

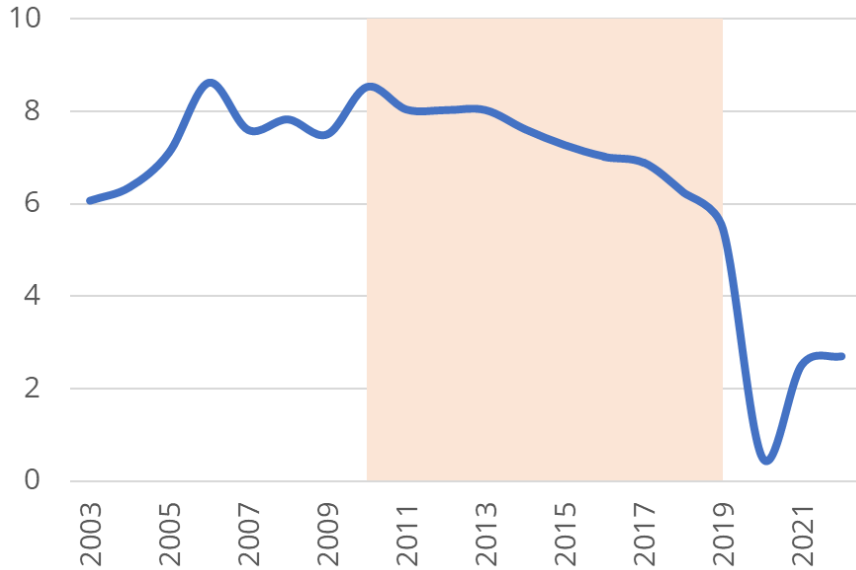


# What is key to Lao PDR's Economic Takeoff ?

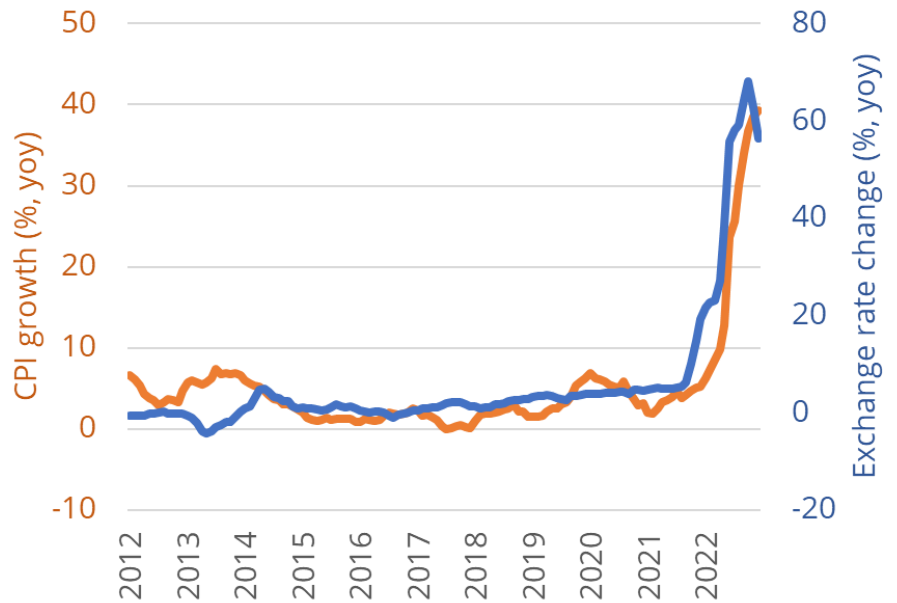
March 27<sup>th</sup>, 2023  
14<sup>th</sup> Lao PDR Business Forum

# Some context for this talk

**GDP growth decelerated before Covid-19 reflecting an unsustainable economic model**



**The macroeconomic environment has deteriorated considerably in 2022**



# Global and regional outlook

**China recovery to drive EAP growth. Lower regional growth without China**

**Table 1. GDP growth forecast**

	2020	2021	2022	October 2022 forecast for 2023	April 2023 forecast for 2023
<b>East Asia &amp; Pacific</b>	1.3	7.2	3.5	4.6	5.0
<b>East Asia &amp; Pacific (excluding China)</b>	-3.7	2.6	5.8	5.0	4.8
<b>ASEAN-5</b>	-3.9	3.4	6.0	5.1	4.8
<b>Pacific Island Countries</b>	-9.9	-3.2	6.6	5.7	4.3
<b>China</b>	2.2	8.4	3.0	4.5	5.1
<b>Indonesia</b>	-2.1	3.7	5.3	5.1	4.9
<b>Malaysia</b>	-5.5	3.1	8.7	4.2	4.0
<b>Philippines</b>	-9.5	5.7	7.6	5.8	5.4
<b>Thailand</b>	-6.2	1.5	2.6	4.1	3.6
<b>Vietnam</b>	2.9	2.6	8.0	6.7	6.3
<b>Cambodia</b>	-3.1	3.0	5.2	5.2	5.2
<b>Lao PDR</b>	0.5	2.5	2.7	3.8	3.9
<b>Mongolia</b>	-4.4	1.6	4.7	5.5	5.3
<b>Myanmar</b>	3.2	-18.0	3.0		3.0

Source: World Bank EAP Economic Update October 2022.

