

# LAO PDR in ASEAN and the global economy

Workshop on “Lao PDR towards AEC 2015”

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# Lao PDR in ASEAN and the global economy

## What will happen?

Country's position and performance

*business-as-usual*

Strategic planning

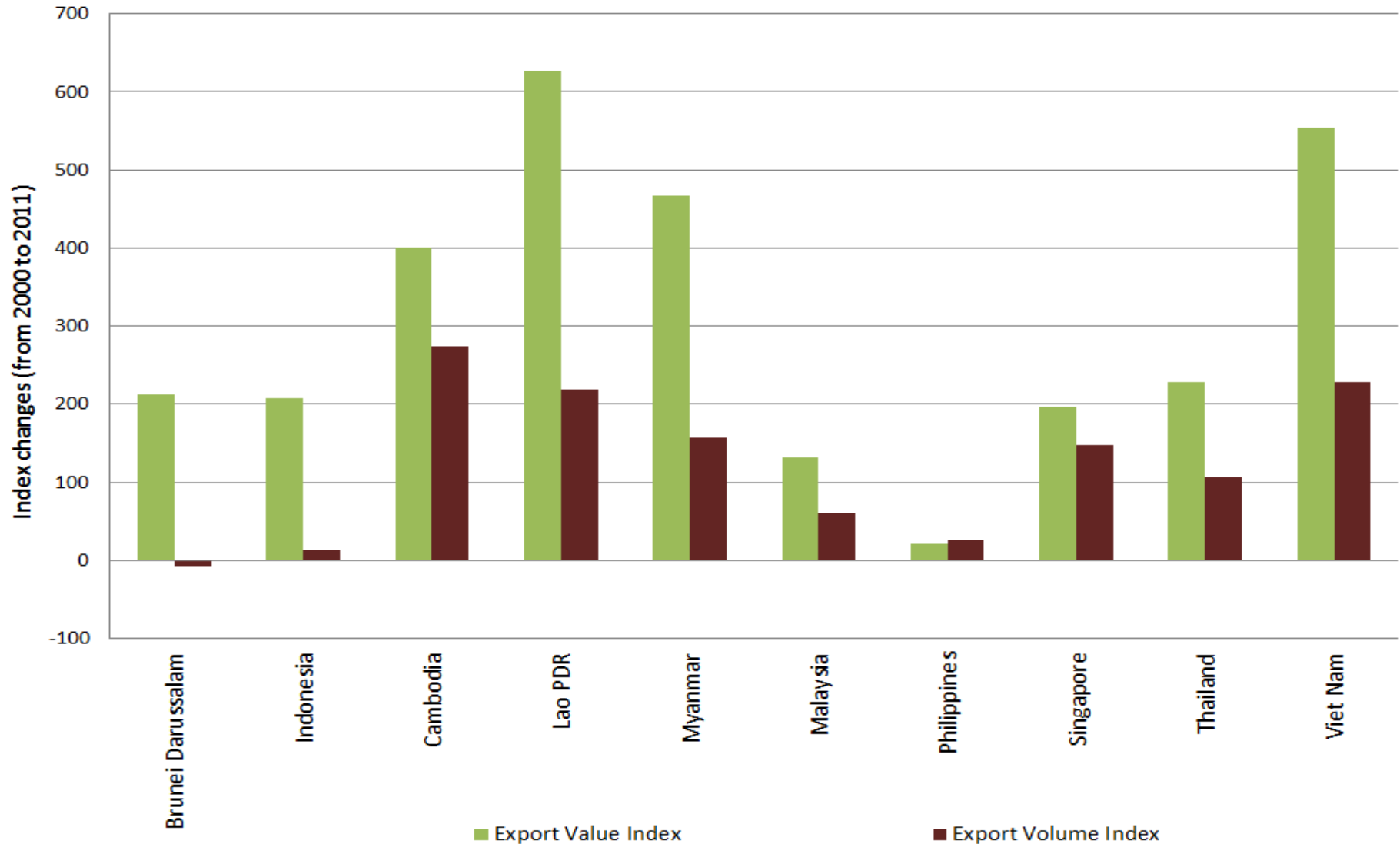
WTO  
ASEAN  
Etc.

