



**National University of Laos,  
Faculty of Economics and Management**

**THE Impact of Trade Policy Reform on Social  
Welfare,  
Inequality and Poverty: The case of Lao PDR.**

**ARTNeT Research Workshop, 4-5 April 2012**

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# Outline

I. Introduction

II. Trade Liberalization and Poverty Reduction

III. Theoretical Framework and Methodology

IV. Result of Study

V. Conclusion and Recommendation



# I. Introduction

- ❑ Least developed countries in South East Asia
- ❑ NEM in 1986 and open country to world
- ❑ Declining on poverty rate from 46% in 1992/93 to 33.5% and 27.6% in 2002/03 and 2007/08 respectively.
- ❑ High economic growth after openness.

# **I. Introduction**

## **@. Objective of Study**

- ☐ To study the impact of trade policy reform as tariff reduction on poverty in Lao PDR through importing and domestic commodity price change.
- ☐ To examine the effect of trade policy reform on social welfare and inequality as a whole during reform process.

# II. Trade Liberalization and Poverty Reduction in Lao PDR.

## 2.1 The process of Lao trade reform after

- ❑ Beginning implements of trade policy reform from by ranging from 5 percent to 100 percent.
- ❑ The IMF proposed new tariff rate structures as as 10, 20, 30, and 40 percent.
- ❑ The highest tariff rates still wanted to apply for domestic industry protections.
- ❑ Continuing improvement and reform law and institution in order to integrate with regional and international organization.

## 2.2 Poverty Reduction during Reform

- ❑ Setting poverty reduction programs as the first priority issues in social-economic planning.
- ❑ Escaping from LDCs and meet MDGs by 2020
- ❑ Poverty in Lao PDR is mainly living in rural area which is remote from main road and city.
- ❑ Working in agricultural sector as main sources of their income.
- ❑ Low productivity

## **2.2 Poverty Reduction during Reform**

- ❑ Why does the Northern part of Laos have many poorer than other regions?**
- ❑ Limited access to agricultural inputs, poor essential infrastructure, and limited access to health services.
- ❑ About 31.6 percent of the rural households don't have road access (Peter Warr, 2005) particular in wet season.

