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**Summary outcome of the National Workshop
on the Vulnerability Profile of Lao PDR
and Building Resilience through Fostering Productive
Capacities and Structural Economic Transformation**

8-10 October 2019¹

Vientiane, Lao PDR

¹ 10 October was devoted for the training of national statistical experts as part of the capacity building work of UNCTAD in support of Lao PDR.

Background

Over the past few years, UNCTAD's assistance to Lao PDR has focused on fostering productive capacities and structural economic transformation for sustainable graduation from the category of Least Developed Countries (LDCs). As a follow up to the previous activities, UNCTAD, in collaboration with the Ministry of Planning and Investment of Lao PDR (MPI), and with the organizational support of the UN Resident Coordinator (RC) organized a capacity building workshop in Vientiane from 8 to 10 October 2019. The workshop attracted wide participation (attended by about 100 participants) from public institutions, the private sector, civil society and development partners based in Lao PDR. The substantive focus of the workshop was on the ways and means of effectively addressing the social, economic and environmental vulnerabilities of Lao PDR. In this regard, the workshop offered opportunities to deliberate on how to build resilience through fostering productive capacities and structural economic transformation in the economy.

Impressive economic performance of Lao PDR over the last decades is driven by extractive sectors, principally mining and hydropower. This led to improvements in the country's Human Assets Index (HAI), notably education and health, and Gross National Income (GNI) per capita. Consequently, the Committee for Development Policy (CDP) found Lao PDR eligible for graduation from the LDC category for the first time in its 2018 triennial review. The review by the CDP found that Lao PDR has passed the thresholds for two graduation criteria: the GNI per capita and the HAI. The country also made progress towards meeting the threshold for the Economic Vulnerability Index (EVI). If current progress is maintained, Lao PDR is likely to graduate from the LDC category in 2024 by meeting at least two of the three criteria, if not all of them.

With a view to supporting the graduation process of Lao PDR, and following the mandate entrusted to it by the United Nations General Assembly, UNCTAD has prepared the Vulnerability Profile (VP) of Lao PDR. The profile was prepared in consultation with the MPI and the Ministry of Foreign Affairs (MFA). The VP of Lao PDR is one of the documents to be submitted to the CDP to support its deliberations on, and decisions regarding whether or not to recommend Lao PDR for graduation at its 2021 triennial review. The profile is also expected to be an important input to the national process, leading to the development of the 9th Social and Economic Development Plan of Lao PDR.

UNCTAD, as part of its ongoing work in support of Lao PDR and other countries, has also developed the Productive Capacities Index (PCI). The PCI is designed to assist countries such as Lao PDR in formulating and implementing evidence-based policies and strategies. The UNCTAD PCI will compare the performance of Lao PDR vis-à-vis other LDCs and landlocked developing countries, as well as neighboring countries. The Index is a useful tool for identifying areas where Lao PDR has made progress, and where it lags. It will assist countries to put in place policies and strategies aimed at fostering productive capacities and structural economic transformation. Furthermore, the PCI can serve as a major monitoring and evaluation (M&E) tool to help countries track progress in building productive capacities. It also identifies critical areas for possible policy interventions.

Based on the above-mentioned substantive issues, specific questions addressed at the workshop included the following:

- Where does Lao PDR stand at the moment with regards to graduation and what are the policy options for accelerating the process and ensuring a smooth transition out of the LDC category?
- Which are the thresholds achieved by Lao PDR and which indication do they provide?
- What are the weaknesses of the economy of Lao PDR? What is their role in terms of smooth transition out of LDC category?
- What policies and strategies are needed in Lao PDR to address its vulnerabilities and foster sustainable development?
- What are the means to enact sound evidence-based policy making and what is the role of productive capacities in fostering economic growth?

Summary outcome: Key issues and priority areas for policy action by the Government of Lao PDR

At the national workshop, participants deliberated on the progress achieved by Lao PDR towards internationally agreed development goals, including graduation from the LDC category. In this context, participants exchanged extensive views on the sources and nature of the socioeconomic and environmental vulnerabilities of Lao PDR. These include increases in the frequency of natural disasters, remoteness from international markets, instability of exports and agricultural production, and the small size of the population. Together, these factors accounted for 84% of the EVI score in 2018. Therefore, there was a consensus that the challenge in the foreseeable future for Lao PDR, and its development partners is to effectively tackle these vulnerabilities.