Trade  
Investment  
Labour movement

# **Economic changes of Lao PDR**

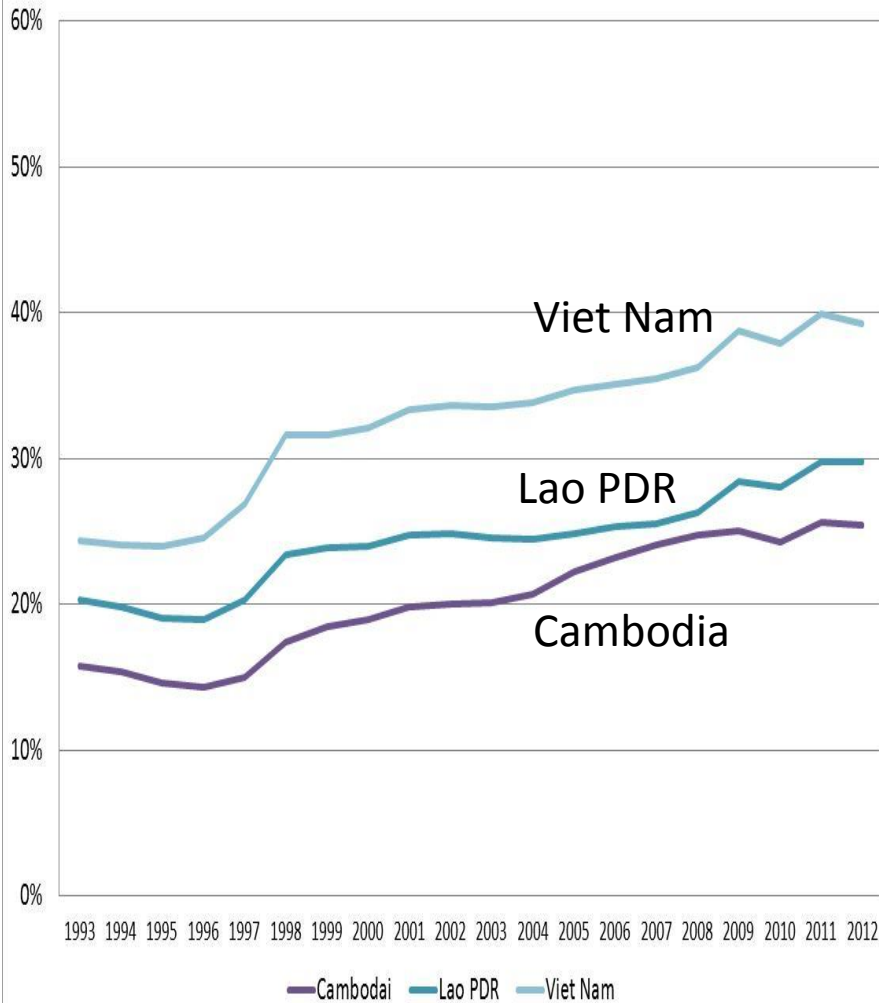
# Rapid expansion of exports

## Export performance of ASEAN countries (2000-2011)



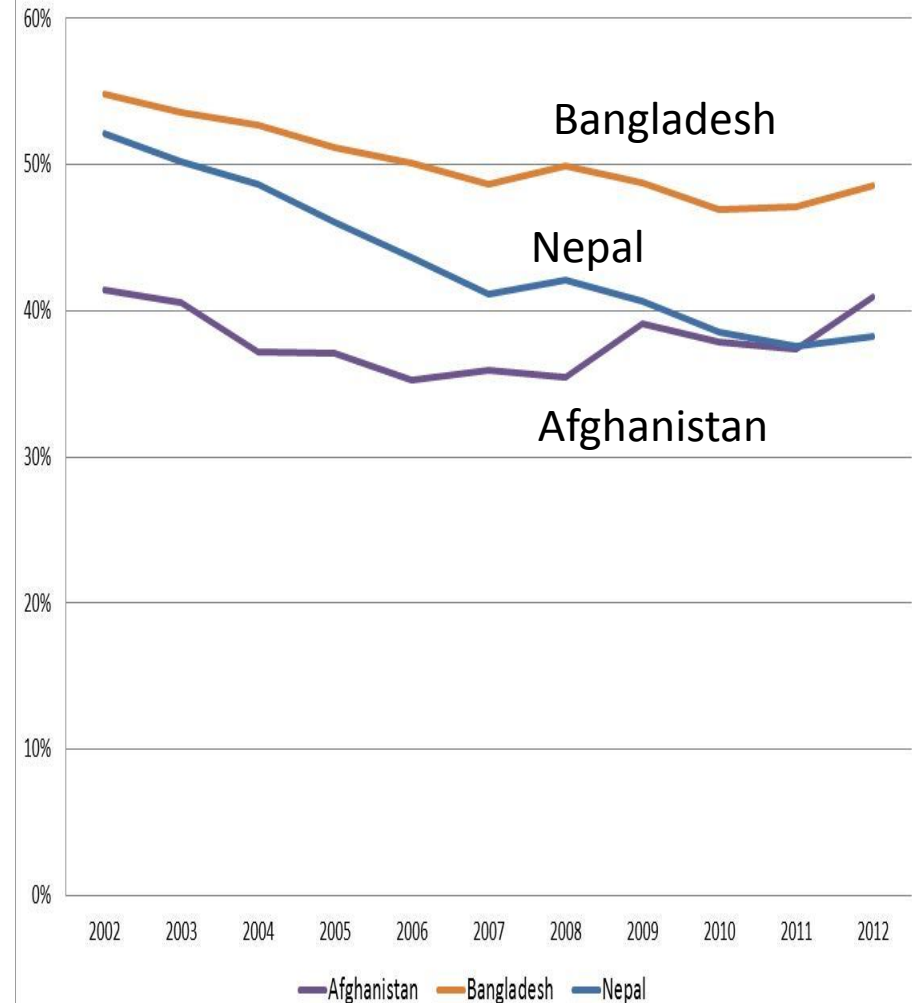
## Catching up of emerging ASEAN with Thailand

GDP per capita, PPP (constant 2005 international \$) as a share of Thailand's GDP per capita, 1993-2012



