

Inclusive Growth: A New Development Challenge and A New Group For Regional Cooperation

The Lao National Socio-Economic Development Plan (the 6th and 7th Year Plan)

The government of Laos, one of the few remaining one-party Communist states, began decentralizing control and encouraging private enterprise in 1986. The results, starting from an extremely low base, were striking - growth averaged 6% per year from 1988-2008 except during the short-lived drop caused by the Asian financial crisis that began in 1997. Despite this high growth rate, Laos remains a country with an underdeveloped infrastructure, particularly in rural areas. It has a rudimentary, but improving, road system, and limited external and internal telecommunications. China has signed a deal with the Lao to build a high speed rail system in the country. Construction on the \$7 billion project is slated to begin in April 2011 and will take five years. Electricity is available in urban areas and in many rural districts. Subsistence agriculture is dominated by rice cultivation in lowland areas, accounts for about 30% of GDP and 75% of total employment. The government in FY09/10 received \$586 million from international donors. Economic growth has reduced official poverty rates from 46% in 1992 to 26% in 2010. The economy has benefited from high foreign investment in hydropower, mining, and construction. Laos gained Normal Trade Relations status with the US in 2004, and is taking steps required to join the World Trade Organization, such as reforming import licensing. Related trade policy reforms will improve the business environment. On the fiscal side, Laos initiated a VAT tax system in 2010. Simplified investment procedures and expanded bank credits for small farmers and small entrepreneurs will improve Lao's economic prospects. The government appears committed to raising the country's profile among investors. The World Bank has declared that Laos's goal of graduating from the UN Development Program's list of least-developed countries by 2020 is achievable. According to Lao officials, the 7th Socio-Economic Development Plan for 2011-15 will outline efforts to achieve Millennium Development Goals. The government has characterized the next 5-year plan (NSEDP VIII, 2015-2020) as focused on achieving further progress toward graduation, while the current plan is very much focused on achieving the Millennium Development Goals (MDGs) by 2015 while also driving forward structural transformation that will lead to graduation by 2020. With its long-term vision of graduation and the integration into national plans of the structural transformation required to reach requisite graduation threshold, the Lao PDR is well placed to ensure that every effort is made to meet the thresholds in the foreseeable future, and to avoid also any potential negative impacts of graduation. Monitoring of progress towards graduation within the Plan framework could be supplemented by a series of National Human Development Reports (NHDR) starting with the one due to be published in 2014 that would then be repeated every two or three years to 2018, when the Lao PDR would expect to qualify for graduation. In addition to preventing data to measure progress against the LDC indicators, special analysis of particular aspects of the criteria for, and implications of, graduation could be selected for in-depth treatment in each NHDR, especially equity and sustainability considerations.

+ The Sixth Plan Achievements

During the last five years, the Lao economy has maintained rapid and sustainable growth, low inflation rate and the national reserves have increased. It is the first time in the history of Lao PDR that national budgets have been implemented as planned. The poverty

rate has reduced from 33.5% in 2002-2003 to 26% in 2009-2010. People's incomes and livelihoods have visibly improved. The Human Development Index (HDI) rank of the country improved from 137 in 2007 to 130 in 2008.

+ The outstanding achievements:

1/. The country is politically stable, harmonious, and socially safe. The governing system, laws and regulations form the basis for stability, security and development;

2/. National Structure of the Economy; all three sectors of the economy-agriculture and forestry, industry and services-have been growing steadily. As a result, the country is transforming, moving from an extraction-based economy to a commercial/value-added based economy. Such a trend has also helped diversity activities through a multiplier effect. All this is aided by a well-administered system and a well-drawn-up Sixth Plan. Importantly, the economy has successfully weathered two severe natural disasters and the impact of the global financial crises;

3/. There has been a reduction in poverty and an improvement in the standard of living (both material and moral), as scaling up of human resources in various areas and sectors (including government officials), enhanced ownership by the people and reasonable success in the use of information technology;

4/. Economic cooperation with neighboring countries, regions, international development partners and international integration have expanded horizontally and vertically, as have bilateral and multilateral integration. All these have benefited the nation.