# The Vital Five

## Reforms to Secure Macroeconomic Stability in the Lao PDR

**1. CUT COSTLY TAX EXEMPTIONS TO RAISE PUBLIC REVENUE, PROTECT SOCIAL SPENDING**



**2. IMPROVE THE GOVERNANCE OF PUBLIC AND PUBLIC PRIVATE INVESTMENT**



**3. RESTRUCTURE PUBLIC DEBT THROUGH ONGOING NEGOTIATIONS**



**4. STRENGTHEN FINANCIAL SECTOR STABILITY THROUGH LEGAL AND REGULATORY TOOLS**



**5. ENHANCE THE BUSINESS ENVIRONMENT VIA EFFECTIVE REGULATORY REFORMS**



Tax exemptions deprive the budget of much revenue every year, so less can be invested in human capital or used to service debt. Without investment in knowledge, skills and health, Laos will fall further behind.

Inefficient public investment is costly and public-private partnerships often create liabilities for the government.

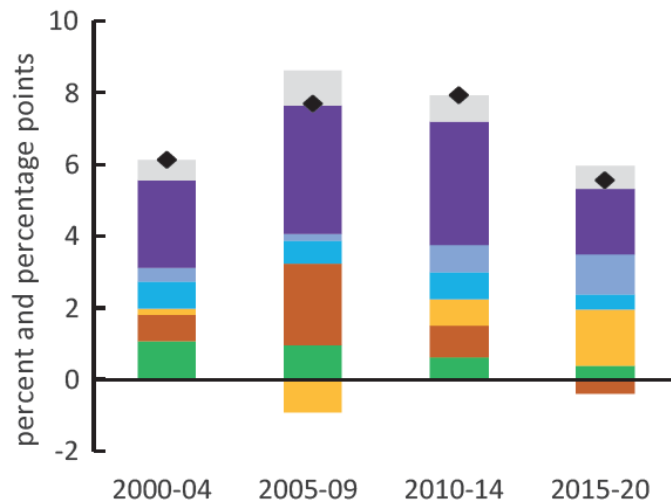
High public debt levels undermine macroeconomic stability by constraining fiscal space, exerting pressure on the exchange rate, and jeopardizing banking sector stability.

Vulnerabilities in state-owned banks may hamper private sector credit growth. This exposure to risk can have widespread impacts on the rest of the economy.

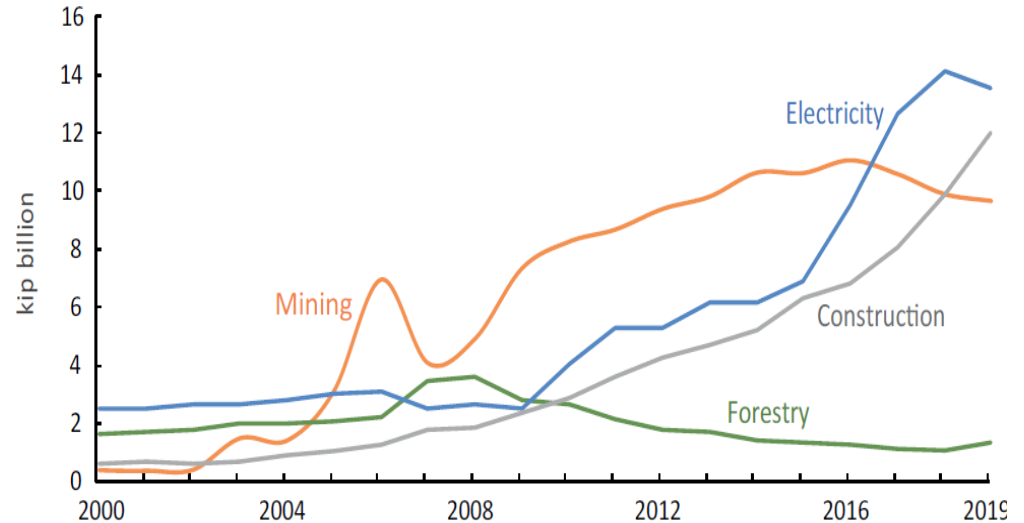
Burdensome processes and regulations raise business costs and reduce productivity, undermining investment and exports.