## Catching up of emerging South Asia with India

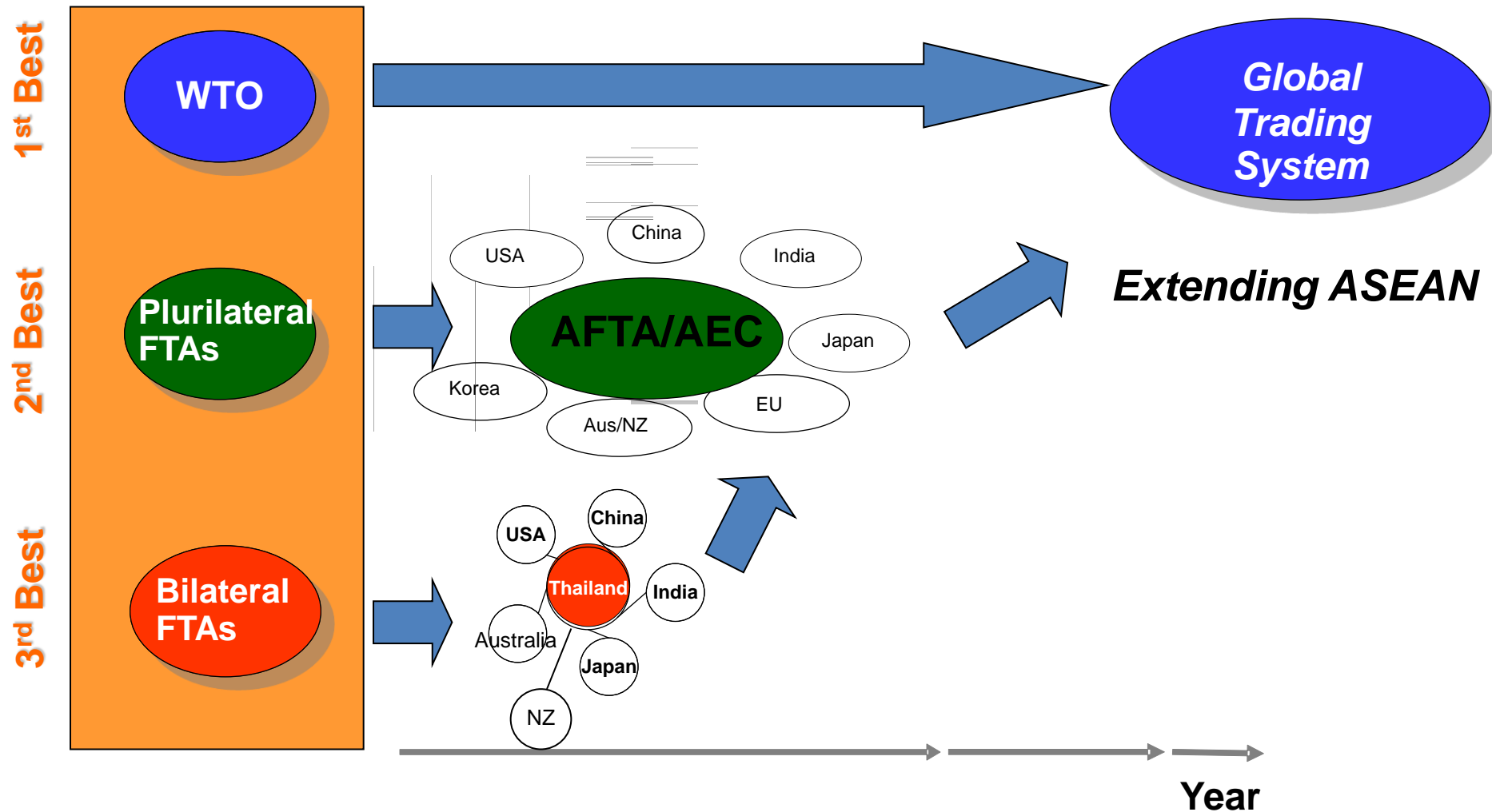
GDP per capita, PPP (constant 2005 international \$) as a share of India's GDP per capita, 2002-2012



# **WTO and ASEAN**

**Between hope and reality**

# International integration channels



# WTO for LDCs (as of Bali MC, Dec 2013)

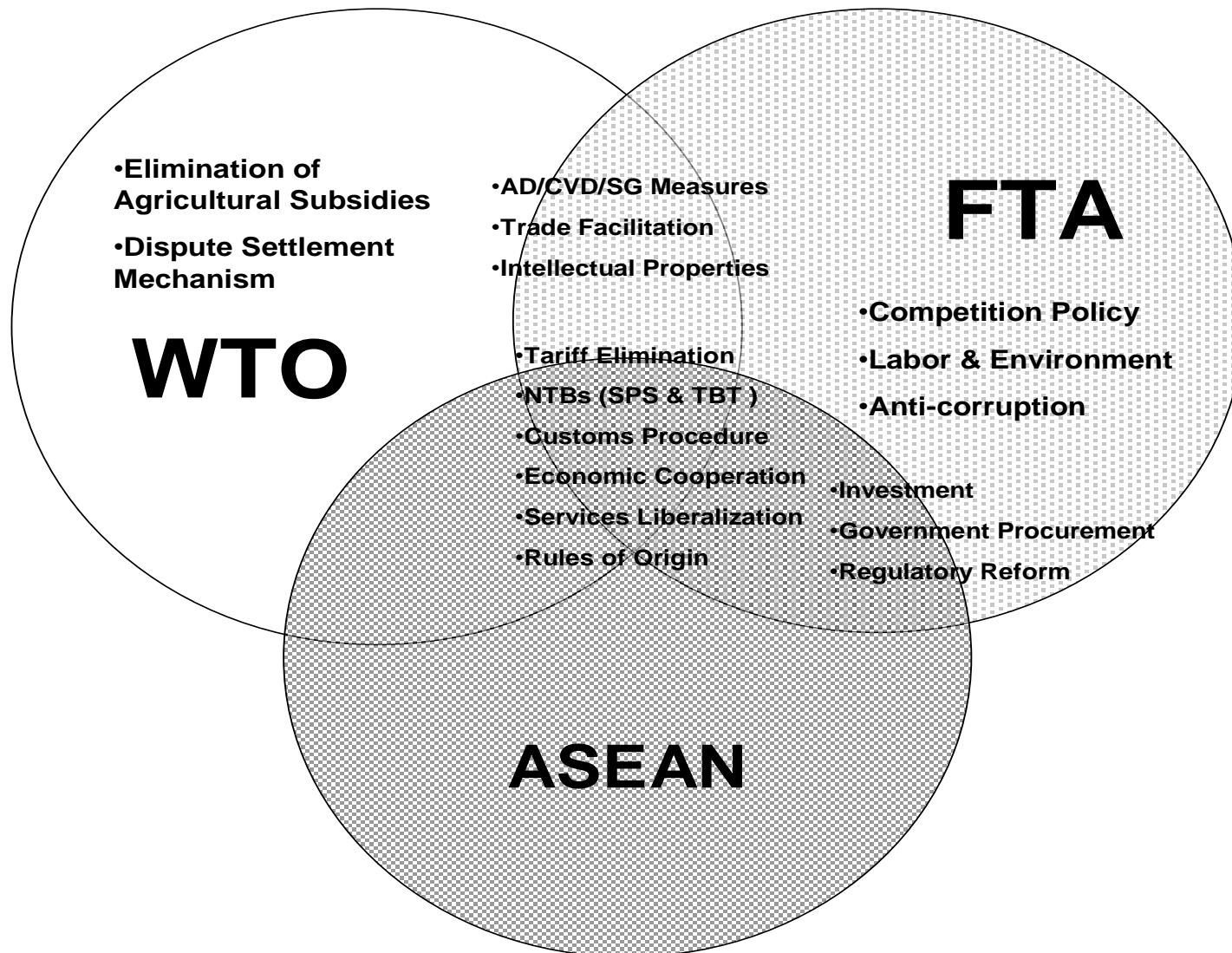
Key areas for LDCs	Reality
<b>Duty-free quota-free (DFQF) market access</b>	<ul style="list-style-type: none"> <li>- Exclusion lists (3% of tariff lines)</li> <li>- What will be excluded? Time-bound?</li> <li>- Erosion of DFQF benefits</li> <li>- Rules of origins and non-tariff barriers</li> </ul>
<b>Preferential treatment of the services export from the LDCs for 15 years</b>	<ul style="list-style-type: none"> <li>- No use since its adoption in 2011</li> <li>- Many of the sub-sectors of interest to developing countries are still not covered.</li> <li>- Domestic regulations and disciplines</li> </ul>