There was also an emerging consensus that graduation is not an end in itself. However, it can be a means to offer new opportunities for graduating countries. These include boosting investor confidence, enhancing export competitiveness in a post-graduation environment, and widening “policy space”. These in turn facilitate the formulation and implementation of a new set of development policies tailored to country specific circumstances aimed at escaping the ‘middle-income trap’. In this context, proactive policies are needed to enhance socioeconomic resilience, reduce all forms of vulnerabilities and enhance productivity gains, export diversification and structural economic transformation. The implications of graduation for Lao PDR also means that the country should foster productive capacities and structural transformation to improve resilience to shocks, and shift towards the production and export of higher value-added manufacturing products. By doing so, Lao PDR will certainly enhance the quality and characteristics of economic growth, improve export earnings and boost government revenue. Productive capacities are an important trigger of structural transformation, which implies export diversification outside of the extractive sectors and value addition, as well as increasing the technological embodiment and sophistication of exports. This dynamic process occurs both across and within sectors, and given the right mix of domestic institutional framework, will shift Lao PDR away from the sources of its economic vulnerabilities. Once graduated from the LDC category, productive capacities and structural transformation will include the right ingredients to not only ensure competitiveness, but also provide the basic factors for Lao PDR to avoid falling into the “middle income trap”.

After intense discussions and deliberations, participants identified the following key policy areas for action by Lao PDR, and its trade and development partners. These are:

I. Prioritizing productive capacities

UNCTAD’s Productive Capacities Index (PCI) shows that the levels of productive capacities of Lao PDR are in line with the average of other least developed countries (LDCs). In particular, it scores high on natural capital, energy and structural change, whereas its private sector score moves towards the levels of other developing countries. However, ICT, human capital and institutions are at the same level as other LDCs. Its transport score notably lags the performance of the group. This means that Lao PDR’s policy priorities in productive capacity building include improving human capital, transport and ICT infrastructure, as well as investing in institutions. Encouragingly, all components of productive

capacities appear to have improved over time, with the exception of the transport component. In terms of policy interventions, this means that the Government of Lao PDR needs to place productive capacities and structural transformation at the center of the 9th National Socio-Economic Development Plan (NSEDP). Placing productive capacities at the center of domestic policies can help Lao PDR in the post-graduation environment, particularly in meeting the Sustainable Development Goals (SDGs) and in gradually breaking the low-income and middle-income traps. In other words, prioritizing productive capacities means mainstreaming such capacities into national development policies and strategies such as the NSEDP.

II. Graduating with momentum

Lao PDR needs to view graduation as a means to achieve sustainable, inclusive and resilient economic growth and development. The Government also needs to use the momentum of LDC graduation as a mobilizing factor to enhance and broaden development partnerships, including with the private sector. Meeting the graduation criteria is important, and it is a sign of working policies and functioning institutions. However, graduation is not synonymous with achieving the development aspirations and objectives of the country. In this context, the post-graduation environment can even be more challenging and require substantial support from development partners to help Lao PDR achieve sustained growth and development, break the middle-income trap and continuously improve social and environmental outcomes. Therefore, Lao PDR, with increased support from its development partners, needs to adequately prepare for the post-graduation environment, including by adjusting domestic trade and development policies by putting productive capacities and structural economic transformation at the center.

III. Improving productivity in agriculture

The agricultural sector of Lao PDR accounts for 68% of total employment and contributed 17.7% of total GDP in 2018. Undoubtedly, agriculture plays an important role in the economy of Lao PDR. It contributes to rural poverty reduction, and enhances employment. Furthermore, the sector is vital for export diversification and achieving food security. In this context, greater efforts are needed to raise agricultural productivity, and to reduce social, economic and agriculture-related vulnerabilities. In particular, the agricultural sector needs to be modernized and integrated into domestic, regional and global agro-processing value chains. This requires improving rural infrastructure, adapting to new technologies and increasing public and private investment in agriculture. It is equally important to address climate change and the environmental challenges facing the agricultural sector in Lao PDR, including floods, erratic rain and droughts. Unexploded Ordinance (UXO) presents an additional challenge to the agriculture sector.

IV. Export and market diversification

Export diversification, both within and across sectors, needs to be a priority of Lao PDR to successfully withstand external economic shocks caused by low international commodity prices and price fluctuations, the seasonality of agricultural production, and natural shocks. The diversification of production and exports away from the energy and mining sectors are key steps in achieving structural transformation and sustainable growth. In this regard, Lao PDR should pursue policies that promote the diversification of production towards sectors with higher productivity and growth potential. One way of

achieving this is to explore vertical diversification into products and services that are upstream and downstream from existing specializations. Lao PDR needs to continue diversifying its export destinations as there is a high degree of concentration in the three neighboring markets.