+ The reasons for the achievement:

The reasons for achievements in different spheres stem from the successful implementation of the Sixth Plan. Some of these are as follow:

1/. The political directions provided in the resolutions of the party; for instance, the Resolution of the Eighth National Party Congress Meeting is laudable and is the cornerstone of the Central Party. These directions have suitably steered the economy in both the internal and international context;

2/. In accordance with the laws and regulations, the National Assembly and Government adopted the Sixth National Socio-Economic Development Plan, while the line ministries and local authorities have translated the plan into programs and projects and obtained funds to implement these;

3/. People, classes of people and business have supported and cooperated in the implementation of programs and projects;

4/. Neighbors and international organizations have continuously supported and provided assistance;

5/. The above have contributed to the success of the Sixth Five-Year Socio-Economic Development Plan, and become the essential foundations for the potential achievement of the Millennium Development Goals by 2015. Furthermore, they will lead the nation to graduation from the status of Least Developed Country by 2020;

6/. Constraints and remaining issues are in the implementation of the Socio-Economic Development Plan (2006-2010) and related causes.

+ Remaining issues related with some macro targets:

1/. Even though the Gross Domestic Product (DDP) has increased, this increase has not been evenly distributed among the people and across the county. The majority of the growth has emerged from mineral mining; however, the ore is exported out, and not processed locally. Since the mining structure has grown more slowly in comparison to the service sector, it is event that industrialization leaves much to be desired.

2/. Government investments have good intentions; however they sometimes lack focus and therefore effectiveness. Numerous grants and loans projects have been established but are hampered by lack of contribution from the national budget. The investment authorities have been unable to raise investment in many local sectors, the one-door service mechanism has not been widened, are monitoring of some of the approved projects is insufficient.

3/. The size of the national budget has been increased but the proportion of international support is still high. Domestic income is insufficient; therefore, the requirements are not adequately met. Unpaid debts, lack of means to pay back debts and inability to put a saving policy in place are existing challenges.

4/. The balance in the labor market and the provision of jobs to workers through the market mechanism has not been adequately planned. Therefore, the labor supply is uneven (some Lao workers out-migrate for work in neighboring countries; at the same time, there is shortage of workers in the country, and many foreign workers are imported). Also, there are many workers who move to cities leaving behind the agricultural sector, resulting in a shortage of labor in the agricultural sector in some rural locales.

5/. The trends in both import and exports are rising; however, the majority of the exports are from the natural resource sector. Such an export pattern risks fluctuation in commodity prices and has little value added for the county.

6/. Poverty has reduced at an acceptable rate. However, when compared to economic growth, improvement has been slow.

+ Remaining issues related to sectorial and regional development:

1/. The use of modern technologies in agriculture, commercial agriculture, agro-processing, and market production is still in the nascent stage, and both government and farmers face challenges in processing in this area. Additionally, stall-feeding of domestic animals and agricultural and livestock for commercial use are not widespread. As a result, the overall level of forests, demarking reserved forest areas and production forest areas, and allocating land for agriculture remain unfulfilled targets.

2/. Insufficient budgets and able technicians hinder the implementation of projects in many sectors. i.e. there is a shortage of skilled technical personnel In sectors like hydropower, minerals, modern agriculture practices, materials management, and business management: they account for approximately 10% of the workforce here, compare to 33% in Vietnam, 40% in Thailand and 84% in Singapore.

3/. Production and distribution of electricity is till insufficient domestically and some power is still imported from neighboring countries. Projects relating to electricity production for export are behind schedule. The planning process has been slow; as a result, private investments in megaprojects in the power and mineral sectors are still at the survey and drawing board stage. Some excavation projects have also damaged the environment.

4/. The quality of the basic infrastructure is not yet standardized such as roads, irrigation structures and office buildings. In addition, financial shortage has not permitted the maintenance of infrastructure, resulting in structures being damaged or not used effectively.

5/. Different production sectors are not coordinated effectively resulting in a lack of mutual support. While exports are a priority, only unprocessed raw material is exported.

