

Workshop on “The Belt and Road Initiative and the Economic Diversification of Landlocked Developing Countries: Opportunities and Challenges for Lao PDR”

Lao PDR’s Economic Diversification and Regional Integration

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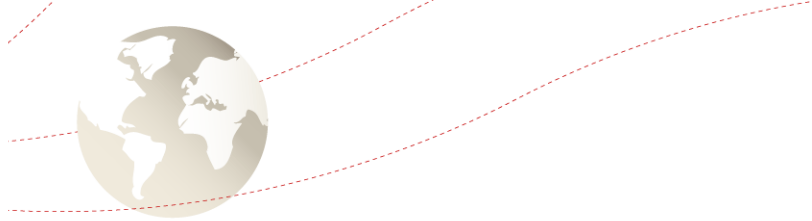


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Lao Economic Growth and Economic Structure

- Since several years, the Lao economy experiences **high economic growth rates**, averaging around 7% per annum
- While maintaining the **level of growth**, the **quality of growth** might be further improved
- High relevance of the **Mining Sector** and the **Hydropower Sector** for the Lao Economy
 - Mining Sector and Hydropower Sector are comparatively **capital-intensive**
 - Natural Resources will be **exhausted** at one point in time
 - **Prices** of Natural Resources depend on world markets, cannot be influenced by Laos and fluctuate sometimes importantly



Lao Economic Growth and Economic Structure II

- The productivity in the **agricultural sector** can be further improved
 - More than 70% of the Lao **work force** are occupied in the agricultural sector
 - However, the Lao agricultural sector contributes only around 30% to the Lao **GDP**
 - Often, **raw materials** are exported; the scope of agro-processing can be further developed
- The **services sectors** are dominated by wholesale and retail trade
 - Substantial potential for further development for example of the **tourism sector**, the **transport and logistics sector** and **selected** other services sectors



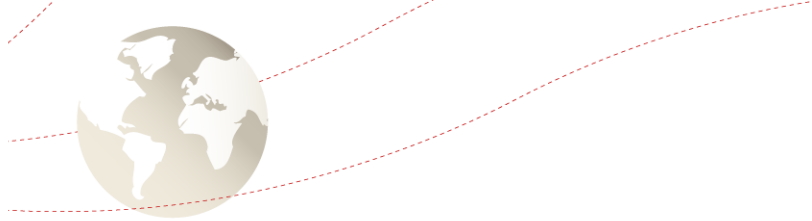
Lao Economic Growth and Economic Structure III

- The **industrial base** in Lao PDR is still comparatively weak
 - However, during the last years, first signs for a **potential economic transition** can be detected
 - Substantial investments by some multi-national companies in the **manufacturing sector**: digital cameras, optical lenses, electronic parts, parts for the aviation industry
 - Factories in Laos are usually part of **regional value chains**
 - Investments are often **intense in unskilled labour**
 - Investments are concentrated in some **Special Economic Zones**, often close to the capital city, to transport corridors and/or to border posts



Lao Economic Growth and Economic Structure IV

- **Diversification** of the Lao economy might be further improved
 - On the **supply side**: high relevance of raw agricultural products, mining and hydropower
 - On the **demand side**: export structure is comparatively little diversified, concentrated on a limited number of countries (Thailand, Vietnam and China)



The Quality of Lao Growth

- Potentials to improve the **Quality of Growth**
 - **Enhance the Inclusiveness of Growth**

Inclusion of more Lao people into productive processes, creation of more productive jobs
 - **Strengthen the Sustainability of Growth**

Relying less on National Resources that will be exploited in a point in time; strengthening sustainable economic development
 - **Improve the Smartness of Growth**

Improving the productivity of parts of the Lao economy; strengthening the use of human skills, technology and innovation
 - **Enhancing the Resilience of Growth**

Diversifying the economic and export structure; becoming less dependent on goods, the prices of which are determined on the world market and fluctuate importantly

Today,
development
takes place in a
**globalised
world.**



Economic
activity
transcends
national
borders.

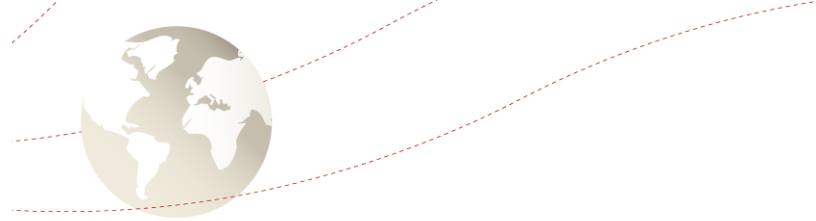


Regions are **ideal
gateways** for
connecting to the
world market.



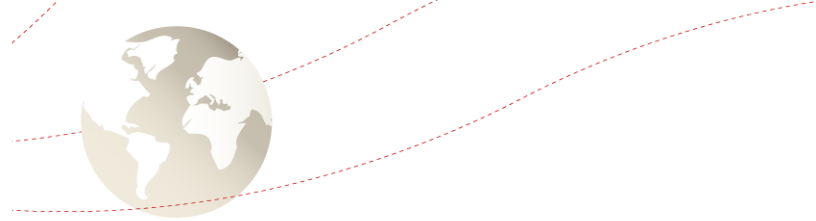
Regional Economic Integration and Cooperation

Potentials	Challenges
<ul style="list-style-type: none"> • Tightness of domestic market is overcome 	<ul style="list-style-type: none"> • Loss of tariff revenues
<ul style="list-style-type: none"> • Trade with perishable goods enabled 	<ul style="list-style-type: none"> • Decrease of wages because of immigration
<ul style="list-style-type: none"> • Integration into regional value chains improved 	<ul style="list-style-type: none"> • Emigration of skilled workers
<ul style="list-style-type: none"> • Access to sea ports (to international markets) improved 	<ul style="list-style-type: none"> • Domestic firms are pushed out of the market by more competitive foreign enterprises
<ul style="list-style-type: none"> • Attractiveness (of the whole region) for foreign investments improved 	



