


LAO PDR COUNTRY ECONOMIC MEMORANDUM

Leveraging Strategic
Location and Natural
Wealth for Inclusive and
Sustained Growth

18th Trade and Private Sector Working
Group Meeting, November 10, 2021



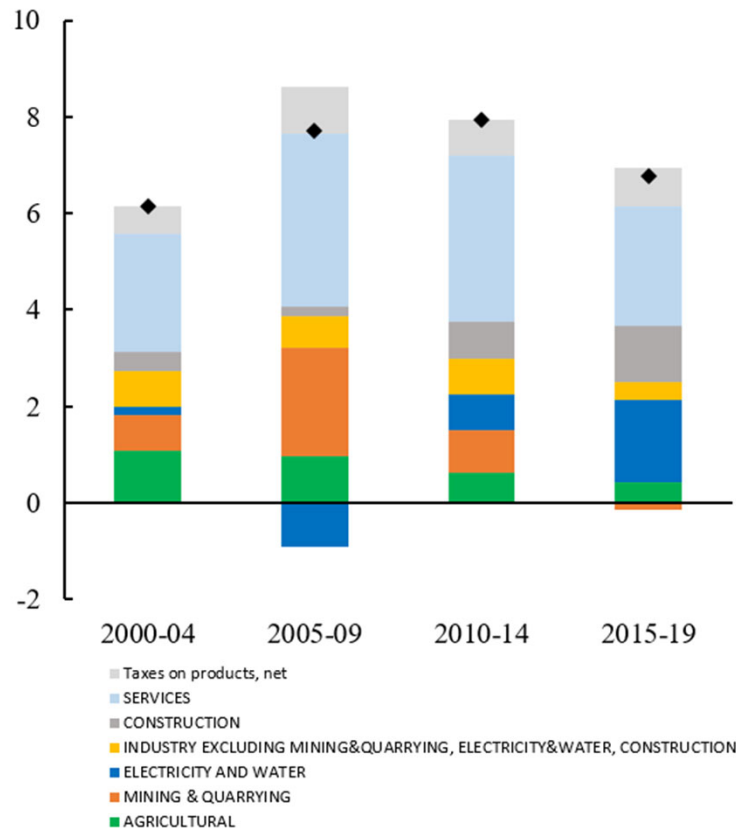
An aerial photograph showing a large-scale dam construction project in a mountainous region. The dam is a long, narrow structure extending across a wide river. The surrounding landscape is hilly and green, with some roads and small buildings visible. The sky is overcast.

THE LIMITS OF LAO PDR'S GROWTH MODEL HAVE BECOME APPARENT

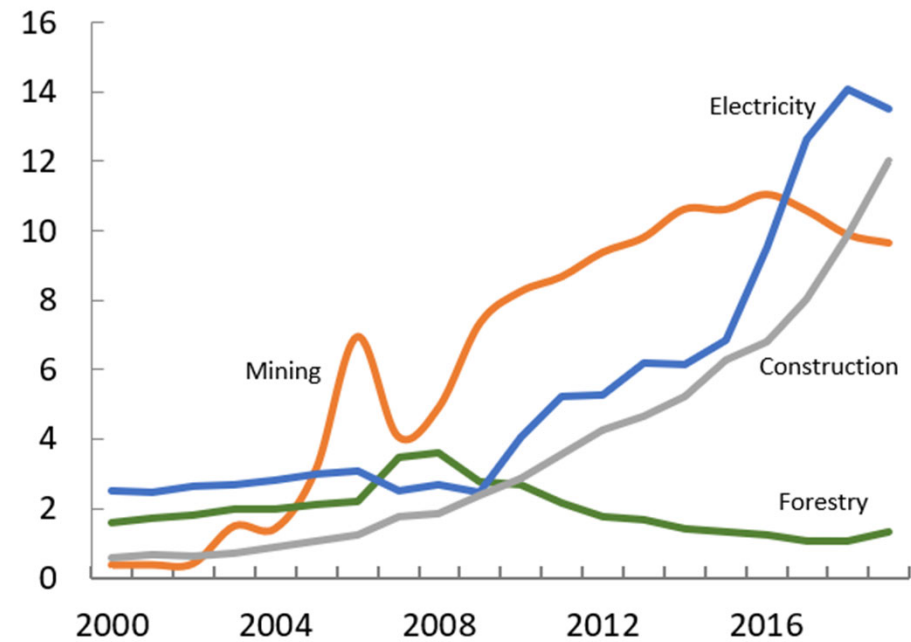
Resource-driven growth has created few jobs, while leading to significant environmental and macroeconomic pressures.

Natural resources a key driver of fast growth over the past two decades

Sectoral contributions to GDP growth

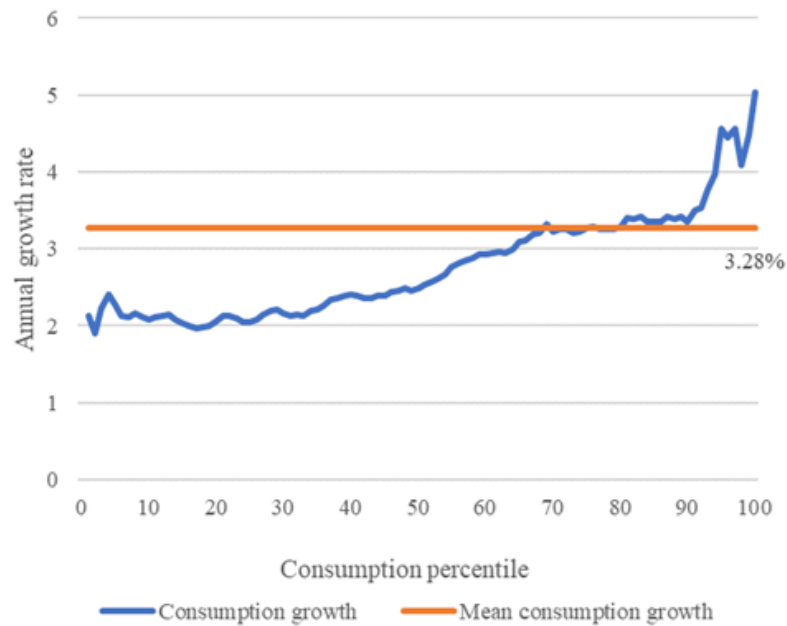


Resource sector contributions to GDP
(Real GDP, billion kip, 2012 prices)



