Environment (share of population in low elevated coastal zones)	0.0	
Shock Index:		
Trade shock (instability of exports of goods and services)	24.2	
Natural shock (victims of natural disasters)	88.9	
Natural shock (instability of agricultural production)	20.4	

Recommendations: Challenges and the ways forward

Dealing with challenges involving economic diversification

Overcoming location (landlocked) problems:

- High transportation cost for exporting and importing limits the competitiveness that businesses operating in Lao PDR have.

Exporting from Lao PDR is

- 2 times more costly than exporting from Cambodia
- > 3 times the cost of exporting from Thailand, Vietnam, or Myanmar

Item	Laos	Cambodia	China	Indonesia	Malaysia	Myanmar	Philippines	Thailand	Vietnam
Cost of export	1,950	795	823	572	525	620	755	595	610
Cost of import	1,910	930	800	647	560	610	915	760	600

Data source: World Bank, <https://data.worldbank.org/indicator/>. Accessed on 18 October 2017.

Recommendations: Challenges and the ways forward

Dealing with challenges involving economic diversification

Key areas to focus, to minimize the negative effect of being landlocked:

- Connectivity
- Hard-infrastructures of quality and efficient land and air transportation and telecommunication systems.
- Soft-infrastructures such as regulations, administrative procedures, and quality of responsible officials at custom clearance.
- Lao PDR must view the problem of **connectivity beyond the urgently needed engineering and technological solutions** required for efficient facilitation of physical goods and people (transportation) and information (telecommunication and the internet).
- Lao PDR must adjust its business systems (accounting, legal) towards compatibility with regional and international systems.
- The human factor--English language, knowledge of history and cultures of trading partners.

Recommendations: Challenges and the ways forward

Dealing with challenges involving economic diversification

Overcoming population size limit:

- Lao PDR must be more progressively and deliberately promote urban growth in several existing major cities strategically located in major parts of the country, with quality infrastructure and greenery.
- A large market cluster reduces distance-cost for both suppliers and consumers, and minimizes costs associated with infrastructure development and public services, thus raises efficiency for the entire society.

Name of administrative unit	Region	Largest cluster ¹	Total urban	Total population
Vientiane Capital	Central	583,973	639,601	820,940
Savannakhet	South Central	91,684	215,228	969,697
Champasak	Far South	68,093	180,443	694,023
Luangprabang	North	66,781	139,695	431,889
Xiengkhouang	East Central	48,643	70,783	244,684
Oudomxay	North	35,289	73,986	307,622

¹ It is the largest urban center in each respective administrative unit, the capital of the province, except for the market cluster for the Capital, which is a collection of six adjacent districts with connected population clusters. Data source: Results of Population and Housing Census 2105. Lao Statistics Bureau (2016).

Recommendations: Challenges and the ways forward

Dealing with challenges involving economic diversification

Promoting non-agricultural jobs:

- To promote growth in non-agricultural jobs, Lao PDR must make investment towards improving agricultural productivity.
- 3 most important areas require special attention:
 - Irrigation development,
 - Agricultural extension service,
 - Rural infrastructure, especially road network.
- Improve business environment by focusing on reducing cost of doing business.

	Labor Productivity		Labor Elasticity
	FY 2007/08	FY 2012/13	FY 2007/08 - FY 2012/13
Agriculture and Related Activities	4.35	4.35	0.99
Manufacturing	10.52	15.93	0.04
Construction and Services	15.84	18.92	0.59

- Tourism sector: Has desirable income distribution potential and environmental effect
 - Lao PDR needs to prioritize sanitation (garbage) and public safety (sidewalk, lights, pedestrian-crossing)
 - Promote brand-building of local products that can tap into tourism market
- Human capital development—requires for the growing needs for diverse knowledge and skill sets

Recommendations: Challenges and the ways forward

Dealing with challenges involving raising HAI

Raising secondary school enrolment and improving education quality in rural areas:

- Creating a national school lunch program
 - Many children in rural areas do not go to school because of lunch.
 - School lunch is important not only for encouraging enrolment, but critical for physical and mental development and safety (children do not have to go home for lunch).
- Creating a rural school volunteer program (new graduates, summer program volunteers)
- Investing on facilities and equipment