Key areas for LDCs	Reality
<b>Trade facilitation (TF)</b> – to reduce the cost of trading	<ul style="list-style-type: none"> <li>- Need finance and technology to upgrade and improve infrastructure, regulatory reforms and technical support.</li> </ul>
<b>Agriculture</b>	<p>A permanent solution has not been settled</p> <ul style="list-style-type: none"> <li>- Domestic supports of developed countries</li> <li>- Public stockholding for food security</li> <li>- Cotton subsidy</li> <li>- Flexibilities for LDCs and developing countries</li> </ul>



Key areas for LDCs	Reality
<p><b>Aid for trade</b></p> <p>Aid to build production capacity and trade related adjustment</p>	<p>Questions are around:</p> <ul style="list-style-type: none"> <li>- Would it actually be delivered?, by how much?</li> <li>- Would it be in addition to existing aid, or recycling the existing funds?</li> <li>- Will it deliver the expected development in LDCs?</li> </ul>

# WTO, FTA and ASEAN



# ASEAN

“ ASEAN's cooperation in political development aims to strengthen democracy, enhance good governance and the rule of law, and to promote and protect human rights and fundamental freedoms, with due regard to the rights and responsibilities of the Member States of ASEAN. ”

ASEAN Political-Security Community Blueprint

“ The AEC Blueprint will transform ASEAN into a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy. ”

ASEAN Economic Community Blueprint

“ ASEAN is committed to enhancing the well-being and the livelihood of the peoples of ASEAN through alleviating poverty, ensuring social welfare and protection, building a safe, secure and drug free environment, enhancing disaster resilience and addressing health development concerns. ”

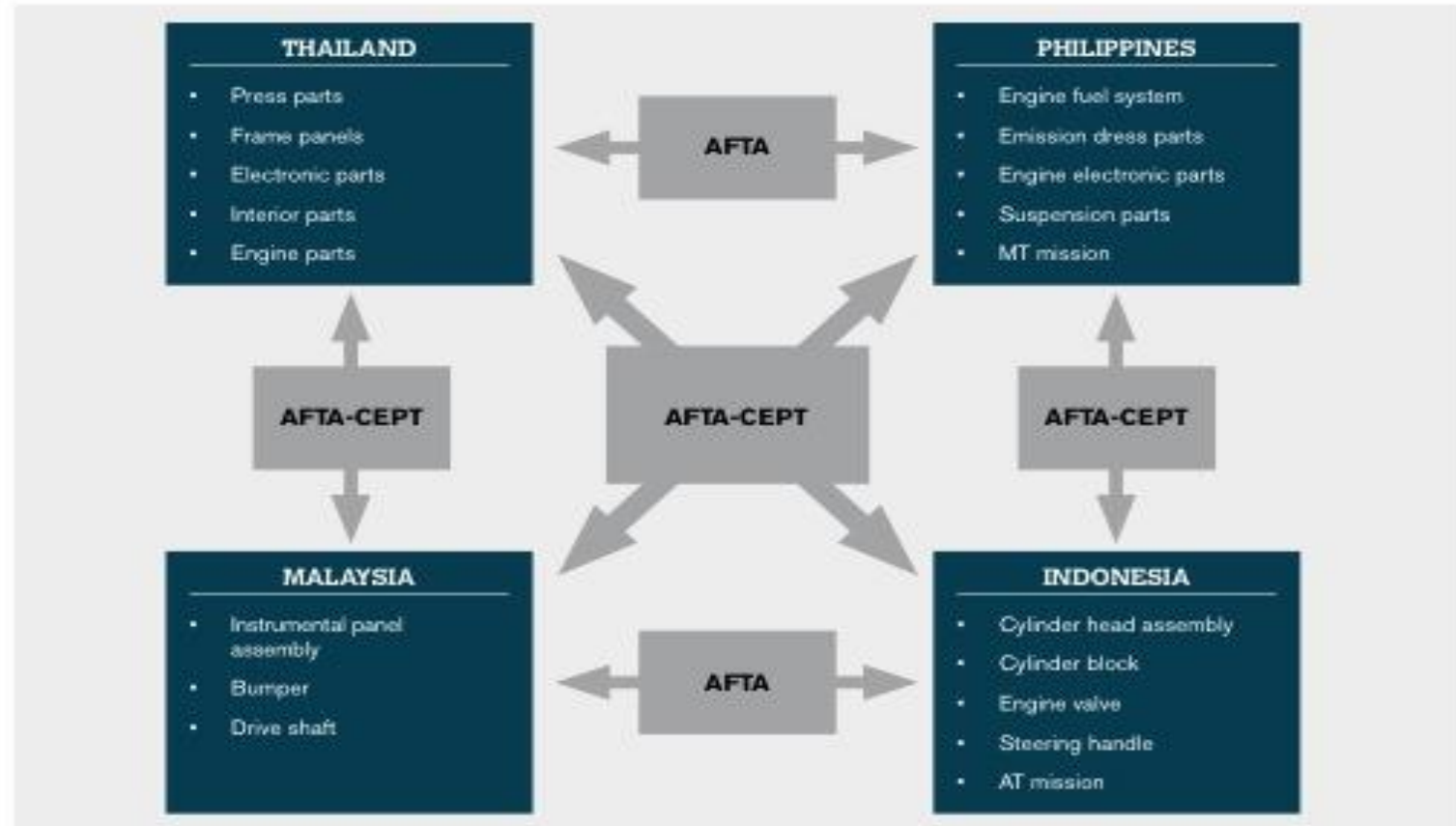
ASEAN Socio-Cultural Community Blueprint

# ASEAN: the facts

- Limited intra-ASEAN trade (25%) & investment (16%)
- Major sources of FDI in ASEAN:
  - EU (22%), ASEAN (16%), Japan (11%), US (11%), Republic of Korea (5%), China (4%)
- Major export markets of ASEAN:
  - ASEAN (26%), Japan (12%), China (10%), EU (10%), US (9%)
- Major import sources of ASEAN:
  - ASEAN (24%), Japan (11%), China (13%), EU (10%), US (8%)
- Major exports and imports of ASEAN are parts and components of electronics and automotive products.
- Intra-ASEAN market Integration is not a major driver of ASEAN Integration.