# Natural resources drove fast growth ...

**GDP growth and sectoral contribution to growth**



**Resource sector contributions to GDP (2012 constant prices)**



- Taxes
- Services
- Construction
- Electricity and water
- Mining and quarrying
- Other Industry
- Agricultural
- ◆ GDP growth

Source: World Bank Country Economic Memorandum (2022)

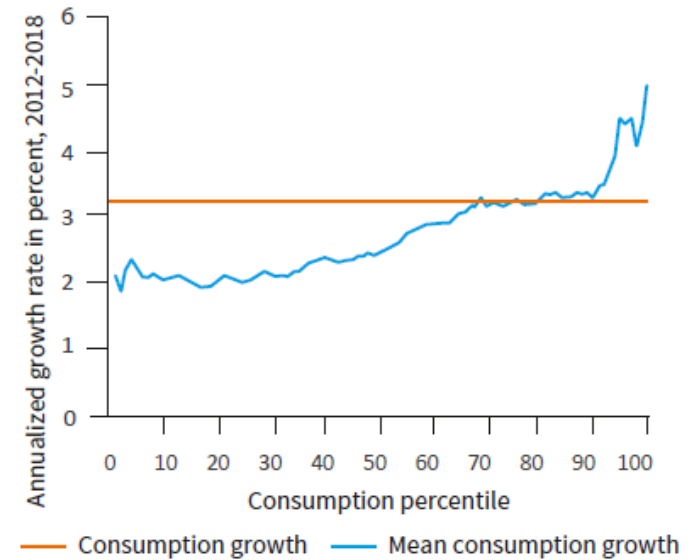
# ... but this growth was not job-creating nor inclusive

All sectors, except the public and a few manufacturing and services subsectors, experienced a net decline in employment, 2012-18



Source: CEM (2022) using Lao Bureau of Statistics for GDP data, LECS 2012 and LECS 2018 for employment.

Consumption growth has been skewed towards rich households



Source: CEM (2022) using World Bank, Laos Poverty Assessment.

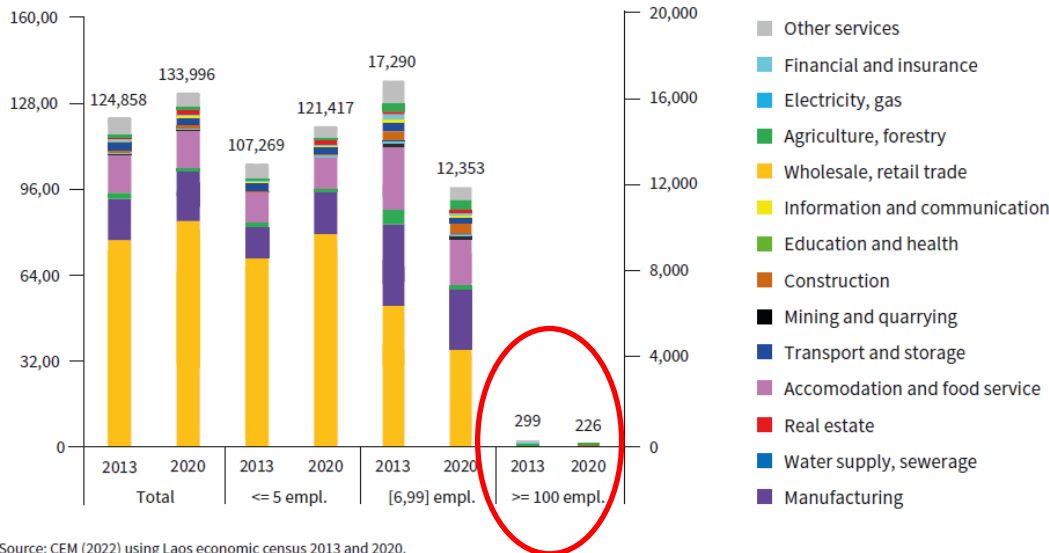
# ... low job creation also slowed the structural shift

Trends in the labor market (million, 2012-2018)



Source: World Bank Country Economic Memorandum (2022)

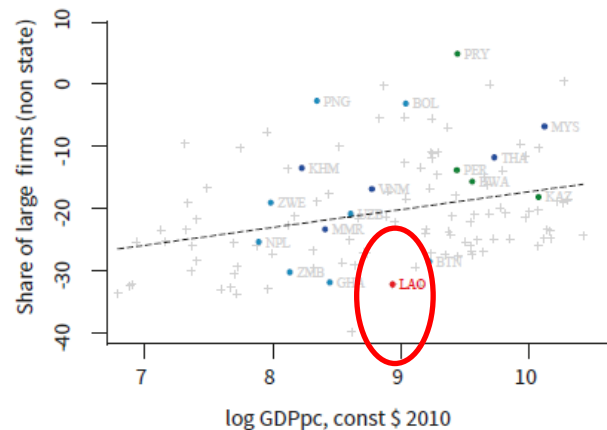
# Manufacturing sector is small and lacks large, internationally oriented firms



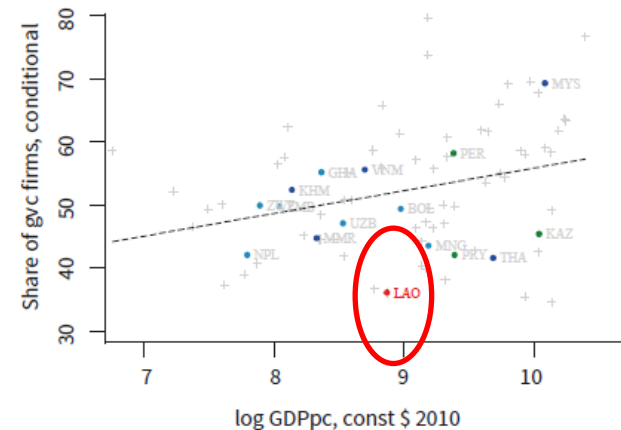
Source: CEM (2022) using Laos economic census 2013 and 2020.