Laos' Integration into the ASEAN Economic Community I

- **ASEAN**
 - 10 Member States
 - 625 million inhabitants
 - 2,4 trillion US-\$ purchasing power
- **ASEAN Economic Community** established at the end of 2015
- **ASEAN Economic Community Blueprint 2016 – 2025** defines the regional economic integration agenda for the ten years to come
- **Regional Comprehensive Economic Partnership (RCEP)** currently negotiated among the ASEAN + 6
- **China – ASEAN Free Trade Agreement** effective since 2011; more comprehensive Economic Partnership Agreement under negotiation



Laos' Integration into the ASEAN Economic Community II

- Pillar One of the AEC: “**A Highly Integrated and Cohesive Economy**”... facilitates the seamless movement of goods, services, investment (...), in order to enhance ASEAN’s **trade and production networks**, and to establish a **more unified market** for its firms and consumers.”
- Key concept for Laos to benefit from the AEC is **Competitiveness**.
Enterprises in Laos have to increase their **productivity**, enhance their **quality** and reduce their **costs** to make use of the ASEAN Economic Community and to reduce its economic risks
- Laos should focus on those economic areas, where it has **comparative advances**



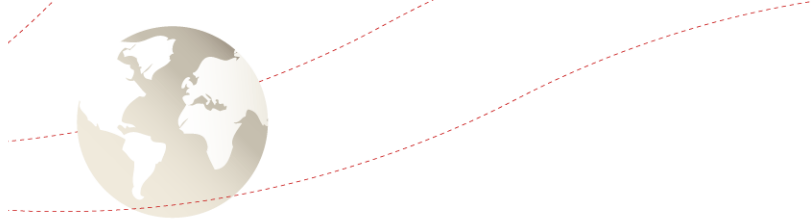
Laos' Integration into the ASEAN Economic Community III

- **Comparative advantages** of the Lao economy, amongst others
 - **Low wages of unskilled labour**
 - Clean, comparatively affordable **energy**
 - Macroeconomic and political **stability**
 - Strategic **geographical position** in the heart of the Mekong area
 - “**Risk diversification**” of multi-national companies
 - **Cultural ties** with Thailand (same language)



Laos' Integration into the ASEAN Economic Community IV

- AEC strengthens the development of and facilitates the involvement of companies in Laos into **regional value chains**
- Multi-national companies set up **production networks** in ASEAN, making use of **comparative advantages** of the different ASEAN Member States
- Lao PDR enters regional value chains rather at production steps that are **intensive in unskilled labour** and at **agricultural processing**



Laos' Integration into the ASEAN Economic Community V

- In the **short term: “First Phase” of Economic Transition**
 - Increase in productivity in agriculture
 - People formerly employed in agricultural sector **move to the industrial sector** (and services sectors), are employed in production steps that are rather intense in comparatively unskilled labour
 - Way other successful economies diversified into the industrial sector a few years ago
- In the **medium to long term (5 – 10 years)**, challenge for enterprises in Lao PDR will be to **step up the “value chain ladder”**, i.e. to enter into parts of regional value chains that are **more intense in human capital**



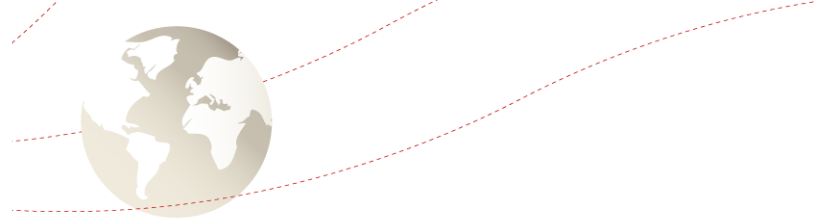
Selected Challenges for Economic Diversification and Regional Integration

- Comparatively low level of **highly qualified workers**
- **Business and investment climate** (Doing Business Index position 134)
- High costs of **transport and logistics**
- Difficult **access to finance** (in particular for small and medium enterprises)



The Role of Technology Transfer and Innovation I

- **Technology transfer** and **innovation** as important tools for businesses in Laos to **increase** their **competitiveness** and thus make use of the potentials as well as to reduce the economic risks of the AEC
- Focus of technology transfer and innovation on **those sectors**, in which Laos has **comparative advantages** in the context of the regional economic integration process (AEC and RCEP)
 - **Agriculture** (in order to increase productivity in the agricultural sector)
 - **Agro-processing**
 - **Manufacturing**, in particular in those parts of the value chain that are more **intensive in unskilled labour**, **energy-intensive** or where the **ratio between value and weight** of products is **favourable** (taking into consideration high transport costs)
 - Selected **services sectors** (tourism, transport, logistics, ICT)



The Role of Technology Transfer and Innovation II

- Increase in competitiveness in services sectors such as Transport and Logistics as well as ICT has **two positive effects**:
 - Generation of jobs, value addition and incomes **in the services sectors themselves**
 - **Reduction in transaction costs** for all sectors of the Lao economy making use of these services
- Use of **appropriate technology** in Laos
 - Taking into consideration the **lack of skilled labour, lack of access to finance** etc.
 - In some cases, the technology used in Laos might be a technology, that has **already been successfully applied** in neighbouring countries, and that has to be **adapted to the Lao context** (re-location of production facilities e.g. from Thailand to Laos).