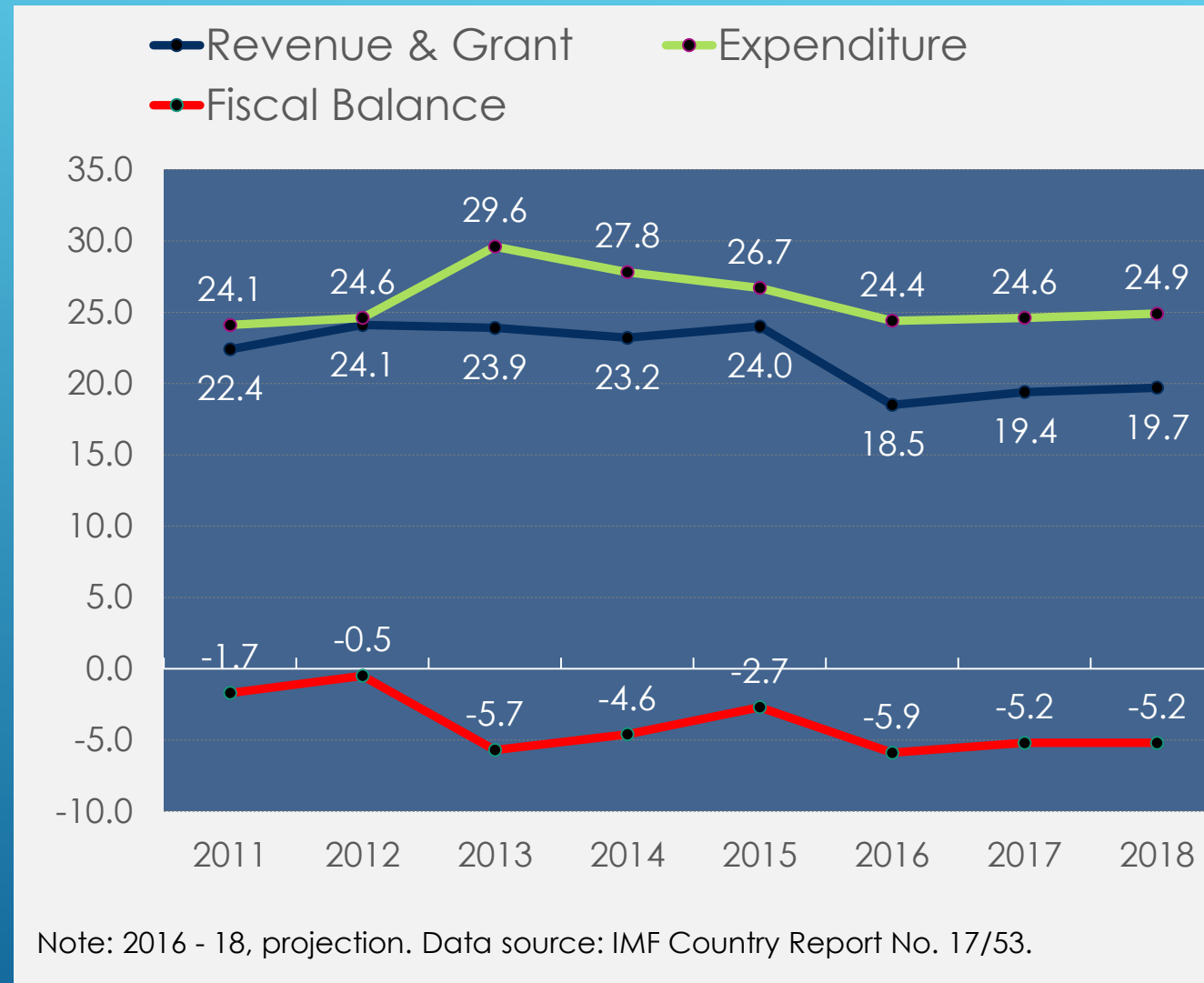
Photo courtesy of Ryan Gargiulo;
<http://www.pausethemoment.com/behind-the-photo-laos-school-children/>

Recommendations: Challenges and the ways forward

Dealing with challenges involving raising HAI

Using incomes from hydropower and mining to invest in human capital development

- Financing the many public investment projects that are critically important for continued socioeconomic advancement is a challenge.
- Fiscal deficit has surpassed the critical level (5% of GDP), and government debt is expected to grow, increasing pressure on macro-stability.
- To avoid this dire situation, **government should consider reinvigorate the mining industry**, which has been in the decline due mainly to the moratorium on land concession for new mining.
 - With better management of land concession, environmental protection, and utilization of income.