Note: Between 2013 and 2020 firm size categories size. In 2013, microbusinesses include businesses with less than 5 employees, while in 2020 they include businesses with 5 or less employees.

A. Share of large firms



B. Share of GVC firms

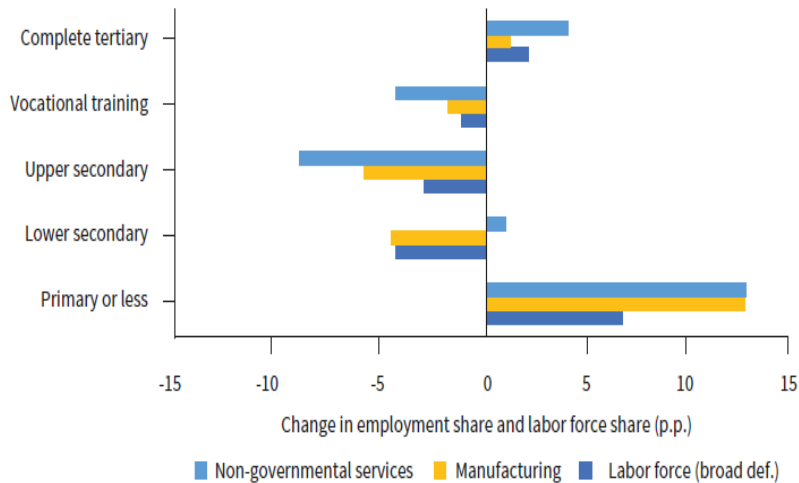


• Regional peers • Structural peers • Aspirational peers --- Aspirational peers



# Employment shifted largely towards low-skilled and self-employed workers

## Change in skills composition of employment and labor force, 2012 - 2018

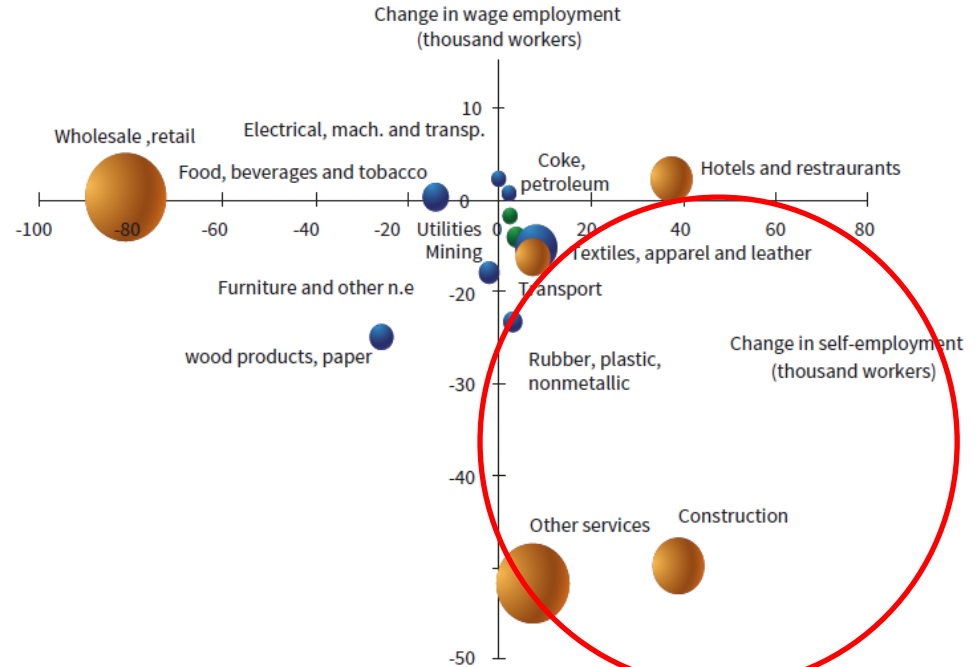


Source: CEM (2022) using LECS5 and LECS6.

Note: A broad definition of the labor force is adopted, defined as working age individuals excluding students and retired or disabled persons, so it includes potential discouraged workers. Service sector employment excludes public employees.