# ASEAN IPN for Automobiles

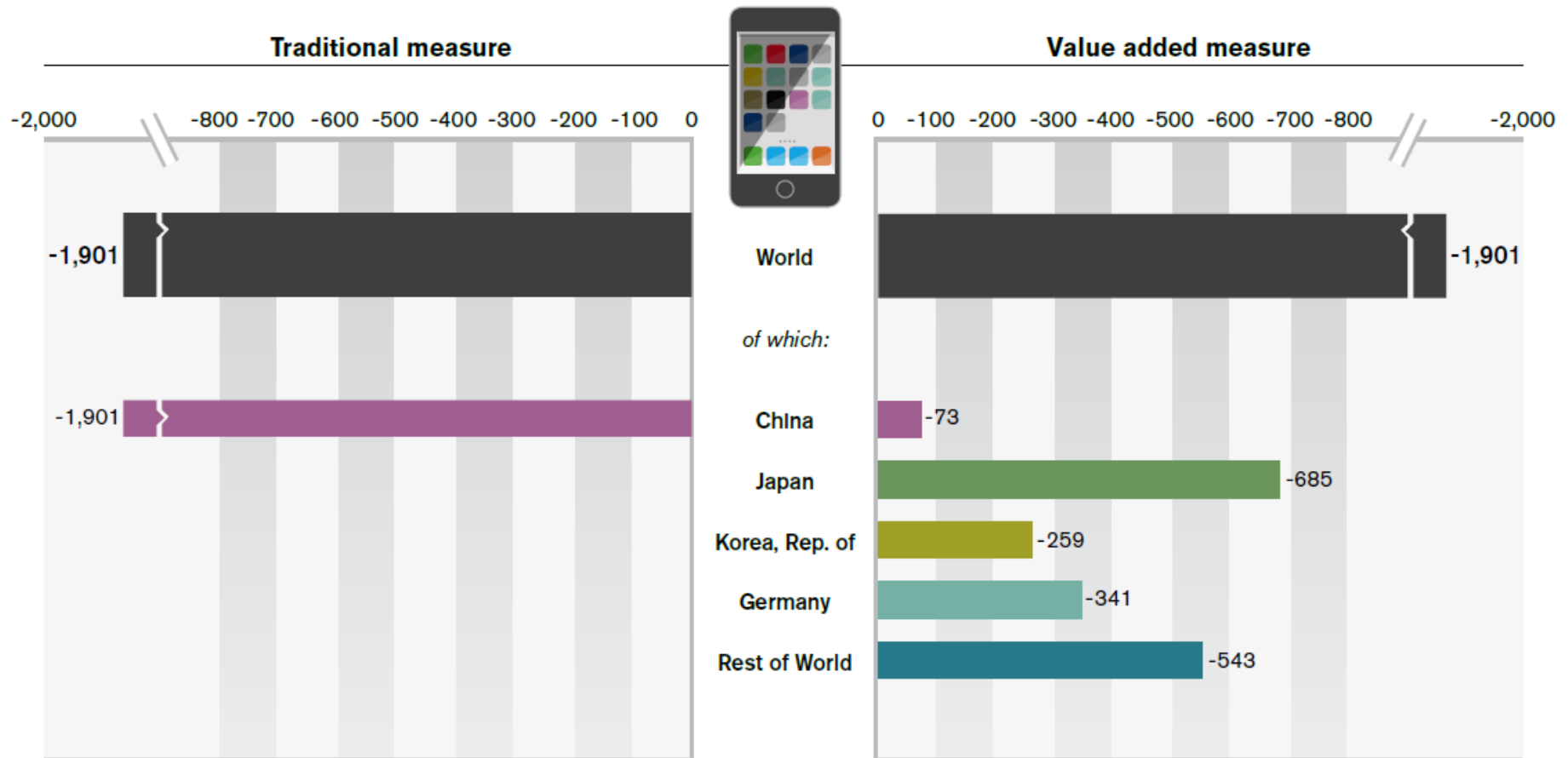
Complementary parts supply system of an automobile assembler in ASEAN



Note: the ASEAN Free Trade Area - Common Effective Preferential Tariff (AFTA-CEPT) is a cooperative arrangement among ASEAN member states to reduce intra-regional tariffs and remove non-tariff barriers.

Source: Hiratsuka (2010).

# Made in the World



Source: Meng and Miroudot, based on Xing and Detert (2010)