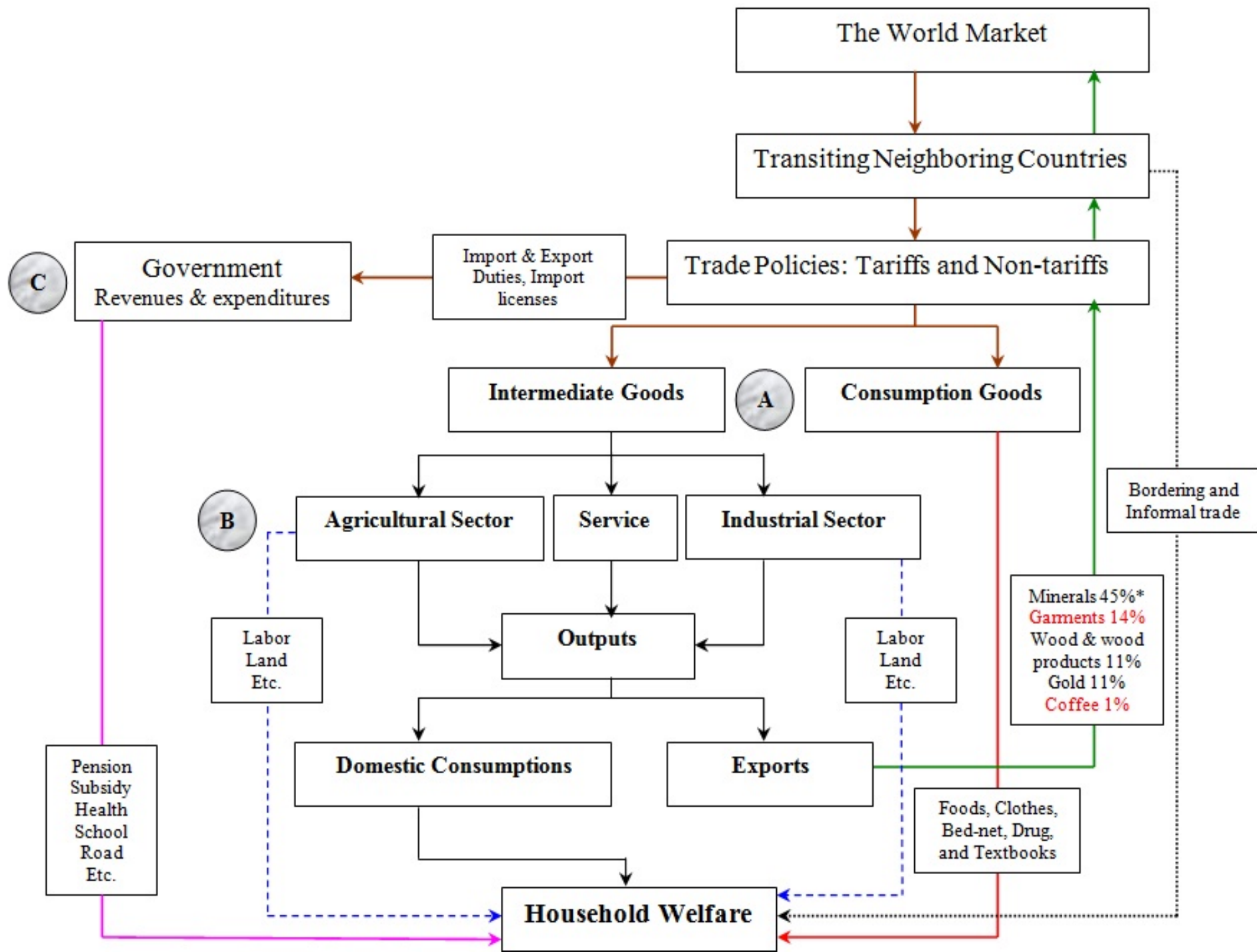


# III. Theoretical Framework and Methodology

## 3.1 The linkage between trade policy reform and poverty

- ❑ Winters (2000) provided very fundamental analysis framework on relationship between trade policy reform and poverty reduction as below:
- ❑ Consumer price change and import availability,
- ❑ Income distribution and employment,
- ❑ Government revenue and expenditure





# III. Theoretical Framework and Methodology

## 3.2 Inequality and Social Welfare

□ Sen's (1973) introduced social welfare function in term of inequality measurement as below:

$$SW = \mu(1 - I) \quad \text{or} \quad I = 1 - \frac{1}{\mu}(WS) \quad 3.3$$

□ Inequality index by Atkinson (1970):

$$I_A = 1 - \left[ \frac{1}{N} \sum_h^n \left( \frac{y_h}{\mu} \right)^{1-\varepsilon} \right]^{\frac{1}{(1-\varepsilon)}}, \quad \forall \varepsilon > 0, \varepsilon \neq 1 \quad (3.5)$$

□ pass-through rate from tariff to price as have been presented by Porto Guido G. (2006)

$$d \ln P_i^t = \theta_{iA} \frac{(\tau_A^{t-1} - \tau_{iA}^t)}{(1 + \tau_{iA}^t)} + \theta_{iNA} \frac{(\tau_{iNA}^{t-1} - \tau_{iNA}^t)}{(1 + \tau_{iNA}^t)} \quad 3.9$$

# IV. The Empirical Results

## 4.1 The Effect of Trade Reform on Social Welfare and Inequality

- ❑ From Equation (3.5) and (3.6) by **Atkinson** (1970)
- ❑ Using household income from Lao Expenditure and Consumption Survey in 1997/98 (**LECS II**) and 2002/03 (**LECS III**).
- ❑ Estimating household income distribution between poor households who live in urban and rural areas