## Businesses also replaced wage workers with self-employed workers

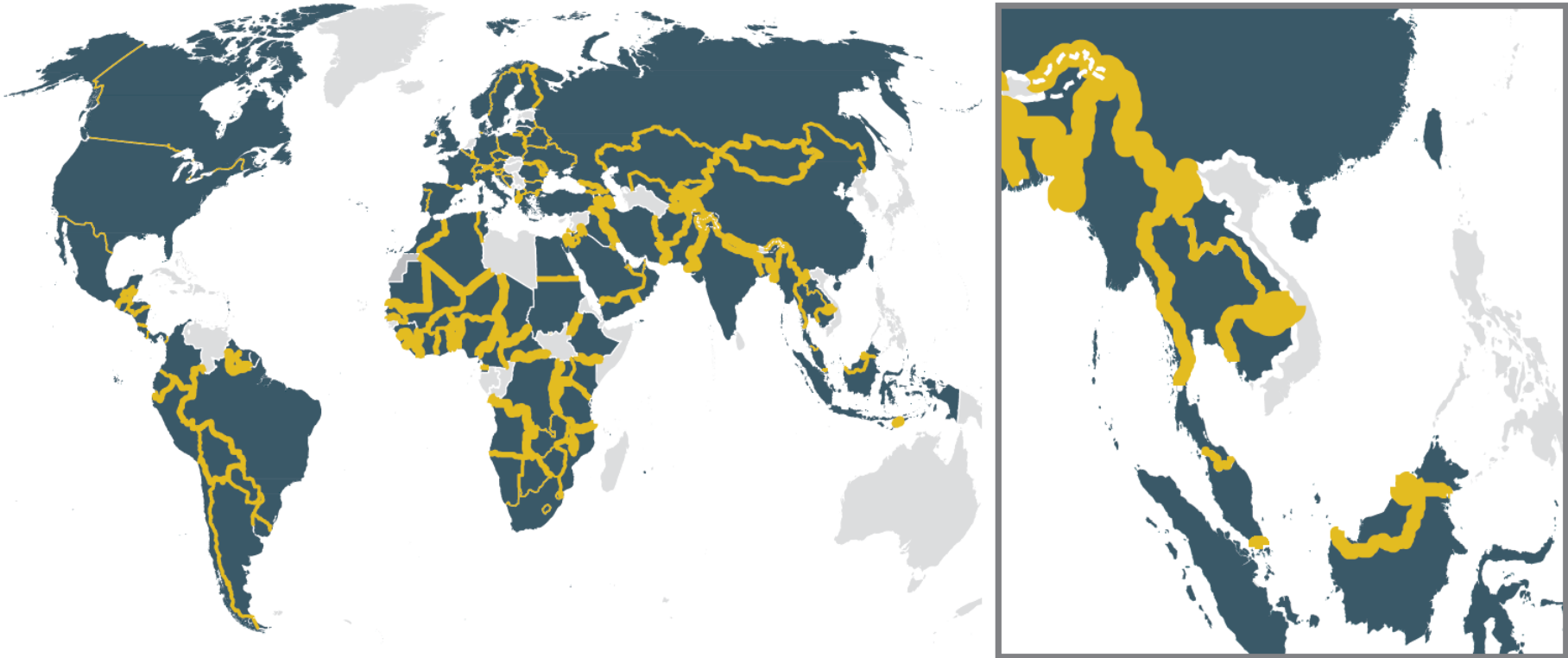
### Wage and non-wage labor dynamics by sector, 2012-2018



Source: CEM (2022) using LECS 2012, 2018. The size of the bubble is the share of the sector in total 2018 employment (wage and non-wage). For visibility the figure excludes agriculture and public sector.

# Laos is not the usual landlocked country

Figure 4.2  
Mapping bilateral trade costs, 2015-18



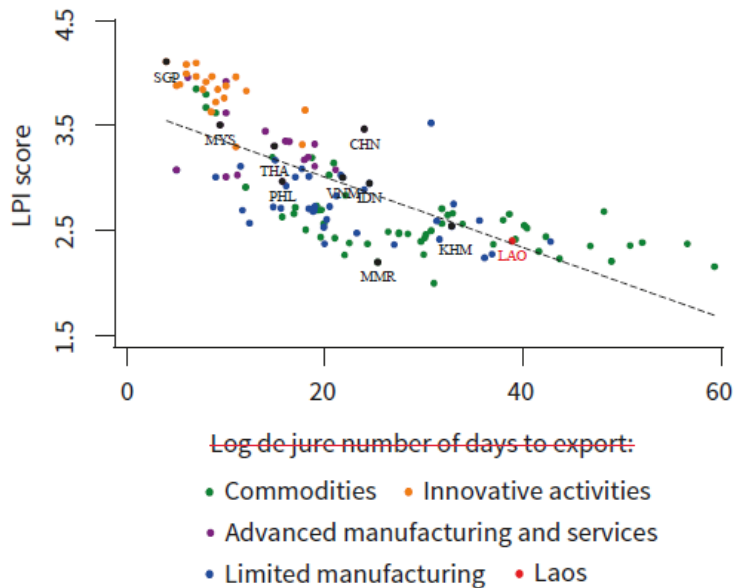
Bilateral Border Thickness (percent and ad valorem), 2015-2018 averages:  
— 11-57    — 57-94    — 94-138    — 138-479    — Not available

Source: Arvis et al (2020). The World Bank and UNESCAP database 2015-18 averages.