6/. The basic educational and healthcare infrastructures are not yet standardized. Therefore, targets relating to compulsory primary education and healthcare have not yet been achieved. Moreover, the educational and healthcare services are not yet of sufficiently high quality.

7/. In the area of information and culture, information reporting is yet not sufficient in its content and presentation. Therefore, program broadcasts often do not reflect the true social situation. There are also avoidable delays in preparing programs. The technology used by the media is not sufficiently modernized and the workforce is not adequately trained in modern methods. Furthermore, maintenance of historical monuments, antiques and other historical locales needs improvement.

8/. Regional development is not yet balanced as can be seen from the lack of integration between different economic sectors as well as the lack of interdependence across geographic regions. Each province is growing at its own pace quite independent of the others, and this is a limiting factor in national economic growth. There is also considerable imbalance between different sub-regions in the same province, in terms of integrated planning or a shared planning framework and projects.

9/. Even though a great deal of effort has been made to protect the environment, funds, human resources and law enforcement in this sector are still lacking.

The management of civil services is generally good, but capacity building plans are still unclear and working methods overlap. The assignment of the programs and projects management was sometimes slow. Moreover, single program was designed for joint implementation by more than one ministry.

10/. Fund embarked for activities to mitigate the impact of disasters, particularly Hurricane Ketsana, such a rebuilding basic infrastructure to return to normal condition, and providing assistance to minimize the direct and indirect damage to production and services have been less than sufficient in contrast to the actual needs.

11/. There is inadequate supervisory inspection and systematic reporting in regulating and utilizing the government budget and other funds, to ensure transparency, efficiency, and that the funds serve the correct targets. A further challenge is the lack of full consensus.

12/. There has been a progress in rural development, trade in goods and services, and poverty reduction, but the rate of progress has been much slower than the rate of economic growth. In addition, there has been unequal development across areas with some areas developing more slowly than the others, some remaining unchanged, and several forging ahead. In this regard, attempts at eliminating slash and burn cultivation and creating stable jobs for people have been limited in their success.

13/. Regular and development targets, which include developing technology markets, stock markets and labor markets, primary school level compulsory education targets, and gathering funds for health welfare, have not yet been reached.

14/. The national educational reform, expansion of compulsory education, and growth of human resources have not matched with the rate of economic growth rate and development strategies. In the social sector and health services have not been enhanced, and improvement in workers' skills has not kept pace with the growth process.

+ Reasons for difficulties:

1/. The implementation of Eighth Resolution of the Party Congress relating to converting work plans into projects has been time-consuming in several sectors. Some provinces started the implementation process late, well after the mid-period of the plan;

2/. Supervision, inspections and evaluations were not carried out regularly and the division of responsibility in some cases is still unclear;

3/. The level of knowledge among government staff about planning and supervisory work relating to development plans and projects is limited;

4/. There were two severe natural disasters and a global economic crisis, each of which have had an adverse impact on Lao PDR's Sixth Plan;

5/. In a market economic mechanism, insufficient regulation can lead to ineffectiveness in implementing laws and regulations.

+ Advantages:

- International Environment

There are positive signs of economic recovery in countries in the region and at the international level. Economic growth in these countries is steady and is again becoming a driver of global economic development. ASEAN nations, Lao PDR's development partners, and international organizations have continued to support and assist the LDCs so as to reduce the development gap between them and others. Open market economies, particularly NAFTA, SEAN+1, ASEAN+3, the East Asia countries promise to provide good opportunities for Lao PDR to access their markets. Globalization in science and technology, international trade, cooperation and accelerated development are considered global signals of cooperation in development. These are good opportunities to attract investments for furthering the goals of the Seventh National Socio-Economic Development Plan.

- Internal environment

1/. Lao PDR's politics is stable and there is a strong social order. People stand by the solidarity of the nation, the democratic politics has been improved, and the market economy and planning are closely integrated to become development engines for furthering socio-economic development;

2/. The country's resources have not yet been fully utilized, particularly the natural resources such as land, forests, water, the humid weather, quantity of rain, and minerals. Minerals have not been excavated and mined in many locations. The comparative advantage of the country is mainly to use the land, forests and water for value-added production;

3/. The socio-economic infrastructure has developed to a certain extent, the economic structure has changed according to the plans for industrialization and modernization, and the laws and regulations have been drawn-up and widely enforced. Each of these factors has now become the basis for the next step of development. In addition, as Lao PDR is located in the

center of the Mekong Sub-Region, it links ASEAN and China, ASEAN and Korea, and ASEAN and Japan. This geographical positioning is suitable to construct a cross-border service center and connect it with other regions and the wider world.