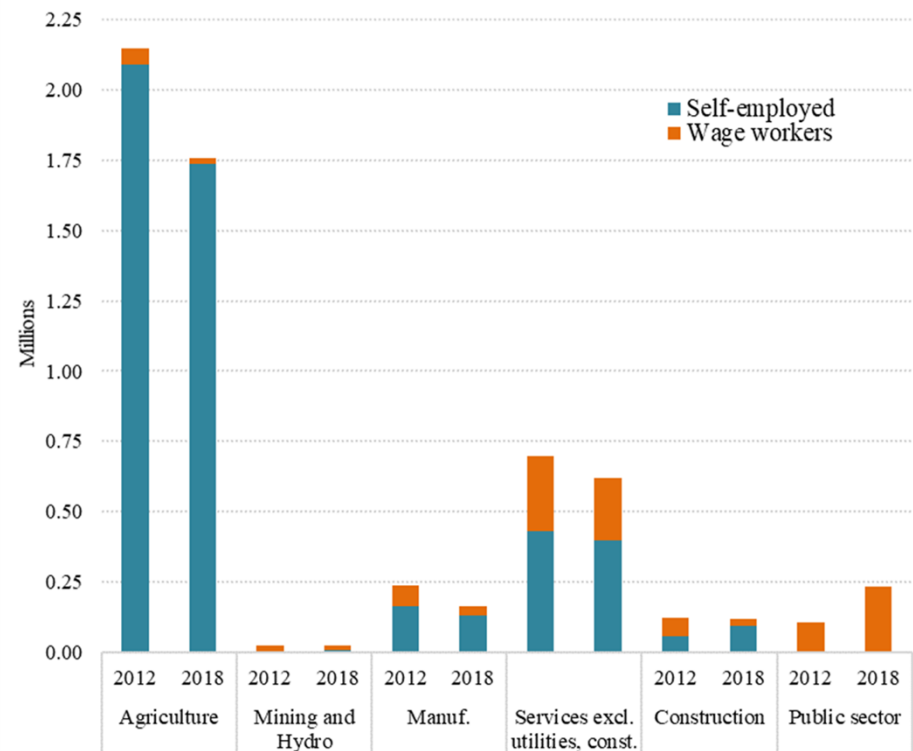
Growth not been sufficiently inclusive, no high job-creation

Consumption growth has been skewed towards rich households



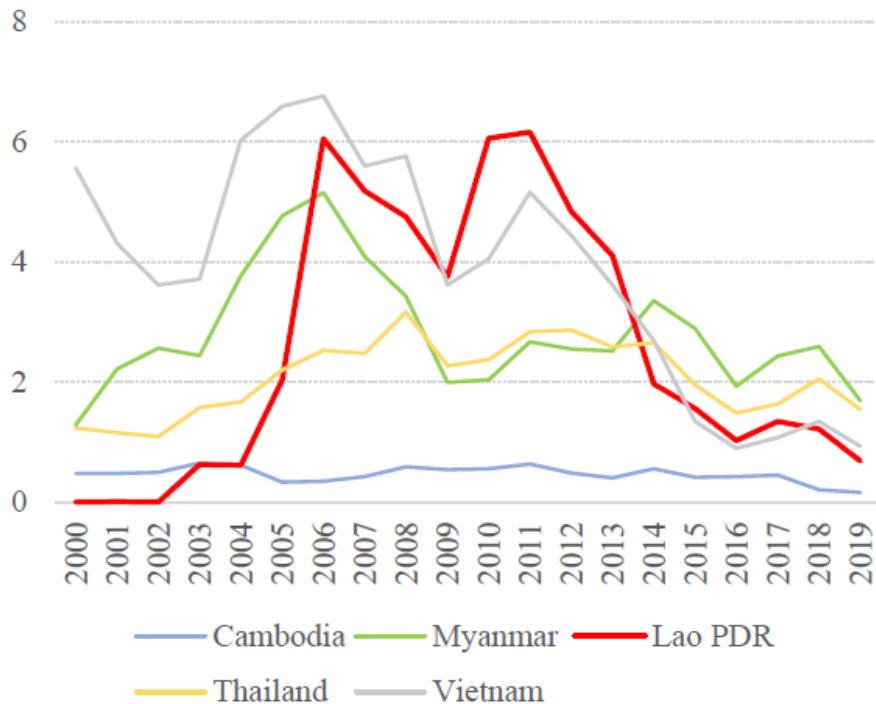
Source: Lao PDR poverty assessment

Wage and non-wage employment by sector: 2012-18



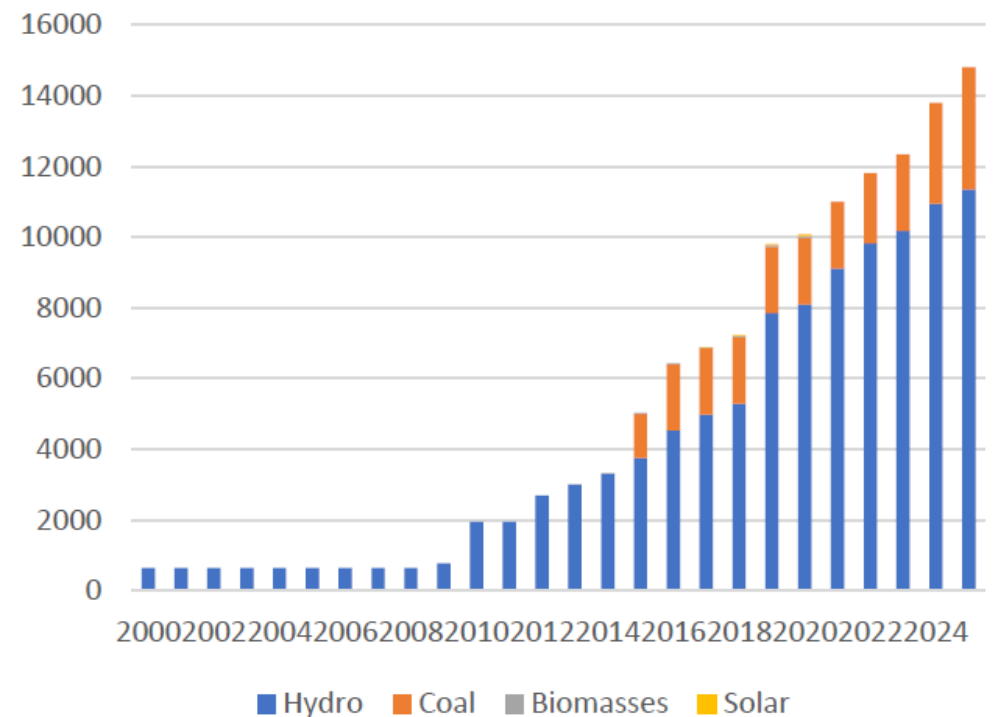
The growth model resulted in severe environmental pressures

The rate of depletion of natural resources has slowed in recent years
 Natural resource depletion, in % of GNI



Source : World Development Indicators.