V. Promoting integration into regional and global value chains

Integration into regional and global value chains offers significant benefits to local firms, including access to export markets, new technologies and skills. It also provides opportunities to achieve high value addition, thus Lao PDR needs to develop strategies to support and encourage the integration of its domestic private sector into regional and global value-chains, including through linkage programmes with foreign investors, as well as strategic support to sectors with foreign investment potential.

VI. Human Capital

There is a need for the Government of Lao PDR to further strengthen its training and higher education systems, and to improve the alignment of skills developed with the needs of the economy and the domestic private sector. Human capital is key in fostering structural change and the transition towards high value-added activities as well as absorbing new technologies and modern techniques of production. Both within and beyond the agricultural sector, improving the average skills levels of the labour force will also facilitate the absorption of greater number of workers in higher productivity jobs. In this regard, it is important for the Government of Lao PDR to leverage private sector participation in the design of training curriculums, especially for technical and vocational education and training (TVET), to increase public funding for education and skills formation, and strengthen regular teacher training, as well as on-the-job training programmes, including with multinational corporations and SMEs. Lao PDR also needs to continue efforts to expand health services, particularly to the rural poor, and vulnerable populations, including in remote areas and regions.

VII. Energy sector

Given the central role of the energy sector in the economy of Lao PDR, the government needs to develop a detailed national energy policy that outlines its plans for expanding the energy supply and meeting the growing domestic and international demand. Furthermore, the government should work to improve the domestic transmission and distribution network for electricity to reduce power loss. In this regard, the separation of electricity transmission and distribution needs to be explored. Lao PDR may also stand to benefit from the creation of an energy management system (as is in place in neighboring Vietnam). A further priority area to be explored relates to the integration of electricity in border areas into the national electricity grid, as well as the introduction of an energy efficiency and conservation programme. Finally, a masterplan for renewable energy should be created, including the development of wind and solar energy, as well as the development of smaller hydro-power plants to serve rural areas and increase supply reliability.

VIII. Bilateral negotiations with trade partners

In order to ensure the smooth transition of Lao PDR from the LDC category, the Government needs to consider entering into bilateral negotiations with key trade and development partners to continue

benefiting from market access preferences in strategic export sectors which might be affected by graduation. However, the loss of LDC-specific trade preferences will have modest welfare consequences for Lao PDR, as it would only impact the small share of trade with developed countries. Moreover, the potential welfare loss can be offset by increases in investment flows and participation in bilateral and regional trade agreements. This could effectively cushion the negative effects of the withdrawal of trade preferences.

IX. External financial assistance

The impact of graduation from LDC status on Official Development Assistance (ODA) flows is expected to be minimal. This is because the bulk of ODA flows are not determined by LDC status. However, development partners need to continue to support Lao PDR, including in the post-graduation environment, as the challenges of socioeconomic development will not disappear immediately upon the graduation of the country from LDC status. Lao PDR needs to continue leveraging private investment flows both from within its economy and globally. With regard to enhancing investment flows, Lao PDR needs to continue its efforts to create a conducive environment to upscale private investments through a meaningful dialogue with the private sector. This also means attracting and targeting private investment flows to sectors outside of extractive sectors with deliberate focus on agriculture, manufacturing and tourism sectors

X. Domestic resources mobilization and remittances

It is strategically important for Lao PDR to continue to enhance its capacity to mobilize domestic resources for development, including by improving tax collection systems, expanding tax bases and modernizing its financial systems. There is also an urgent need to revise tax incentives such as exemptions and tax holidays related to foreign direct investment (FDI) projects, particularly in the extractive sectors where a conducive overall policy framework is more important than tax incentives to attract FDI. Granting financial or tax incentives for investors in the extractive sectors may have negative consequences for the economy, particularly in the long run, as it leads to a loss of revenue for governments and penalizes the development of the domestic private sector. It is, therefore, important to realign incentive structures with the development priorities and objectives of the country, including effectively channeling FDI to sectors outside of the extractive sectors. Lao PDR also needs to continue to mobilize remittance flows by directing such flows to the formal financial sector, and to productive sectors of the economy.

XI. Quality of statistics for policy making

Participants further noted the importance of the effective collection, organization and analysis of relevant data and statistics to support evidence-based policymaking for development. In this context, Lao PDR needs to strengthen the capacities of its National Statistical Office. This includes efforts to support the collection, organization, and analysis of statistical data to facilitate fostering productive capacities and structural economic transformation. With this in mind, UNCTAD organized a capacity building training for selected statisticians on the Productive Capacities Index (PCI). The training was intended to assist statistical experts of Lao PDR to compute and regularly update the country-specific PCI by using UNCTAD's methodology. It is also intended to explore how the PCI can be used in national policy-

making processes. Similar efforts need to be continued as the country prepares for its eventual graduation from the LDC category.