+ Challenges and constraints

- Regional and international constraints

1/. Despite signs of economic recovery in many countries; the global financial and economic crisis continues to slow economic growth of many countries worldwide. Furthermore, those countries which lead economically continue to use their economic strength to influence international regulations; they aggressively interfere, and impose unequal conditions on the least developed countries to their advantage;

2/. Competition in international trade is becoming stiffer. As a result, economic cooperation in terms of regional and international economic linkages is emerging. Additionally, free trade zones, joint-marketing and economic communities such as the ASEAN Free Trade, the plan to set up ASEAN Free Trade +1 in 2012, joint market plans and ASEAN Community in 2015 are also being envisaged;

3/. Finally, climate change and disasters appears to affect the world economy, with the economy of Lao PDR being no exception.

- Internal constraints

1/. The economy of Lao PDR largely relies on natural resources, semi-processed activities and agriculture. Production for exchange is still nascent and a majority of it takes place in independent private small units. Small units are vulnerable to external changes since their capacity to absorb the shocks of a market economy is low. This draws attention to the contradiction between local small-scale production and global economic integration and the gap between rural and urban areas;

2/. Poverty, the status of being a LDC, limitations in the working system and scarcity of human resources combine to make it difficult for the country to establish linkages with the global economy. The international link was about 83% in 2008, which is low. There are many requirements which must be met before linkages at the regional and global levels are established. i.e. the quality and quantity of human resources, the availability of capital and strong institutions. The high debt rate and very limited capacity to compete at the global level are also constraining factors;

3/. Investments in social sectors and basic infrastructure to create supporting conditions for young people to have quality social services; for instance, education, health care, capacity development and skill improvement, are necessary for participating in the country's socio-economic development. Therefore, creation of a suitable environment for attracting investments in both basic infrastructure and social sectors is essential, especially for creating jobs for the youth.

+ To achieve the goals and meet targets, the government should:

1/. Maintain economic growth in a stable and progressive manner at more than 8% per year. GDP per capita estimation for 2015 is approximately US\$ 1,700 per person per year at current prices;

2/. Achieve the MDGs including poverty reduction and full integration with the ASEAN Community by 2015, acquire modern technologies and infrastructure, and establish a diverse economic foundation to help the country graduation from LDC status in 2020;

3/. Ensure sustainable development by integrating economic development with socio-cultural development and environment protection to the nation's advantage;

4/. Ensure political stability, fairness and order in the society, maintain public security and support regional and international integration.

+ Lesson learnt

1/. Mobilizing domestic and international resources in an effective and transparent manner is the main driver of socio-economic development;

2/. Transition through industrial restructuring and modernization should be consistent with the potential in each sector and local. Including all sectors in an economy can promote faster and more inclusive economic growth and bring about change;

3/. Regional and international economic integration on the basis of economic sovereignty, increased competition, and achieving both quality and quantity;

4/. Socio-economic development following market mechanism; a market mechanism demonstrates the demand and benefits for target groups in a society and indicates for action and targets for business production;

5/. It has been a priority to attain sustainable and quality development in economic growth, social justice, prosperity and environmental conservation;

6/. Innovating and improving public management systems to ensure efficiency, transparency and prompt action, and government officials acting as both administrators and service providers for the people, are important for the socio-economic development process;

7/. The development needs to take place in conjunction with both national defense and realities at the grassroots level. This reconciliation is possible if development begins at the village level, with the four contents and four targets of the plan as foundation;

8/. The achievements of any development plan are critically guided by a monitoring and evaluation system. The M&E system will have to operate at the national, sectorial, local and unit levels. This measure also helps to protect against illegal actions, corruption and leakages.