Figure 4.1 Inequality Measurement Index in 1997/ 98

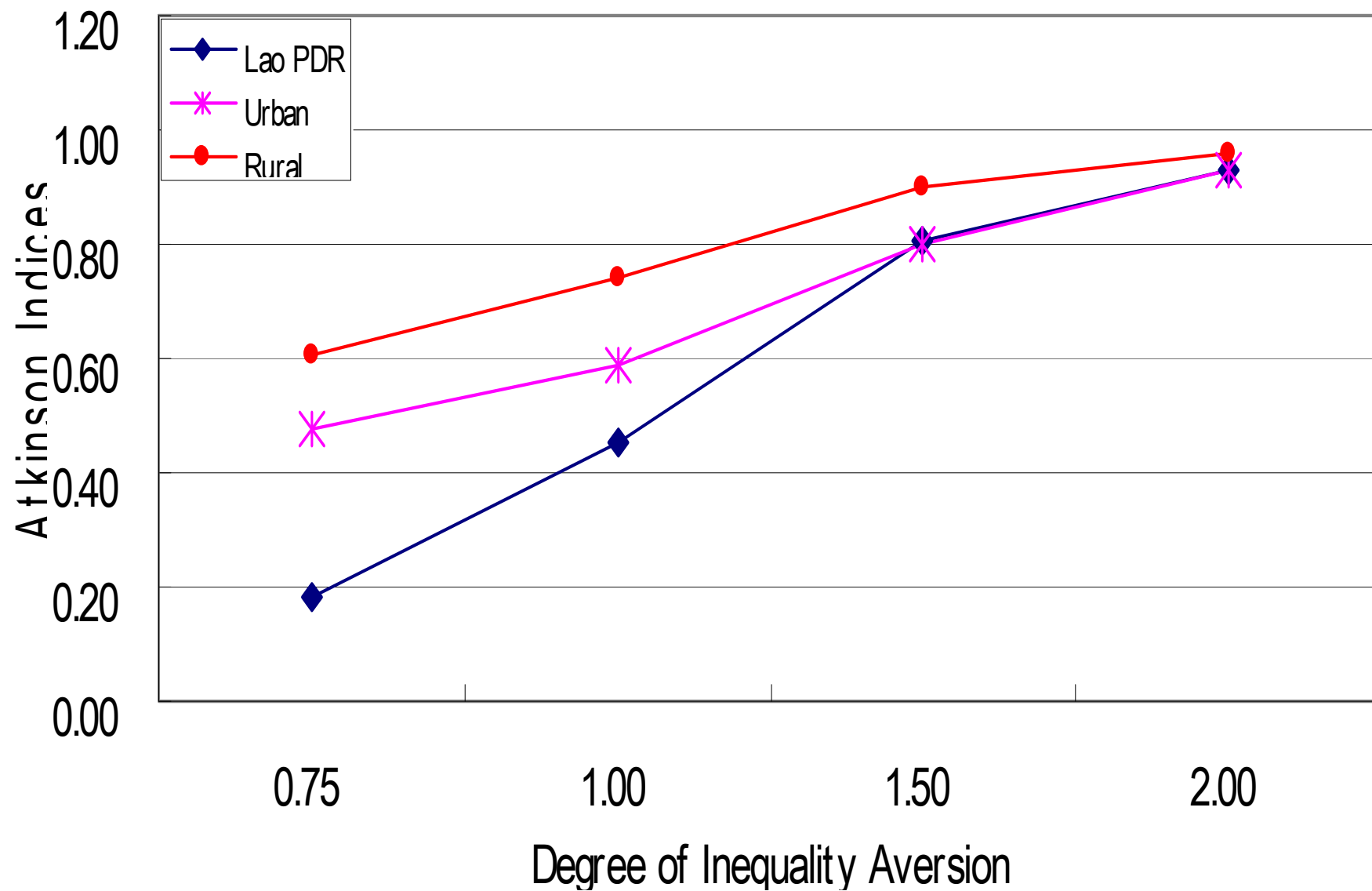