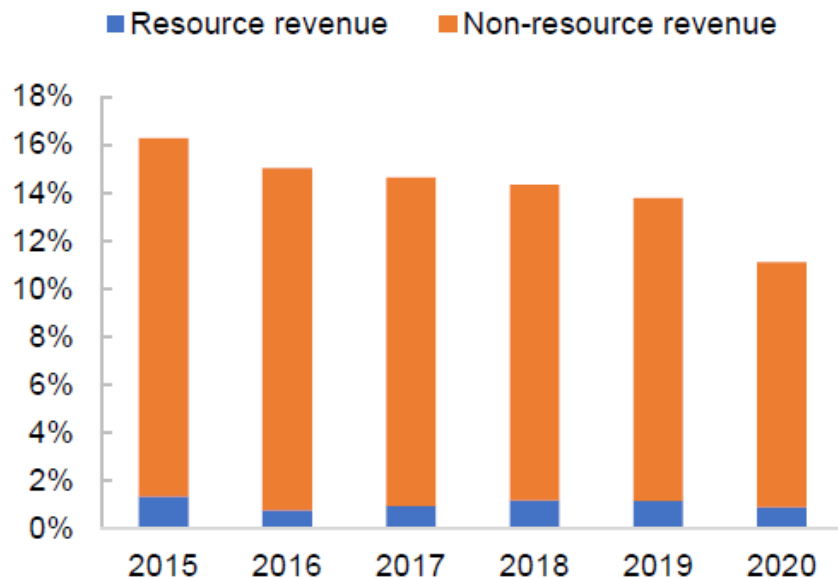
Installed Power Capacity: Historical and Projections
 (Measured in MW)



Source: MEM data

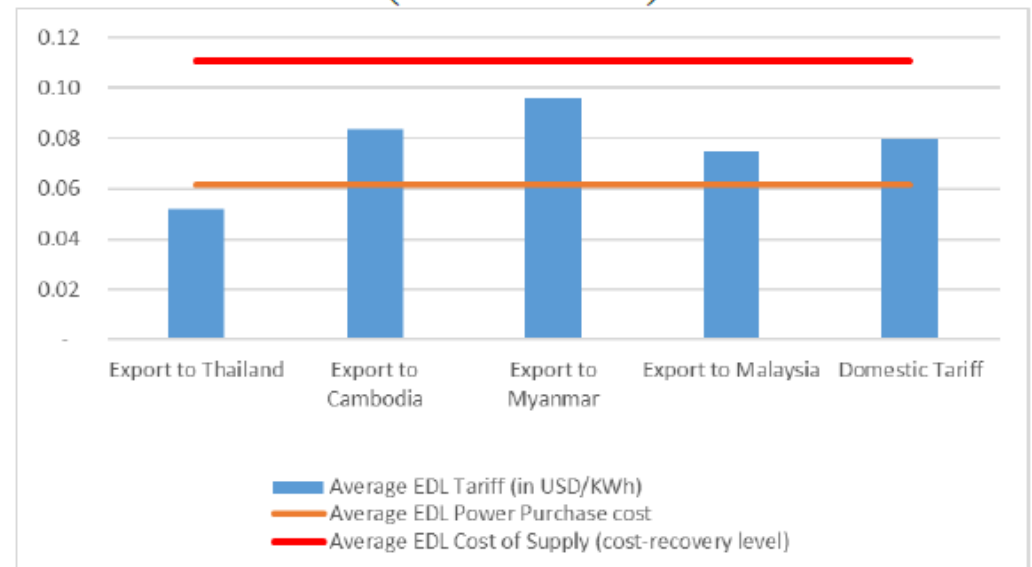
Without leading to significant increase in public revenues

Resource and non-resource revenues (percent of GDP)



Source: MoF
 Note: The data for 2020 is preliminary

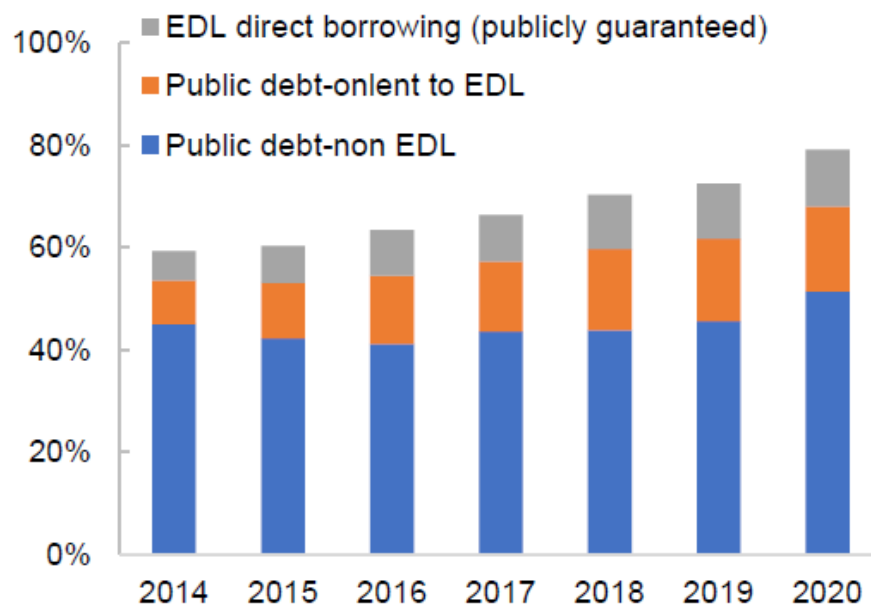
Average EDL domestic and export tariffs compared to the EDL cost of purchasing power (in USD/KWh)



Source: EDL Electricity Statistics Report 2019 for tariffs, and EDL Financial Statements 2018 for power purchase cost, and PWC study 2017 for cost of supply.