# Implications

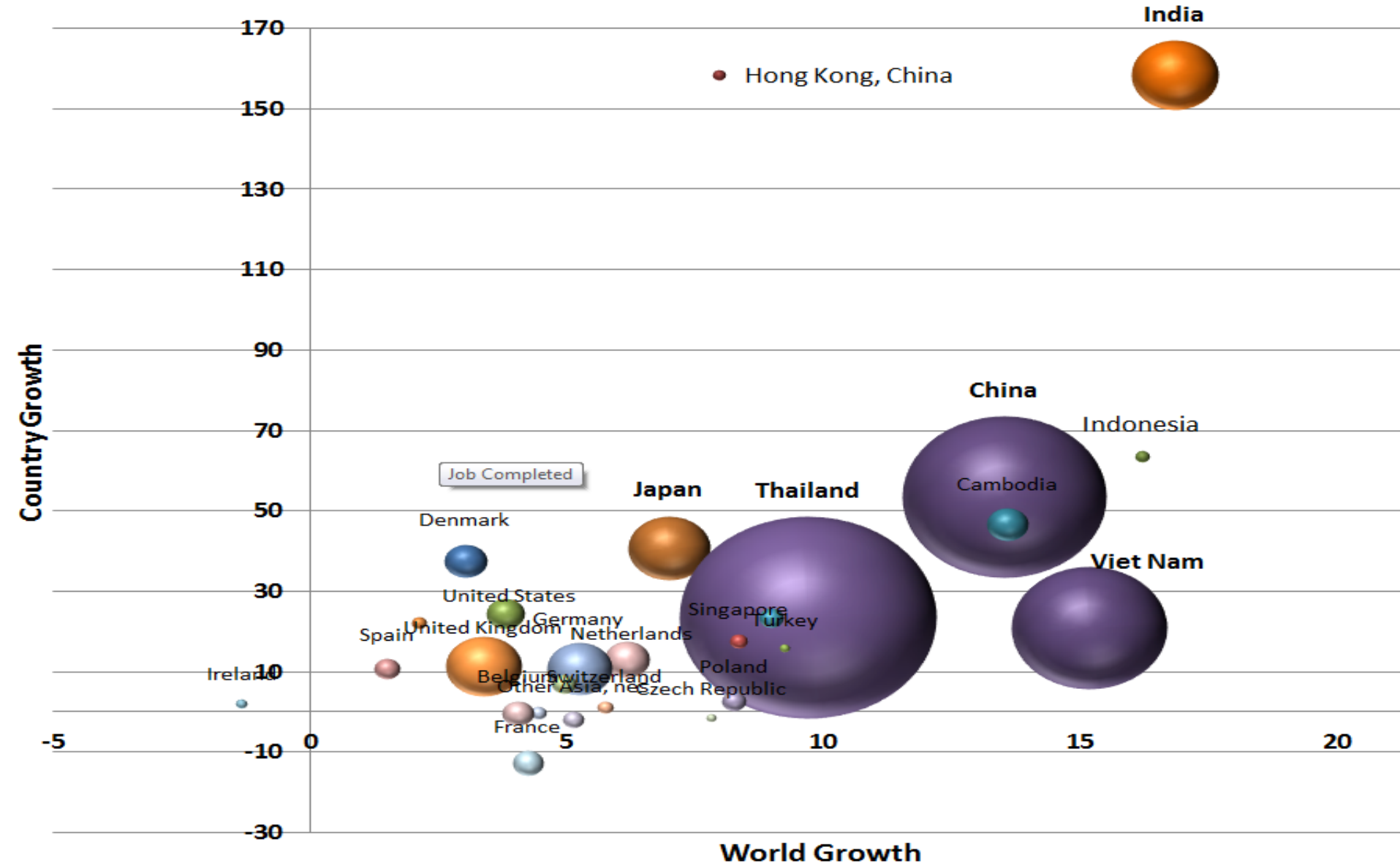
- AEC with free movement of goods, services, skilled labour, and freer movement of capital: AEC will bring “production integration” more than market integration
- Trade and investment of ASEAN reflect that the region is fully integrated and aims to deeper integrate with the “Factory of Asia” which has been a major element of “global value chain” phenomenon.