# Scope to improve manufacturing competitiveness

## Global value chains thrive on predictable business environment

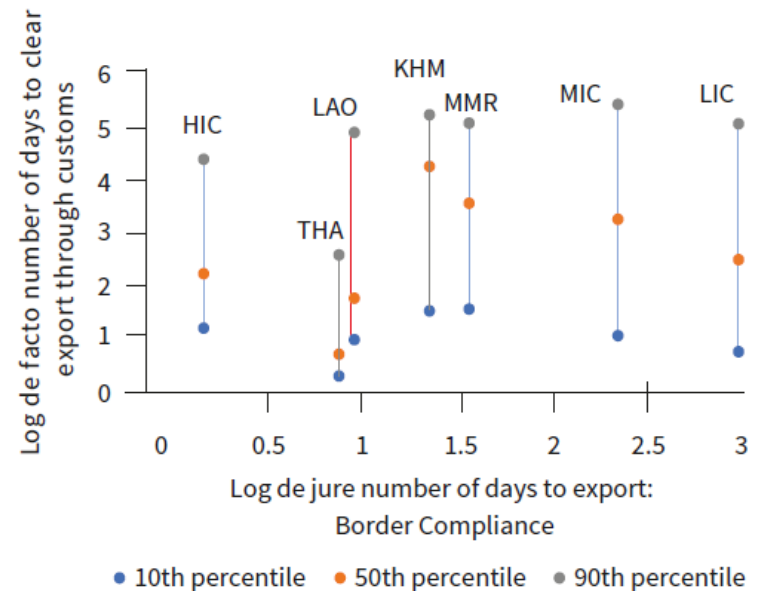
### A. Logistics and connectivity matter for manufacturing GVC integration



Source: CEM (2022) using WEF and WDI data and WDR2020 GVC taxonomy.

Notes: LPI score is the overall score. The index varies from 1= extremely poor to 5= extremely good.

### B. And consistent policy implementation



Source: CEM (2022) using Enterprise Survey data latest available year (2018 for Laos, 2016 for Thailand, Cambodia and Myanmar). Doing business indicator data latest available year.

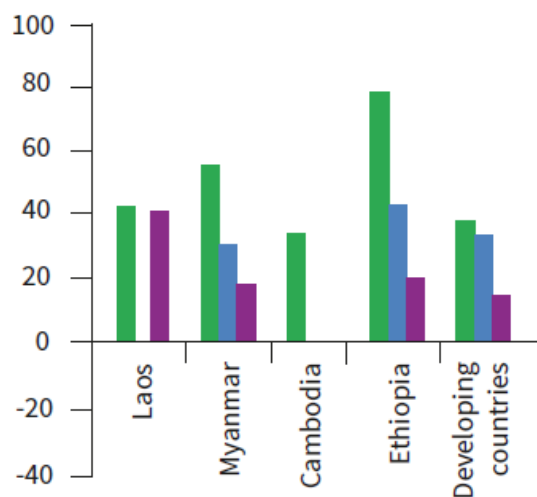
Note: Figure plots the 10th percentile, median, and 90th percentile de facto log policy implementation time in a given country-year reported by entrepreneurs surveyed by the World Bank Enterprise Surveys against the amount of time it should take according to the DB.

# Scope to improve manufacturing competitiveness

## GVCs firms are more productive, capital intensive and employ more workers

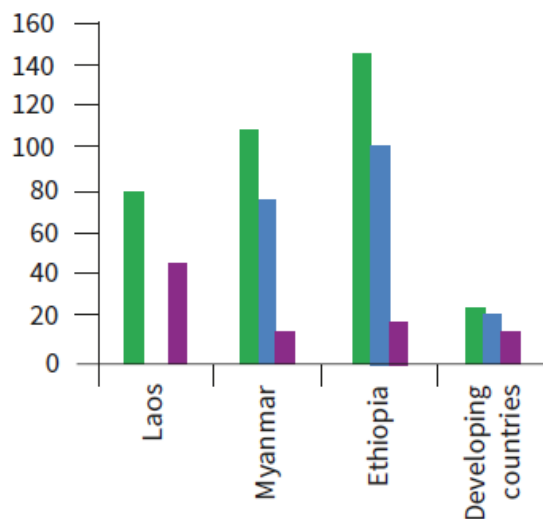
### A. Labor productivity

Difference between trading firms and nontrading firms (%)