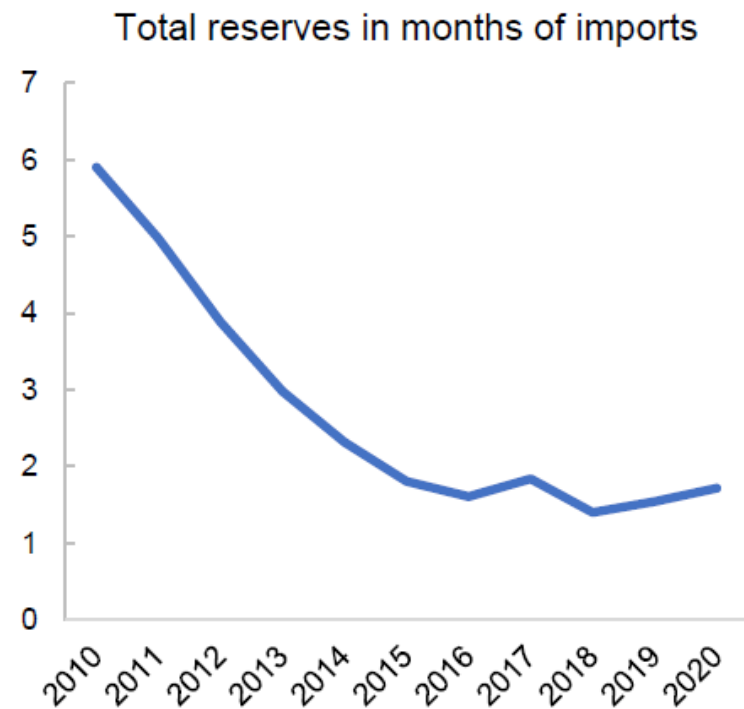
While fiscal and external vulnerabilities increased

EDL contributed significantly to the PPG debt (percent)



Source: EDL Financial Statements 2014-2018, World Bank staff estimates

Months import cover of foreign exchange reserves (Months)



Source: 2010-2019 data is from WDI, 2020 data is based on WB staff estimates.

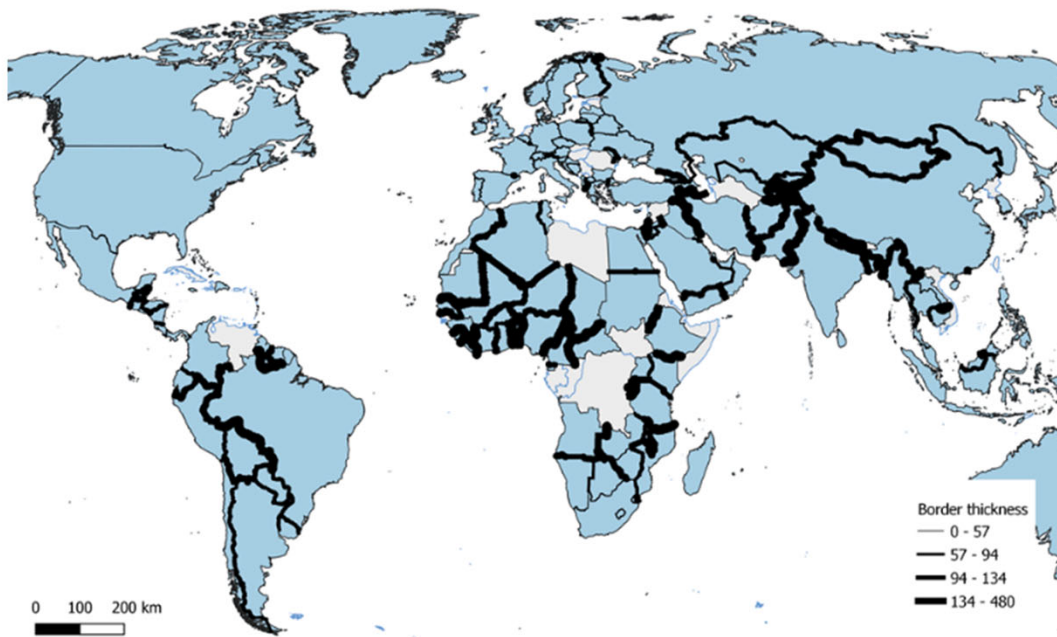


LAO PDR IS NOT THE USUAL
LANDLOCKED COUNTRY

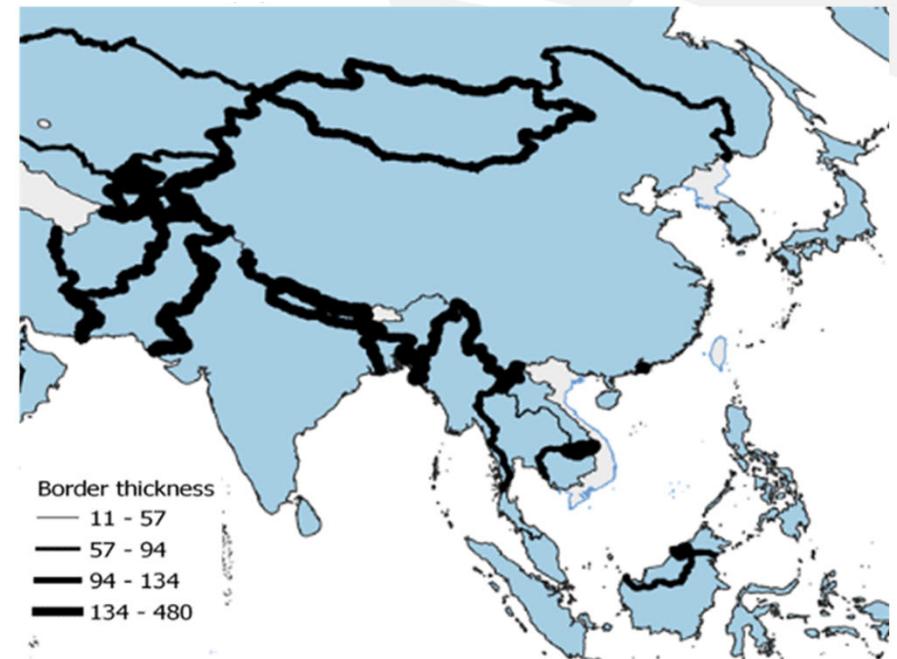
It has the advantage of natural
wealth, young population and
geographic location