# **The position of Lao PDR in the global and ASEAN dynamic**



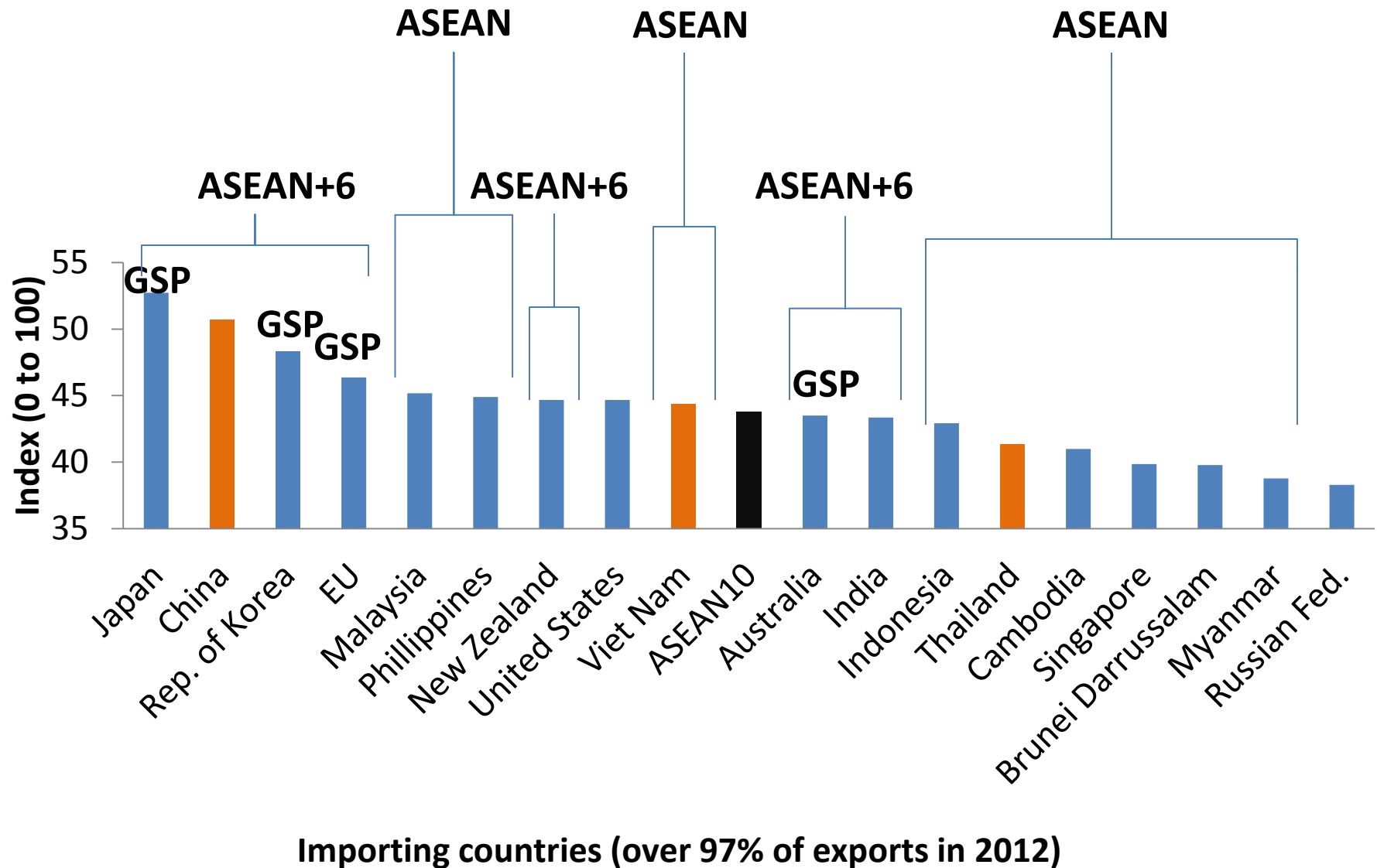
# High export-market concentration

## Market-growth orientation (2005-2012)



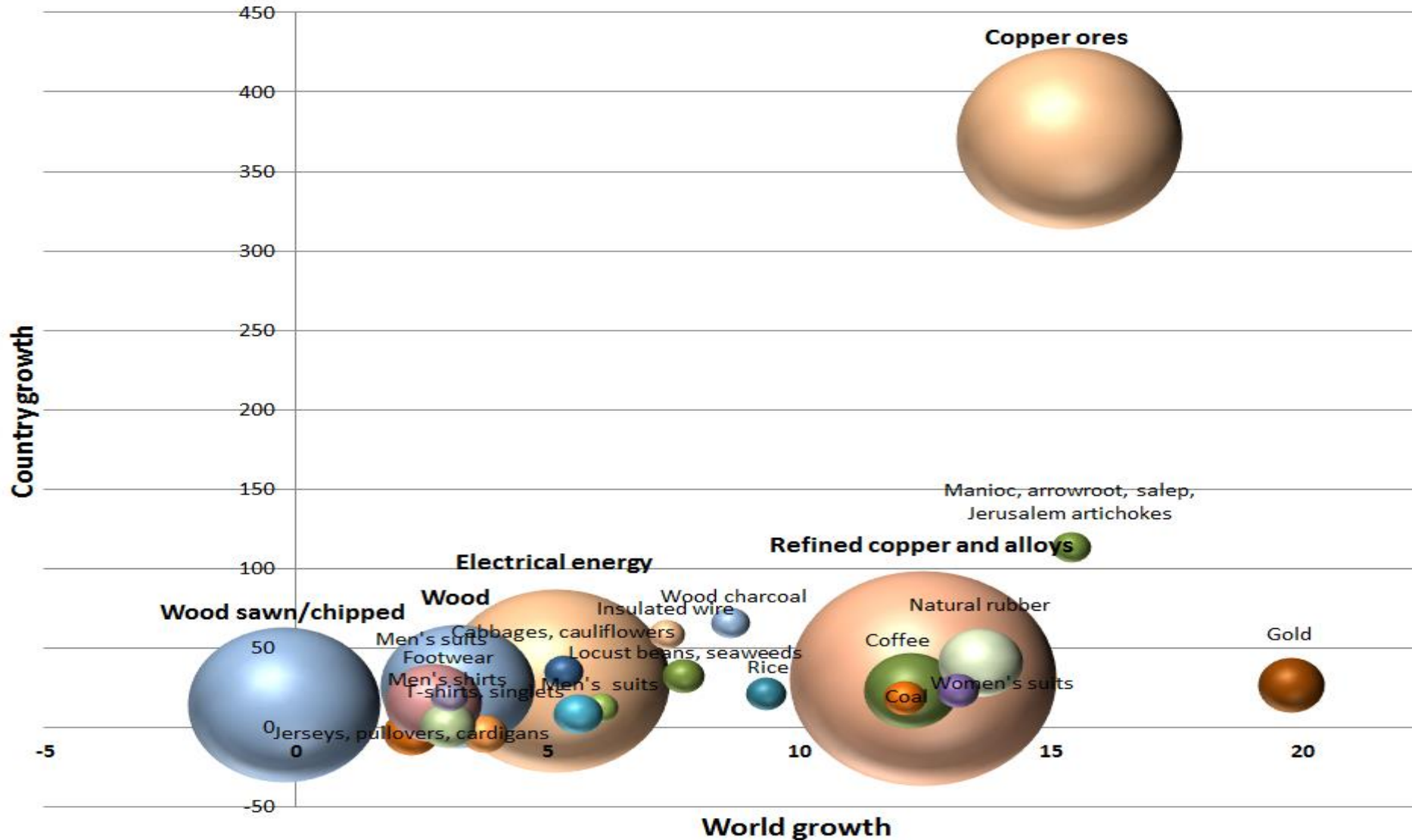
Calculation using data from WITS

# Trade complementary (2012) and trade preference



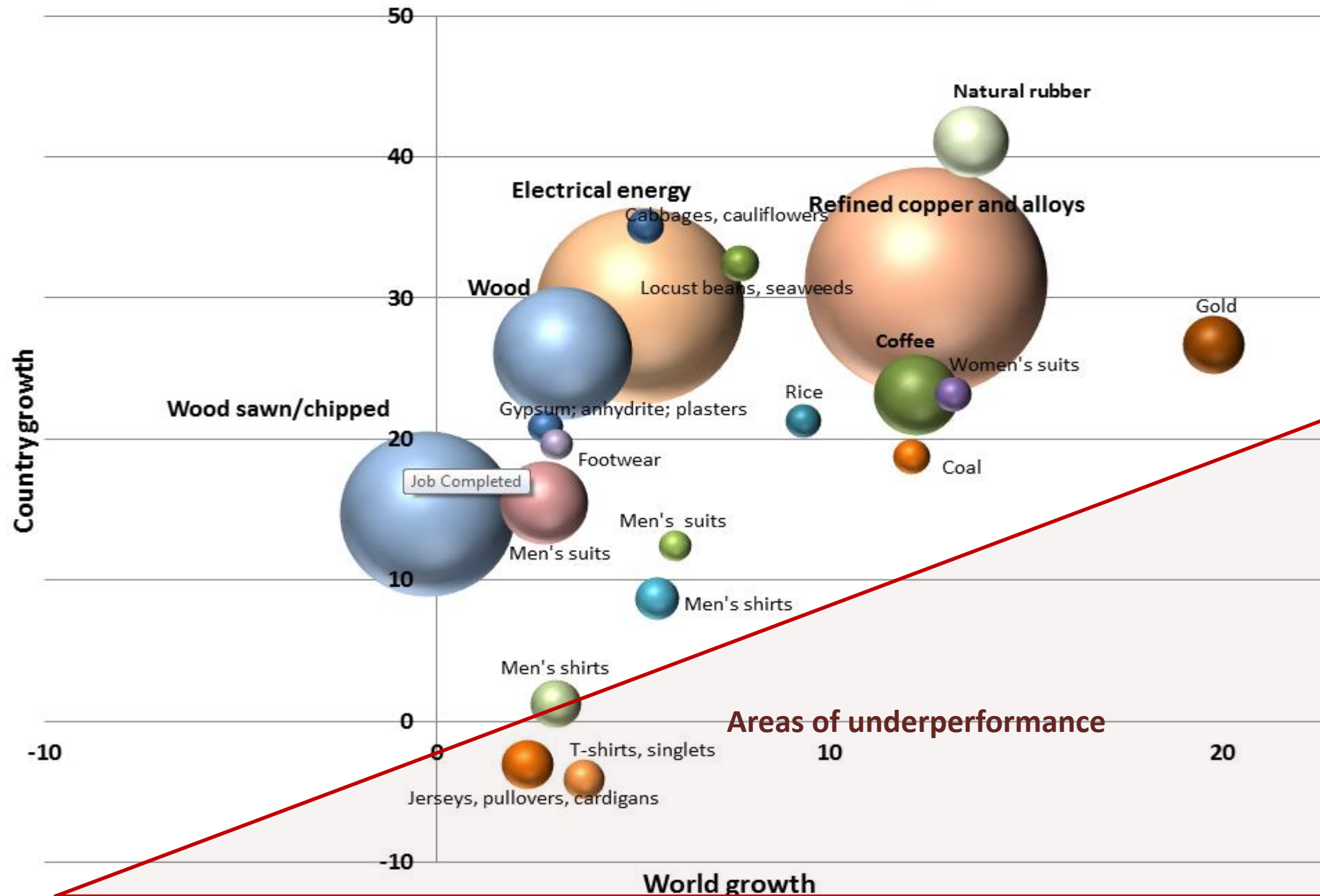
# Being a raw material supplier

## Product-growth orientation (2005-2012)



Calculation using data from WITS

# Zooming in...what do you see?



Calculation using data from WITS

# What lies ahead?

- Short-to-medium term
  - More FDI inflows
    - Natural resources and hydro electricity
    - Light manufacturing
    - Tourism
    - Agriculture
  - High export revenue
    - Driven mainly by mining and electricity exports
- Long-term challenges
  - Participating GVCs at the bottom of the value-added chains will not offer much on productivity gains and economic equality
  - Natural resource curse (NRC)

# What is NRC?

- Volatility of mining commodity prices
- Real exchange rate appreciation
- Crowding out manufacturing
- Fiscal over-spending in response to high revenue
- Rent seeking and corruptions
- Increasing inequality

# The signs of NRC

- Currency appreciation
- Shrinking of other sectors