XII. UN System support

As Lao PDR approaches graduation from the LDC category, continued technical assistance and capacity building from the international community and the UN system will be required. In this context, UNCTAD, other relevant UN system agencies, and international organizations, with the mobilization role of the UN Resident Coordinator in Lao PDR, need to step up efforts to support Lao PDR in the run-up to LDC graduation and beyond.

APPENDIX: Workshop Programme

PROGRAMME

National Workshop on the Vulnerability Profile of Lao PDR and Building Resilience through Fostering Productive Capacities and Structural Economic Transformation

Dates: 8-9 October 2019,

Venue: Crowne Plaza Hotel, Vientiane Lao PDR

Day 1 - 8th October 2019

08:30 – 09:00 Registration

09:00 – 09:40 **Session I - Opening Session:**
Fostering productive capacities and structural economic transformation to address socioeconomic vulnerabilities in Lao PDR

This session is intended to set the tone for the national workshop and provide direction for subsequent discussions. It will particularly highlight the objectives, expected outcome and implications of the workshop. It will also outline the principal policy challenges faced by Lao PDR in preparing for graduation from the LDC category.

09:00 – 09:20 Opening remarks and Keynote address:
H.E. Dr. Kikeo Chanthaboury
Deputy Minister, Ministry of Planning and Investment (MPI), Lao PDR

09:20 – 09:40 Welcoming remarks:
Ms. Sara Sekkenes
UN Resident Coordinator in Lao PDR

09:40 – 10:00 **Group photo and morning coffee break**

10:00 – 12:15 **Session II:**
Nature and sources of economic vulnerabilities in Lao PDR: policies, strategies and challenges

This session discusses the national vulnerability profile of Lao PDR, sources and causes of socioeconomic vulnerabilities and views on how they could be addressed in the context of the 9th National Socio-Economic Development Plan of Lao PDR and the overall development objectives of the country.

- 10:00 – 10:15 Presentation of a national report on Vulnerability profile of Lao PDR: challenges and priorities in the context of building economic resilience for graduation
Mr. Sitthiroth Rasphone
Acting Director General, Centre for Development and policy Research, MPI
- 10:15 – 10:30 Economic consequences of the graduation from the LDC status: policy implications for Lao PDR
Mr. Patrick Osakwe
Head, Trade and Poverty Branch, UNCTAD
- 10:30 – 11:00 **Interactive discussions**
- 11:00 – 11:15 Challenges and opportunities for enhancing agricultural productivity in Lao PDR
Mr. Khosada Vongsana
Director of Economic Policy Research Division, MPI
- 11:15 – 11:30 Main orientations of the 9th National Socio-Economic Development Plan of Lao PDR: implications for graduation and productive capacities building
Ms. Phonevanh Outhavong
Director General, Department of Planning, MPI
- 11:30 – 11:45 Policies and strategies of Lao PDR for industrialization: Challenges and opportunities ahead
Mr Viengsavang Thippavong
Deputy Director General, Economic Research Institute for Industry and Trade (ERIIT), Ministry of Industry and Commerce
- 11:45 – 12:15 **Interactive discussions**
- 12:15 – 13:15 Lunch Break
- 13:15 – 16:45 Session III:
Policies and strategies for building economic resilience in Lao PDR:
the role of productive capacities and structural transformation**

<p>This session looks at the main drivers of graduation in Lao PDR and other graduated Least Developed Countries as well as examines the impact of graduation on structural economic transformation. It will further explore the role of human capital, trade, investments and development finance in sustainable development of the country.</p>