Geography is more an asset than a constraint

World view

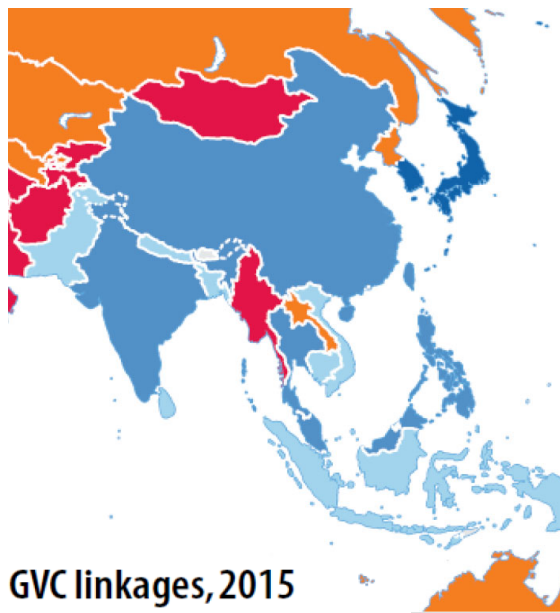


Asia and Pacific view



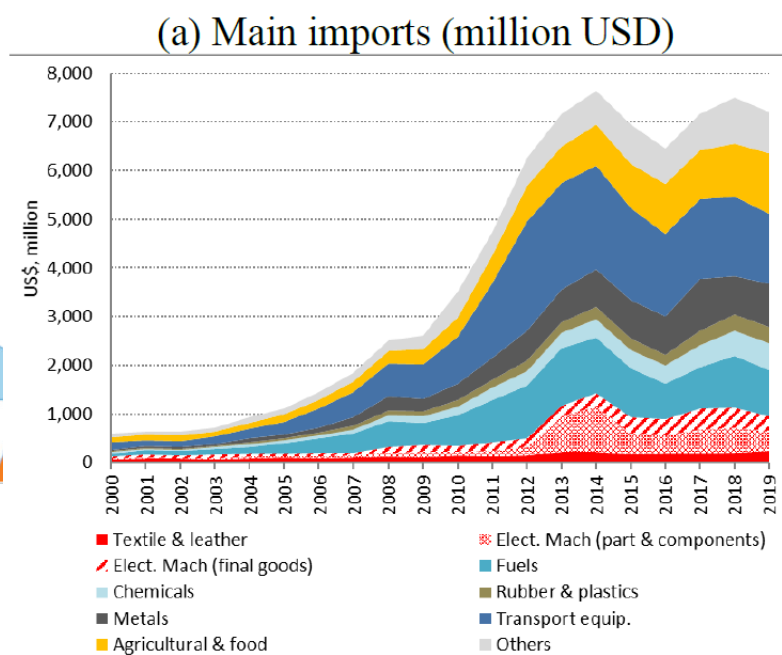
Source: The world Bank and United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) database

Laos links to commodity GVCs but has recently diversified

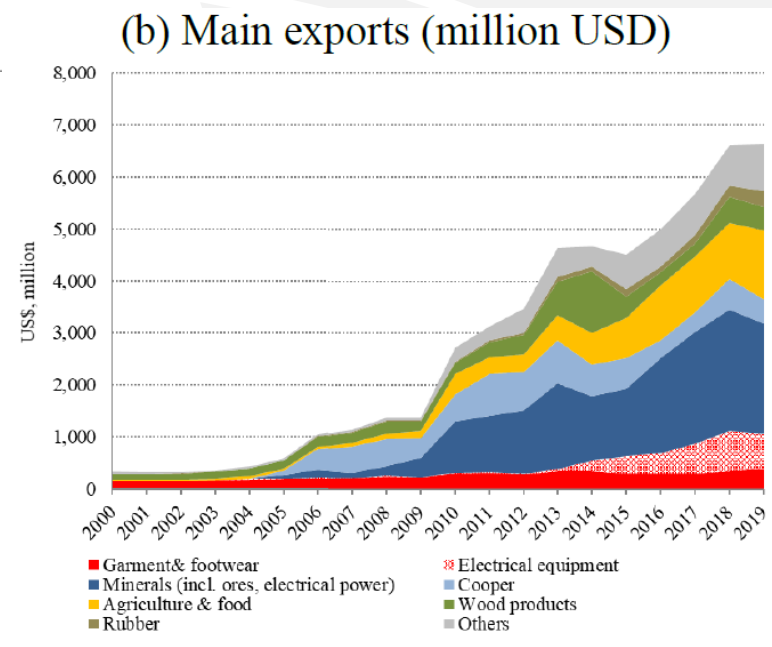


GVC linkages, 2015

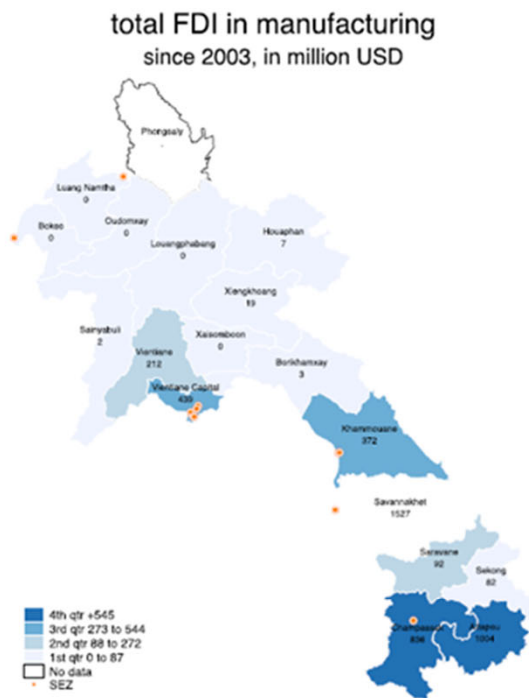
- Low participation
- Limited commodities
- High commodities
- Limited manufacturing
- Advanced manufacturing and services
- Innovative activities



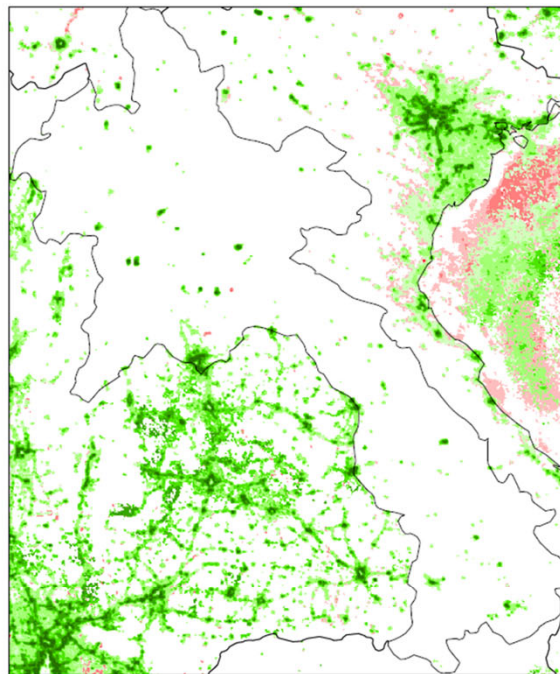
Source: BACI data.