  - Workers and investment shift to the resource sector
- High inflation
  - High spending + shrinking of productive sector
- Fiscal deficit
  - Especially, the spending is not for building long-term competitiveness



# Way forward

Public and business sectors to go  
hand in hand



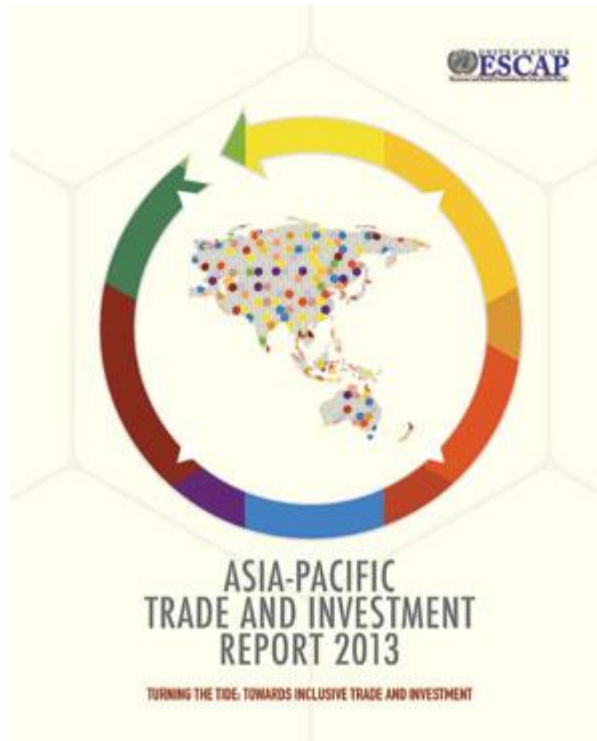
# Business-as-usual is not good enough

- Diversifying export portfolio
  - Agriculture raw materials
  - Food products (especially organic)
  - Niche labour-intensive products/services
- Diversifying export markets
  - India, Indonesia, ME, ....
- Investment to develop human capital, productivity, and innovation (product, process, and market)

# Businesses are affected by government policies

- International integration through ASEAN, ASEAN+6 (and perhaps wider), and WTO is visionary
- Powering development with resource income
  - Efficient logistics
  - Hard and soft infrastructure
  - Human capital and skill development
- Create attractive and competitive environment for FDI
  - Improving institution mechanisms
  - Remove barriers to trade and investment
- Prudential macro-management
  - Structural budget rules
  - Well-managed foreign exchange reserve
  - Using financial derivatives to control volatility

# Thank you



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