- 13:15 – 13:35 Graduation from Least Developed Countries: impact on the process of structural economic transformation in Lao PDR
Mr. Oliver Paddison
Chief of Countries in Special Situations, UNESCAP
- 13:35 – 13:55 Role of development partnership in facilitating graduation from LDCs category: the case of Lao PDR
B. Murali
Deputy Resident Representative, UN Development Programme (on behalf of the UN Country Team)
- 13:55 – 14:15 The main drivers of graduation: comparing Lao PDR to other Least Developed Countries
Mr. Mussie Delelegn
Chief, Landlocked Countries Section, UNCTAD
- 14:15 – 14:45 **Interactive discussions**
- 14:45 – 15:05 Policies and institutions of Lao PDR to build human resources capacities of the country to enhance productivity of labour and create employment opportunities
Mr. Phanhpakit Onphanhdala
Deputy Director, Centre for Enterprise Development and International Integration Policy, National Institute for Economic Research, Lao PDR
- 15:05 – 15:25 What policies and strategies are needed to enhance the role of the private sector in economic resilience building?
Mr. Thanongsinh Kanlagna
Vice President, the Lao National Chamber of Commerce and Industry (LNCCI)
- 15:25 – 15:55 **Interactive discussions**
- 15:55 – 16:10 Coffee break
- 16:10 – 16:30 Health service availability and readiness in Lao PDR: Results of the survey with implications to human capital formation and achieving the Sustainable Development Goals
Mr. Yohannes Kinfu
Associate Professor, Qatar University, Doha – Qatar
- 16:30 – 16:45 Summary of key points

Day 2 - 9th October 2019

08:45 – 10:00 **Session IV:**
Building productive capacities and promoting structural economic transformation: Implications for the graduation of Lao PDR and the way forward

This session is intended to introduce the concept of productive capacities and their role in fostering structural economic transformation. The session will highlight the linkages between productive capacities, structural economic transformation and export diversification. It discusses the role of the different components of productive capacities. The session will further introduce UNCTAD's Productive Capacities Index, and describe its composition, measurement and possible applications in national policymaking with reference to Lao PDR.

08:45 – 09:00 Developing productive capacities in Landlocked Developing Countries: policy instruments and lessons
Mr. Patrick Osakwe
Head, Trade and Poverty Branch, UNCTAD

09:00 – 09:15 The role of data and statistics in evidence-based policy making in Lao PDR for fostering productive capacities, export diversification and structural transformation
Ms. Phetsamone Sone
Deputy head of Lao Statistics Bureau

09:15 – 09:30 The role of development finance (ODA) in support of the graduation and economic transformation process of Lao PDR
Dr. Arounyadeth Rasphone
Deputy Director General of International Cooperation, MPI

09:30 – 09:50 **Interactive discussion**

09:50 – 10:00 Coffee Break

10:00 – 12:30 **Session V:**
Assessment of where Lao PDR stands now in fostering productive capacities and structural economic transformation

This session is dedicated to discussing the importance of productive capacities in terms of graduation and economic development. In particular, it examines the state of productive capacities in Lao PDR. It will also discuss the methodology for computing the Productive Capacities Index (PCI), and the role of national policies and institutions to foster productive capacities.

- 10:00 – 10:15 The concept of productive capacities and structural economic transformation: methodological issues and policy implications of computing the Productive Capacities Index
Mr. Alberto Munisso
Associate Economic Affairs Officer, LLDCs Section, UNCTAD
- 10:15 – 10:30 Current State of productive capacities in Lao PDR: policy implications
Mr. Mussie Delelegn
Chief, Landlocked Countries Section, UNCTAD
- 10:30 – 10:45 Implications of the health services survey for the graduation of Lao PDR
Mr. Yohannes Kinfu
Associate Professor, Qatar University, Doha – Qatar
- 10:45 – 11:15 **Interactive discussions**
- 11:15 – 11:30 National policy and institutional framework for fostering productive capacities and structural economic transformation in Lao PDR
Mr. Sitthiroth Rasphone
National Consultant for UNCTAD, Vientiane, Lao PDR
- 11:30 – 11:45 The role of Small and Medium Sized Enterprises (SMEs) in manufacturing and export diversification in Lao PDR to address economic vulnerability of the country
Mr. Buavanh Vilavong,
Director General, Department of Industry and Handicraft, Ministry of Industry and Commerce
- 11:45 – 12:30 **Interactive discussion**
- 12:30 – 13:30 Lunch Break
- 13:30 – 15:30 Session VI:
Panel discussion on key policy messages and the way forward**
- Moderator:** **Mr. Patrick Osakwe,** *Head, Trade and Poverty Branch, UNCTAD*
- **Mr. Kanya Khammoungkhoun,** *Deputy Director General, Department of International Organizations, Ministry of Foreign Affairs*
 - **Ms. Sara Sekkenes,** *UN Resident Coordinator in Lao PDR*
 - **Mr. Sitthiroth Rasphone,** *Acting Director General, Centre for Development and Policy Research, MPI*
 - **Mr. Nasar Hayat,** *Food and Agriculture Organization Representative to Lao PDR*
 - **Mr. Sommai Faming,** *Country Representative, UNIDO*
 - **UN Development Programme**