Export-oriented manufacturing FDI linked to local economic development



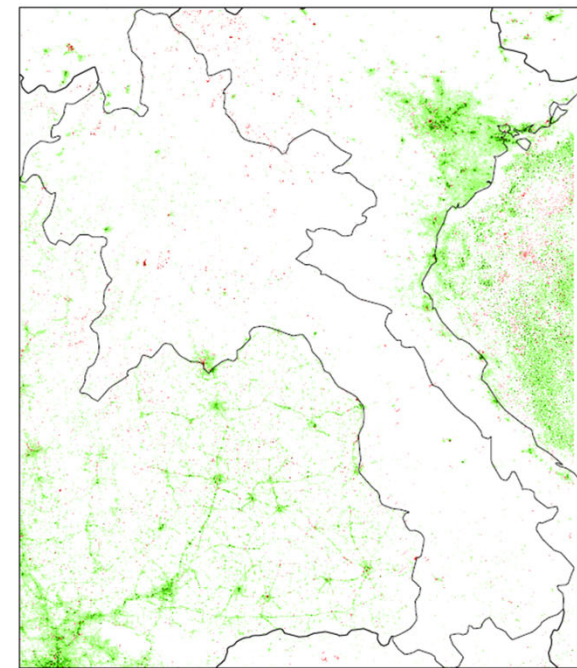
2013 - 2003 Difference, DSMP-OLS F18 & F15 Stable Lights



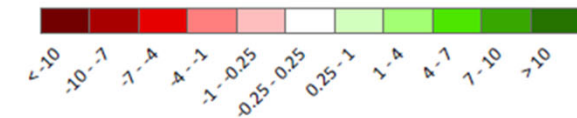
Difference in Nightlight Intensity



2020 - 2014 Difference, VIIRS vcm1c1fg



Difference in Nightlight Intensity



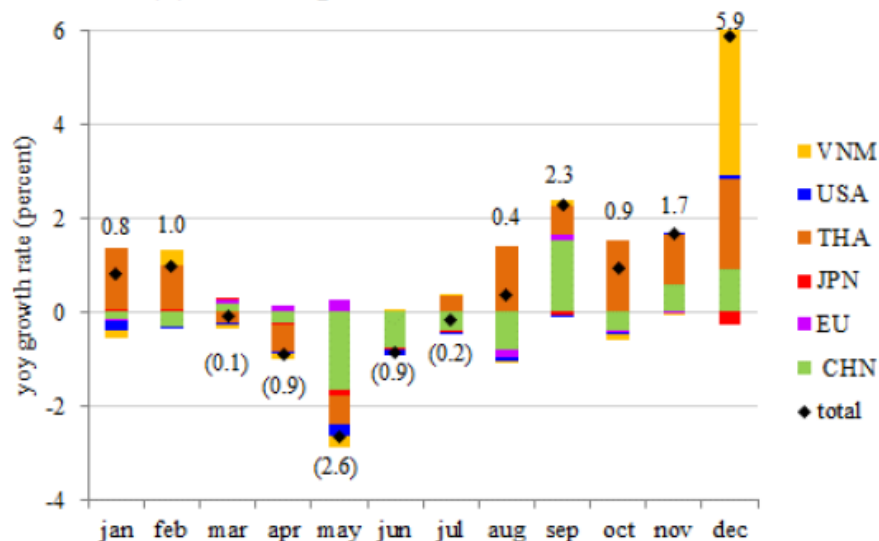
Source : fDi Markets. 2003 and 2013 data from the DMSP-OLS F15 Stable Lights Cloud Free; 2014 and 2020: VIIRS vcm annualized. :

Agri-food exports have potential to grow both regionally and overseas

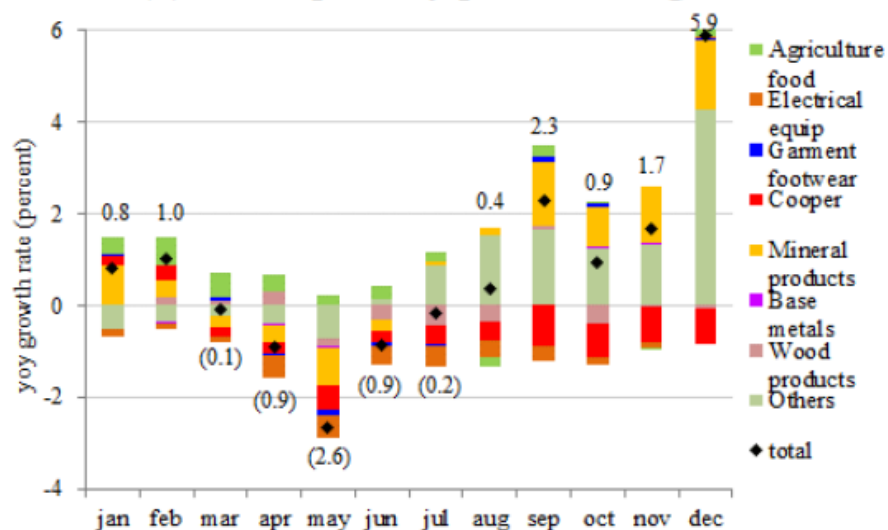
Can contribute to poverty reduction, especially given resilience to COVID-19 shock