Figure 4.2 Inequality Measurement Index in 2002/ 03

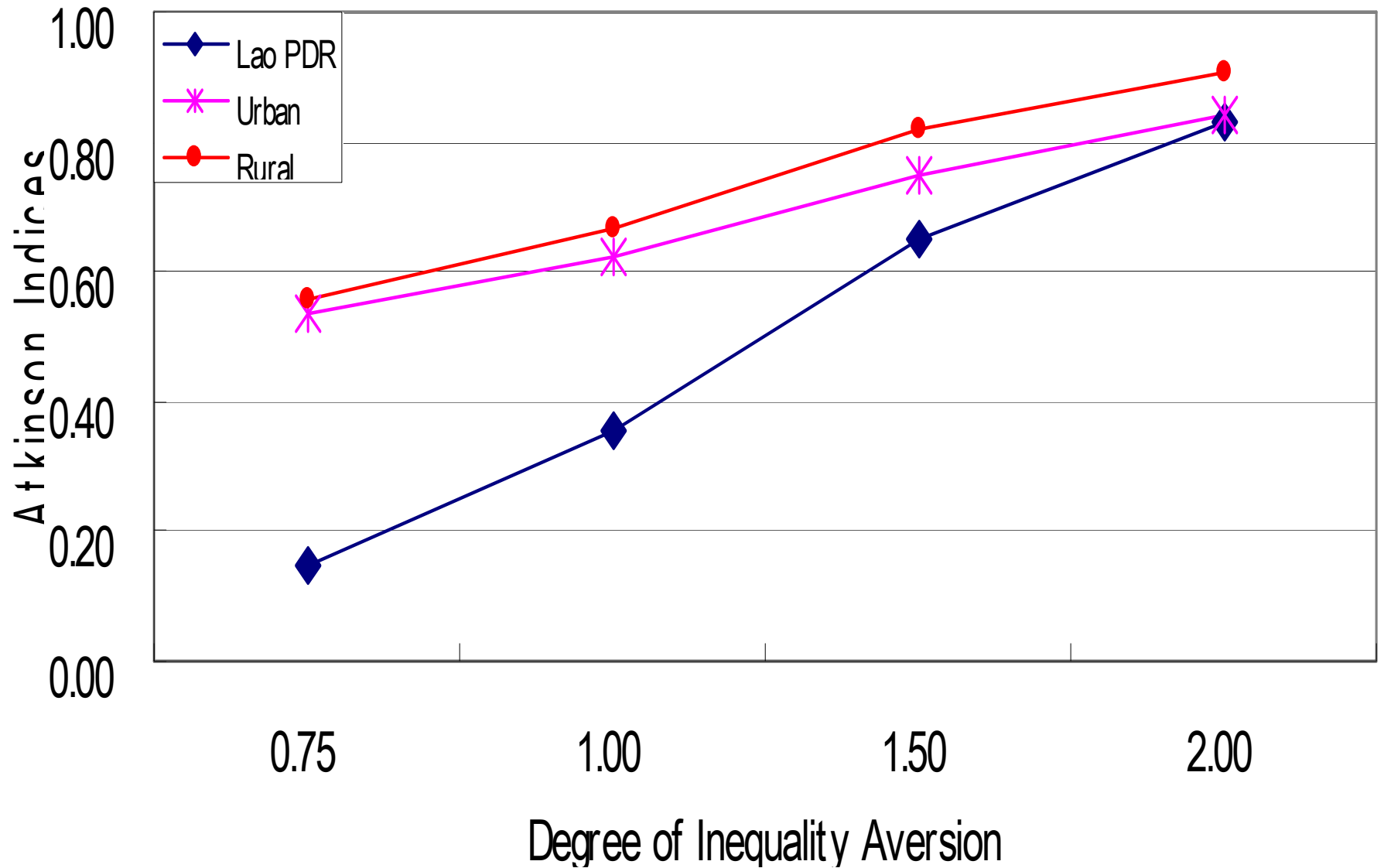