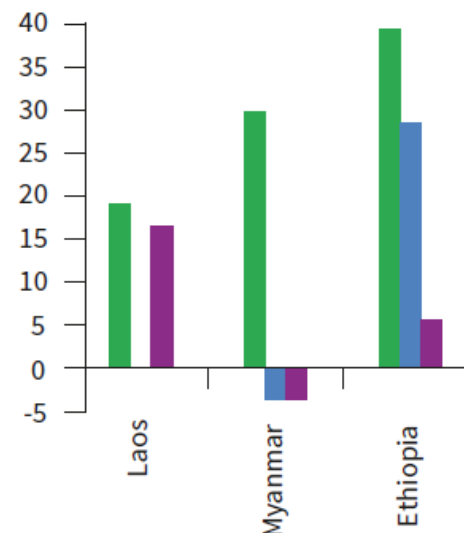
### B. Capital intensity

Difference between trading firms and nontrading firms (%)



### C. Employment growth

Difference between trading firms and nontrading firms (%)



Firm type:

■ Export and import ■ Export only ■ Import only

Sources: CEM (2022) using WDR 2020 and World Bank's Enterprise Surveys data for Laos (2018), Myanmar (2016) see Jaud et al., (2020).

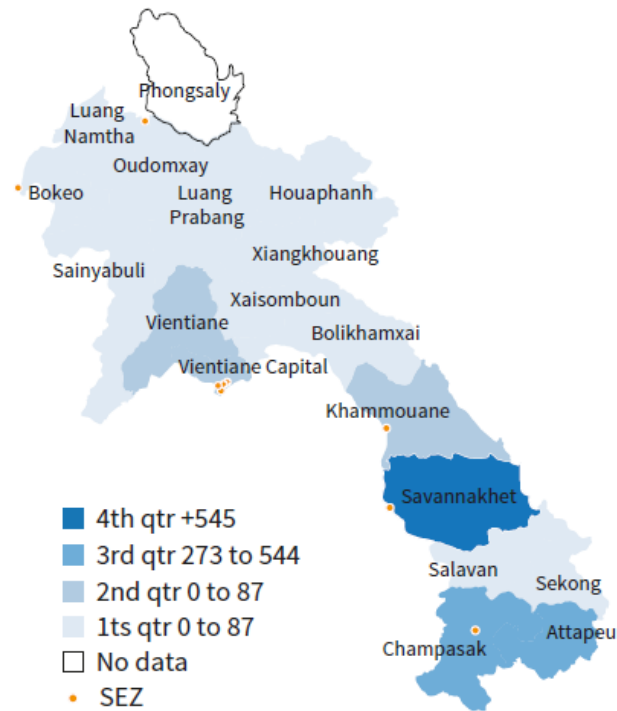
Results for Cambodia from Cambodia Economic Update 2020, for Ethiopia from Choi, Fukase, and Zeufack (2019) and from WDR2020 for the 81 developing countries.

Notes: Labor productivity is log sales per worker, Capital intensity is log K per worker. Employment growth is the delta log N employee within firm. For Laos, GVC and exporters only are combined due to the lack of observations for GVC firms in the WB enterprise survey data. Lack of observations precludes including results for Laos for exporters only.

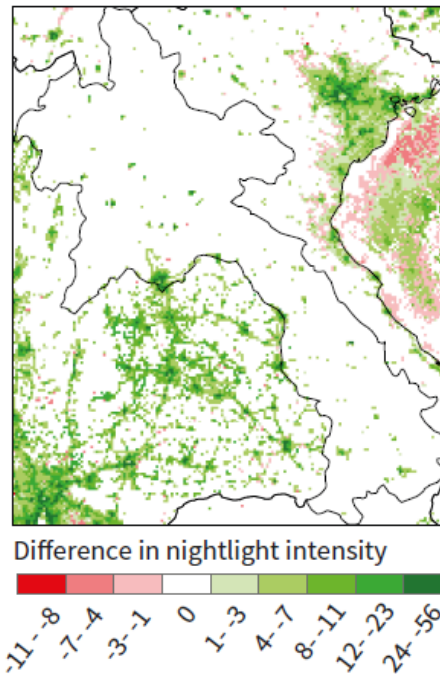
# Scope to improve manufacturing competitiveness

## Export-oriented manufacturing FDI linked to local economic development

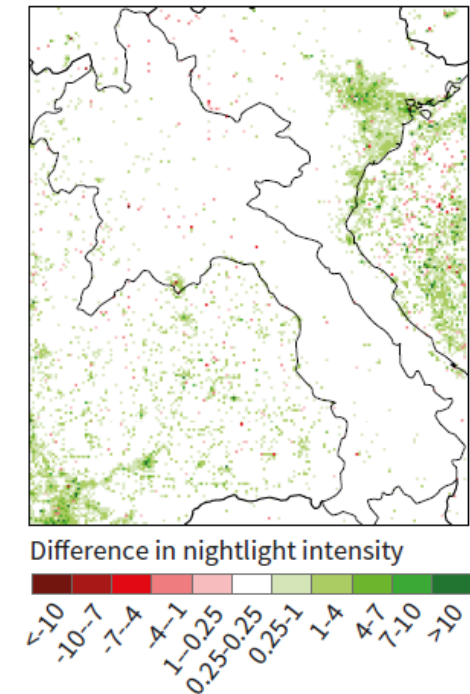
A. Total FDI in manufacturing since 2003, million USD