Tracking the impact of COVID-19 on Lao PDR monthly trade

(a) Lao exports to selected countries



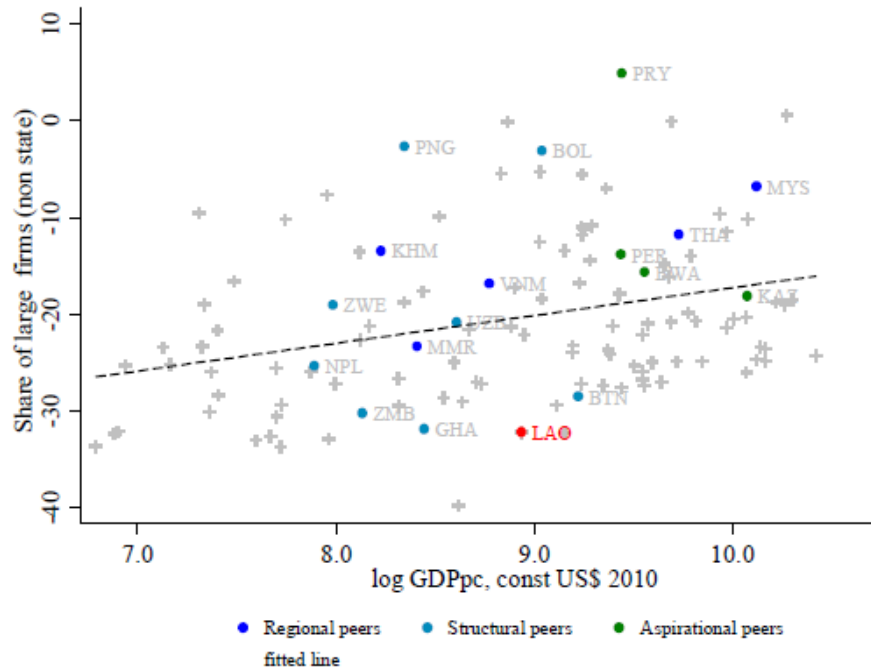
(b) Lao exports by product categories



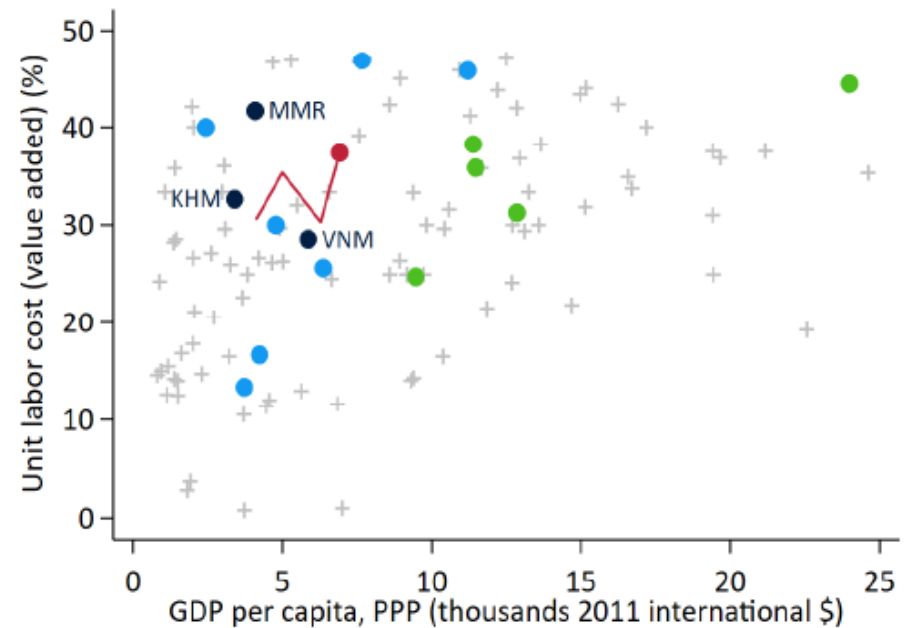
Source : Monthly Customs data China, Thailand USA, EU, Japan

Scope to improve manufacturing competitiveness

Share of large firms, 2018

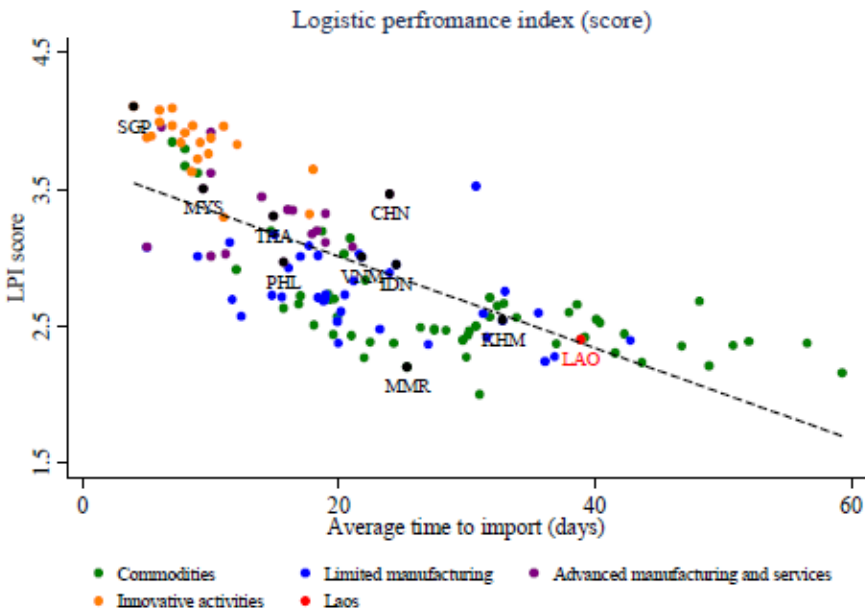


...and rising unit labor costs,
eroding the competitiveness of manufacturing firms.