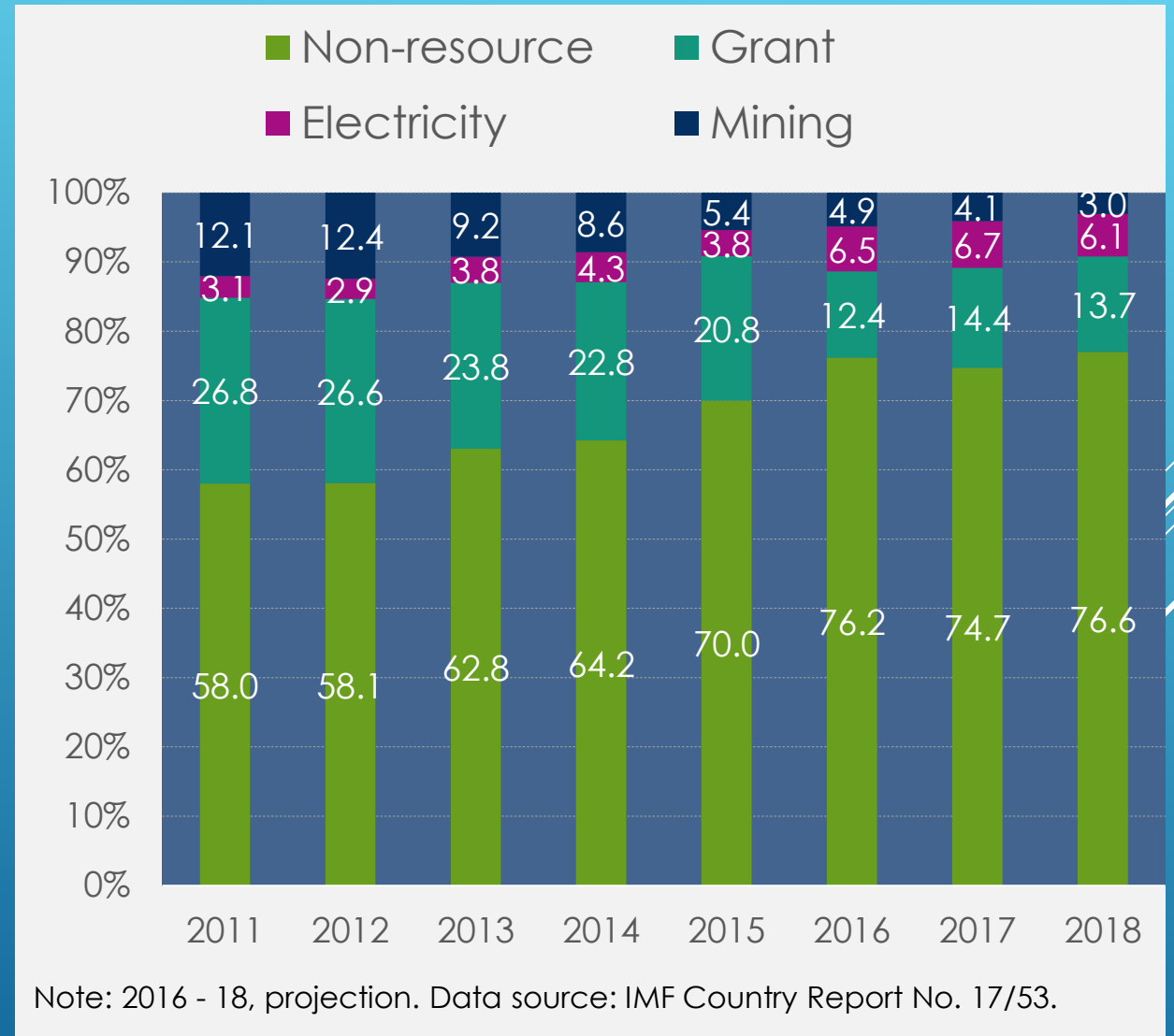


Recommendations: Challenges and the ways forward

Dealing with challenges involving raising HAI

Using incomes from hydropower and mining to invest in human capital development

- Income from electricity jumped in 2016 (export nearly doubled), and it is growing going forward.
- But it is insufficient
- **Government should look into creating a law requiring a portion of revenues from electricity and mining to be geared towards education and public health.**
- **This is one of the fair and desirable ways to redistribute publicly owned incomes and to guarantee that the future generations benefits from today's exhaustible resource exploitation and to ensure sustainability.**



A final thought

- While it is technically possible for a country to be qualified for LDC status graduation with income criterion only, it is a highly risky path.

Lao PDR, or any LDC country with abundant natural resource, could raise the average income per capita relatively rapidly by exploiting natural resources (i.e., expand mining and electricity production) enough and be qualified for graduation.

- However, graduating without adequately developing human assets and restructuring the economy sufficiently to be resilient to market and natural disaster shocks, the country is at risk of falling back to aid dependency or becoming a failed state.
- Finally, while the intangible (including psychic) benefits are important, they have economic value only if they are appropriately exploited for making further tangible gains in socioeconomic development.
- Thus, graduating with a sound human assets and economic foundation is critical for success and sustainability.

Goodbye LDC

...

from Lao PDR

...

And hello future

Ka Din Chey La