B. 2013-2003 Difference, DSMP-OLS F18 & F15 Stable Lights

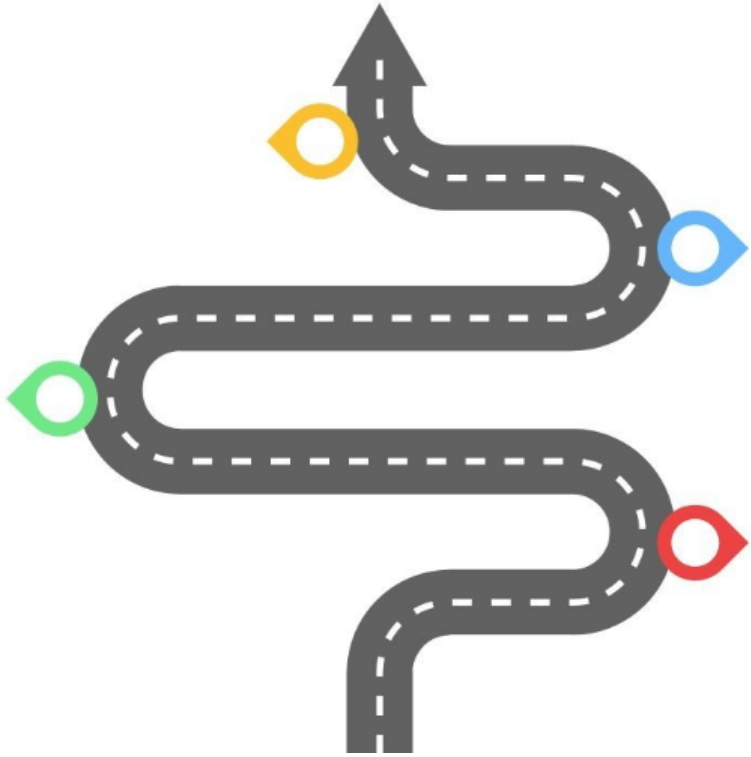


C. 2020-2014 Difference, VIIRS vcm slc fg



Source: CEM (2022) using fDi Markets. 2003 and 2013 data from the DMSP-OLS F15 Stable Lights Cloud Free; 2014 and 2020: VIIRS vcm annualized. Image and data processing by Earth Observation Group, Payne Institute for Public Policy, Colorado School of Mines. DMSP data collected by US Air Force Weather Agency.

Note: Spots colored from green to red mark night lights of increasing intensity. A change in the satellite in 2013, makes the comparison of maps and scales between 2003-2013 and 2014-2020 non-comparable. The seemingly brighter map for the period 2003-2013 is a result of this change.



POLICIES PRIORITIES

# Policies to Support Lao PDR Economic Takeoff

## **Boost and connect exports**

Remove trade barriers and invest in infrastructure to increase the scale of exports

1. Continue to simplify the tariff structure.
2. Implement fully paperless trade systems.
3. Enhance border management by targeting border controls on high-risk trade
4. Streamline non-tariff measures to support exports
5. Improve domestic and regional connectivity to augment market size and to facilitate labor mobility

## **Diversify into labor-intensive exports**

Remove policy-induced distortions that limit the efficient allocation of labor, capital, and land to enable more productive firms both domestic and foreign to grow and create formal jobs.

1. Improve business registration processes and the operating licensing regime
2. Simplify and reduce entry conditions to attract foreign investment
3. Revise the Law on Investment Promotion to curb tax incentives and exemptions.
4. Facilitate links between SEZs and the domestic economy

## **Raise skills of the labor force**

Invest in skills and ensure a well-functioning labor market to prepare the workforce to handle the complexities of globalized production systems and in turn contribute to more inclusive growth

1. Invest in human capital to stimulate economic diversification
2. Promoting skill retraining and geographically targeted-employment incentives.
3. Strengthening labor laws and their enforcement

# Make or Break Opportunity for Lao PDR Business Forum

## 2 years left to make itself indispensable to the private sector

1. Sustainability beyond end of 2024:
  - LNCCI needs to show sustained progress under LBF 13<sup>th</sup> (as of Nov 2022 - 2 of the 49 issues raised classified as clearly responded)
  - Lao Competitiveness and Trade Project ends Dec 2024
  
2. Boost the issues resolution rate:
  - Short results framework style matrix to government including (i) the responsible agency or ministry, (ii) top 3 issues that need resolution under this agency, (iii) some indication of the likely benefits for the government and the nation of resolving the issue, (iv) indicator of resolution specified and (v) timeline for resolution
  - Responsible agency or ministry to report back to the PMO on progress [cc. LBF Secretariat], within 3 months after LBF14



# Country Economic Memorandum (2022)

## “Linking Laos Unlocking Policies”

<http://wrlld.bg/tmsw50JmKGa>

# Lao PDR Economic Monitor (Oct 2022)

## Tackling Macroeconomic Vulnerabilities