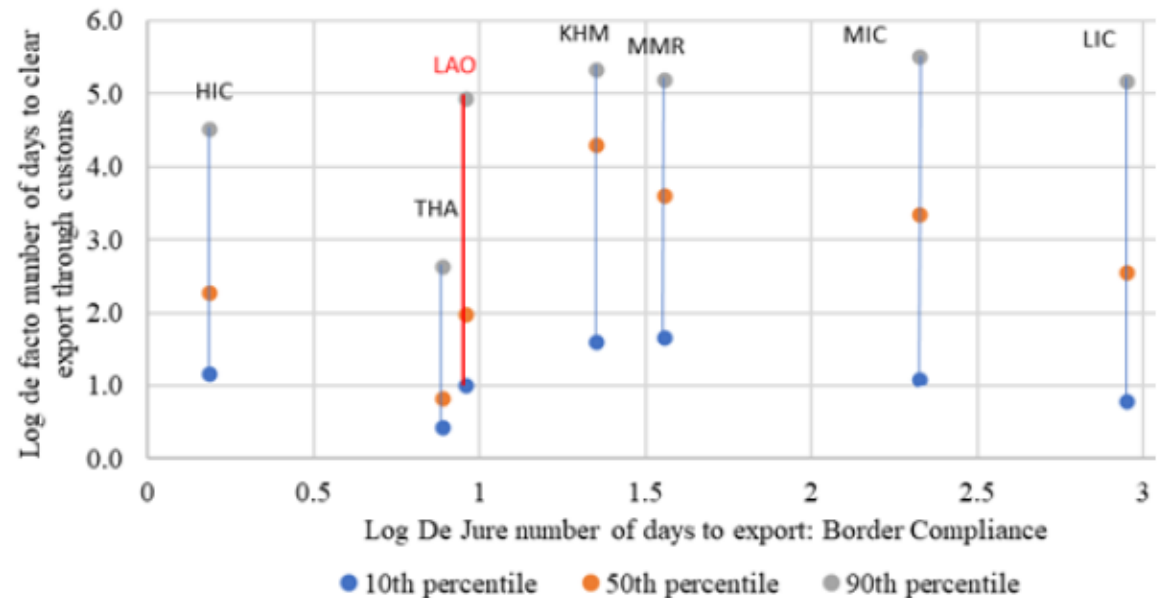


Global value chains thrive on predictable business environment

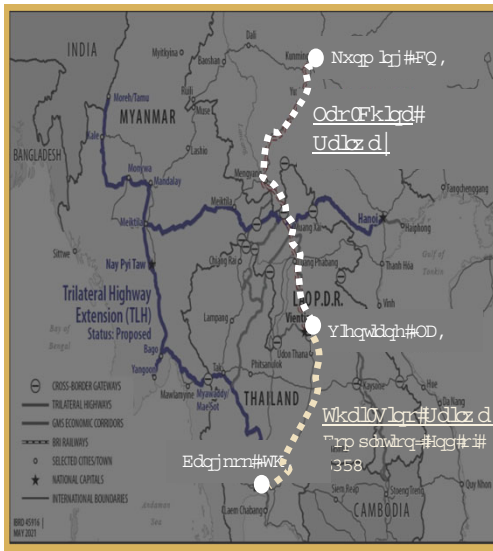
Logistics and connectivity matter for manufacturing GVC integration



And consistent policy implementation



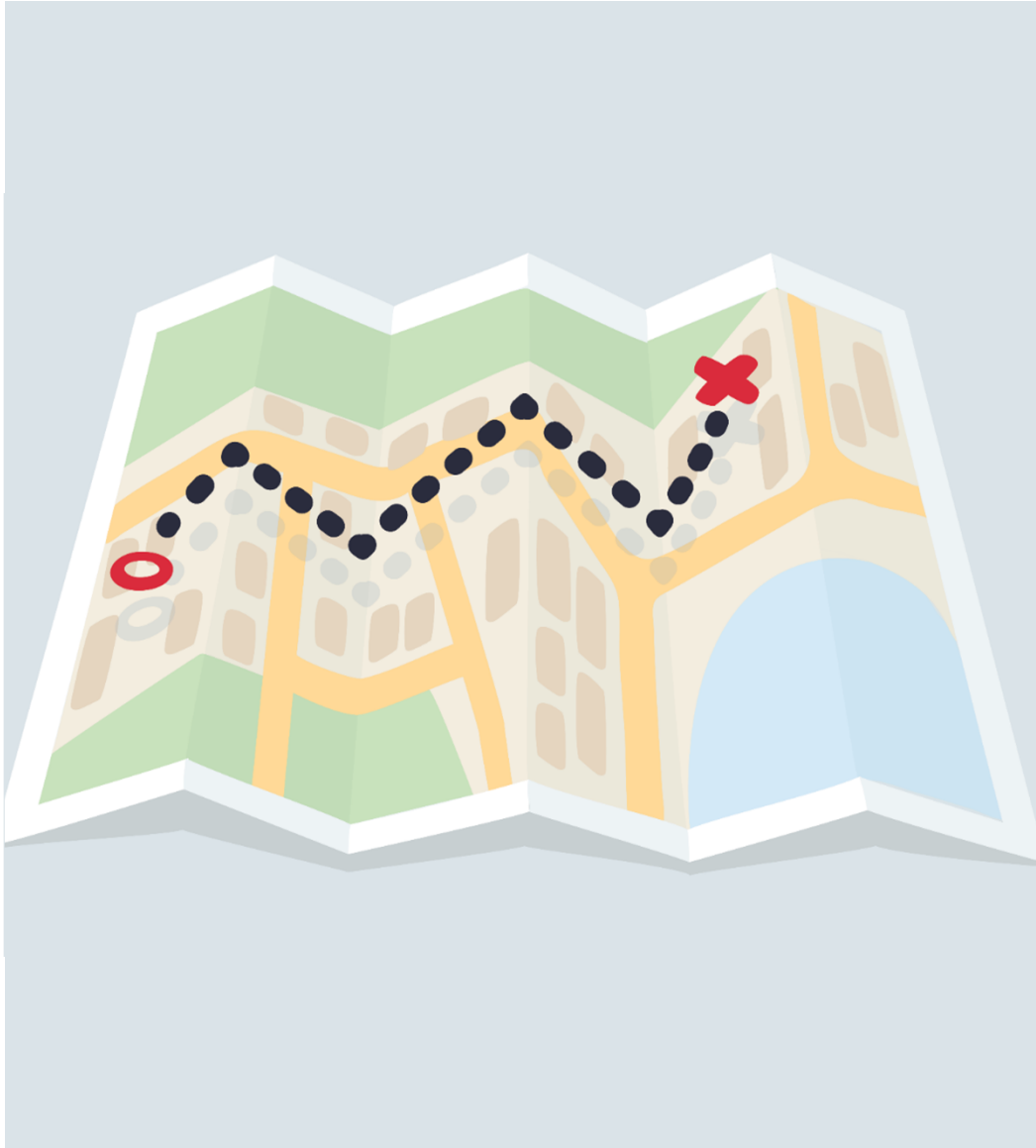
A sound land-linked vision but more policy changes needed for the country to realize its potential



- Expected completion 2021
- 414-kilometer railway (10 stations) from Vientiane Capital to Kunming, China
- Connect to Thai-Sino Railway Vientiane to Bangkok by 2025

- < 4 hours from Vientiane to China compared to 15h drive
- 30-40 percent reduction in transport costs for transit cargo
- Up to 1.5 million tons of trade between China and ASEAN and 2.0 million tons of trade between China and Lao PDR could be shifted from maritime routes to the railway
- Opportunities for further tourism development

Source: World Bank 2020. From Landlocked to land-linked.



THE WAY FORWARD: PRIORITY AND
IMPLEMENTATION

Policy leads for more inclusive and sustainable growth

1. Engineering a return to macro-fiscal stability

=> Negotiate credible and transparent debt restructuring with large creditors to reduce the debt service burden over the medium term.

2. Leveraging on Natural Capital while ensuring Social and Environmental Sustainability

=> Renegotiate Power Purchase Agreements to reduce tariffs paid to IPPs and recalibrate take-or-pay clauses, and adjust domestic electricity tariffs to reflect costs

3. Making Domestic Markets Work for Job Creation

=> Implement one-stop business registration service to cut the burdensome process and encourage formalization

4. Leveraging Strategic Location to Diversify into Export-Oriented Manufacturing, Agri-Food and Services

=> Advance trade policy reforms, with a focus on NTMs to support quality upgrades in business

5. Building Skills and Capacity for Effective reforms

=> Improve data and knowledge to support effective policy making