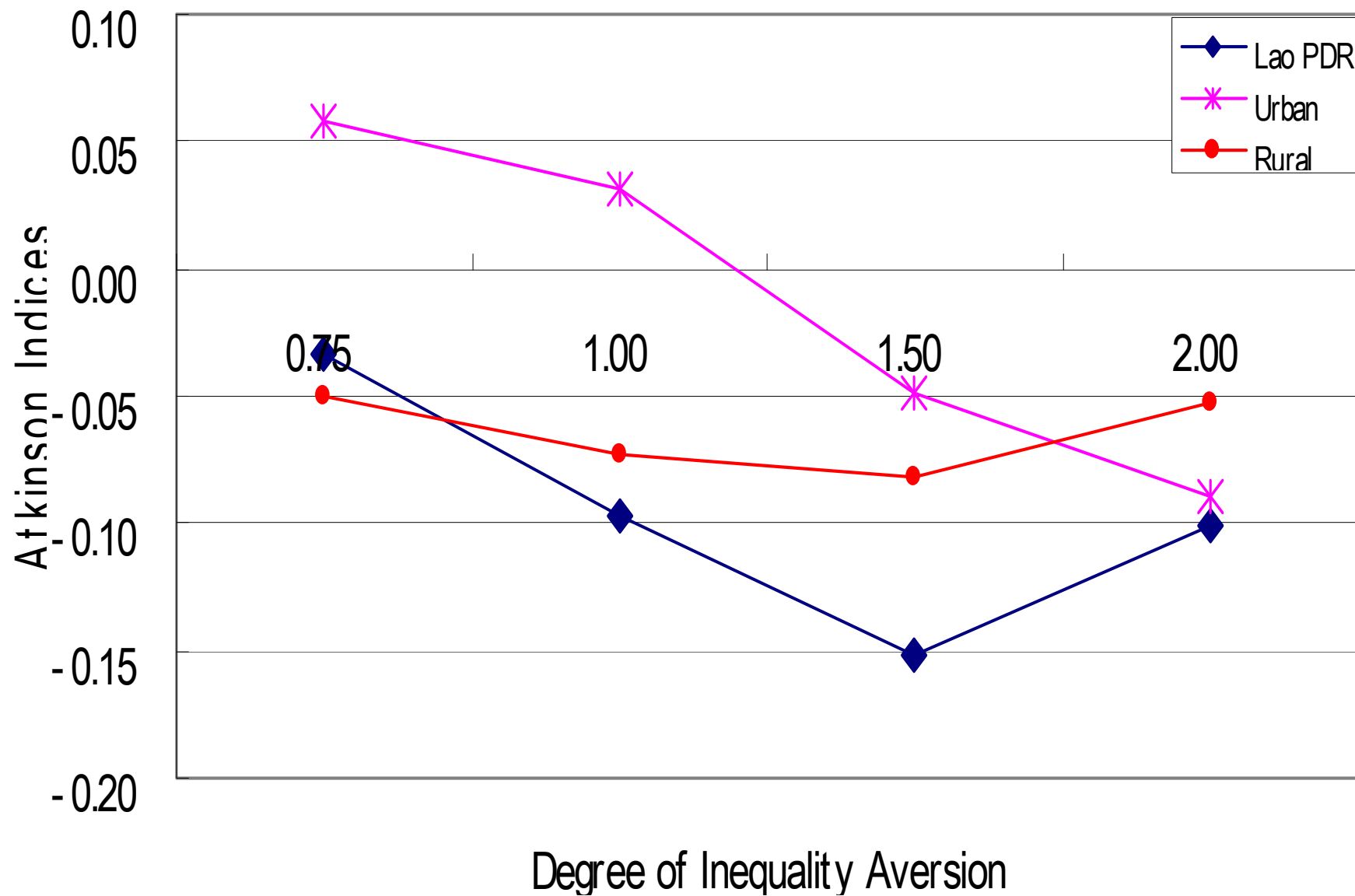
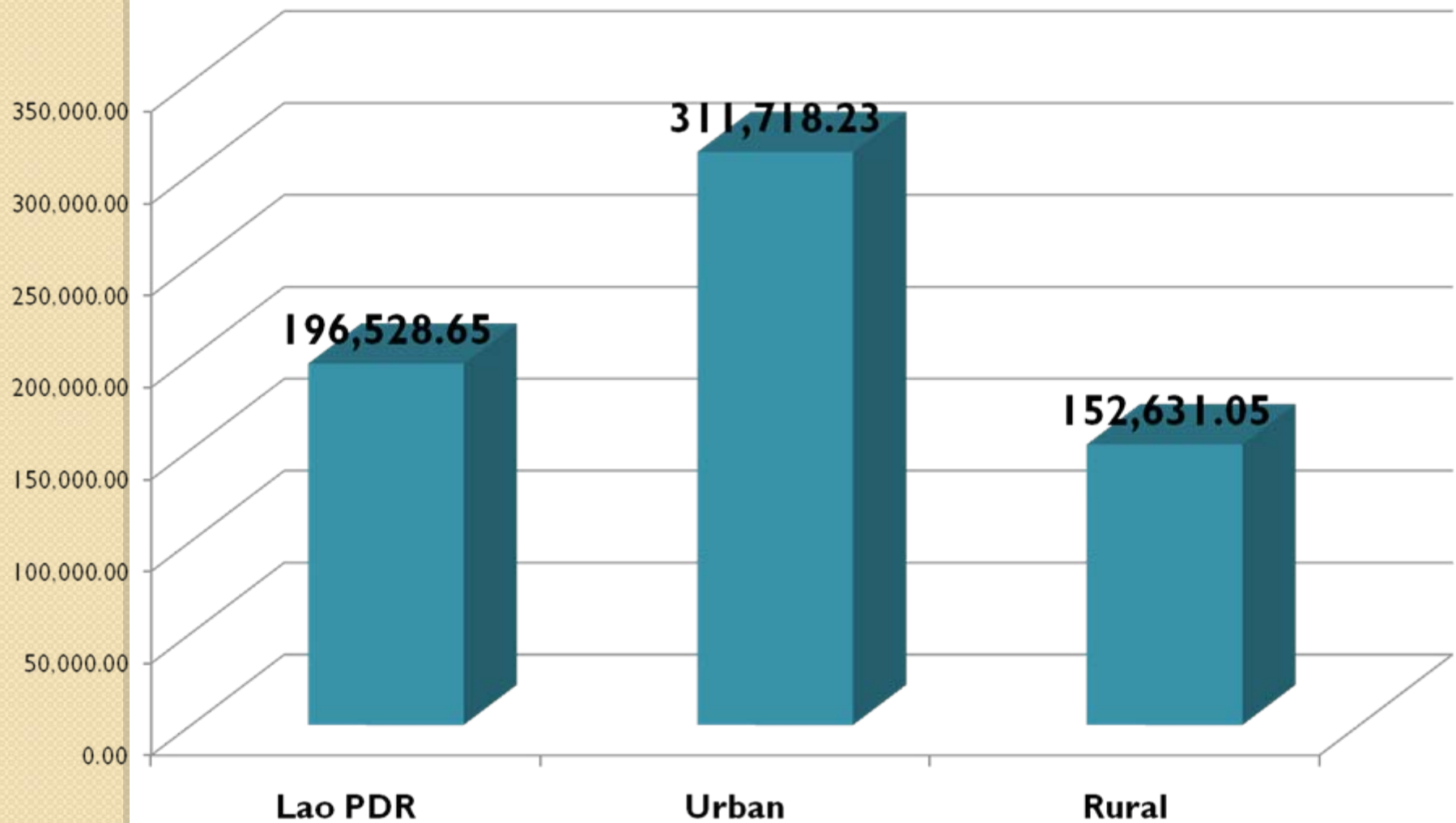


Figure 4.3 The Change of Indinces Between 1997/ 98 and 2002/ 03



# Changing in Social Welfare in LAK at $\epsilon=1$ Between 1997/98 and 2002/03





# **IV. The Empirical Results**

## **4.2 The Effect of Price Change under AFTA Commitments**

- ❑ From equation (3.9) by using the data of imported commodities during trade reform process between 2005 and 2007;
- ❑ Calculating 2 digits commodity and tariff rate.
- ❑ For intra ASEAN import data consisted of 9 ASEAN members and Non ASEAN data was the sum all of the rest countries.

# **IV. The Empirical Results**

## **4.2 The Effect of Price Change under AFTA Commitments**

- ❑ The average price change was around 60 percent within two years
- ❑ the averaged tariff reduced nearly 80 percent within ASEAN members while Non ASEAN member had increased by 2.23 percent.

# **IV. The Empirical Results**

## **4.2 The Effect of Price Change under AFTA Commitments**

- ❑ The price of iron and Steel (72), Articles of Iron or Steel (73), Computer/Machinery (84), and Cars, Trucks, Autos (87) declined over 300 percent
- ❑ Because those commodities had high tariff rates before reforms.
- ❑ Very surprised of Lubricants/Fuels/Oil (27), It might cause of huge amount of import fuels every year from ASEAN.

# V. Conclusion

- ❑ Continuing trade reform in order to preparing WTO accession and Asean Economic Community
- ❑ Urban and Rural areas become closer income distribution equally.
- ❑ Imported commodities with lower price and better quality than before reforms
- ❑ Giving them with basic infrastructures, investment capital such as credit loans and agricultural knowledge.



**Thank you !!!**

