

Role of fostering Productive Capacity in achieving LDC graduation: the case of Lao PDR

**Sub-regional Workshop
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Asian Landlocked Developing Countries**

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I. Political will, commitment and actions

- Lao PDR has a strong political view and commitment and been taking various actions to graduate from LDC category by focusing on industrial and Infrastructure Development as an important factor for productivity capacity.
- Lao PDR has been focusing on modernizing and industrializing the economy since adopting the **New Economic Mechanism (NEM)** in 1986.
- Since then, Lao PDR has had six Five-Year Plans. The latest being the 8th National Socio-Economic Development Plan (2016-2020).
- The 7th NSEDP (2011-2015) aimed to achieve sustainable economic growth and poverty reduction, while progressively transforming Lao PDR into a more open economy, strengthening private sector productive capacity and prioritizing achievement of the MDGs by 2015.
- **Continuing on the path to strengthening the country's productive base and diversifying the economy**, the 8th NSEDP (2016-2020) explicitly set the target of graduating out of Lao PDR's LDC status by 2020 and aligns the nation development plan according to the 2030 Agenda and Sustainable Development Goals: three important pillars – economic, social and environment.
- In addition, the 10-year Socio-Economic Development Strategy (2016-2025) **with 7 strategies, which includes a strategy on industrialization and modernization.**
- Lao PDR also has strategies for human development, science/technology and infrastructure, and for ensuring political and economic stability.

II. Progress and Challenge

- ✓ Outcome 1: Economic Development**
- ✓ Outcome 2: Social Development**
- ✓ Outcome 3: Environmental Protection**
- ✓ Outcome of 2018 LDCs Graduation Review**

Outcome 1: Economic Development

Progress	Challenges
<ul style="list-style-type: none">- GDP growth rate of 7% on the average for the past five years,- 92% of households in Lao PDR having access to electricity in 2016 and hydropower sector is a major source of growth over the past two decades- 84.5% of villages with access to all-season road access	<ul style="list-style-type: none">- Widening inequality with increased Gini coefficient- Low usage of clean fuels and technology by households- Inadequate social protection- Low and limited access to finance by SMEs- High skill gaps and shortage of qualified labour- 70% of workers in agriculture and fishery sector while the sector contributes only 21% of GDP

Outcome 2: Social Development

Progress	Challenges
<ul style="list-style-type: none">- Declining national poverty rate from 46% (1992) to 23% (2015) and 18% (2018)- Improving well-being (under-5 mortality rate more than halved from 1990 to 2015, decreasing TB and Malaria cases)- 86%, 77% and 80% of households owning mobile phones, TV and motorbikes respectively- Declining proportion of the undernourished- Positive sign in primary school enrolment rate- Leveraging on natural endowment (water) with proper Water Resources Law in place- 76% and 71% of population having access to improved sources of drinking water and improved sanitation facilities respectively	<ul style="list-style-type: none">- Increasing road accidents death rate by twice since 2006- Volatile weather making people in the agriculture falling into poverty- Open defecation- High disparities in safe water and sanitation coverage among the urban and the rural

Outcome 3: Environmental Protection

Progress	Challenges
<ul style="list-style-type: none">- Vientiane Sustainable Urban Transport Project and Bus Rapid Transit system and Luang Prabang (ASEAN Environmentally Sustainable City Award)- Lao PDR Action Plan for Pakse Declaration on ASEAN Roadmap for Strategic Development of Ecotourism Clusters and Tourism Corridors- Numerous ecotourism, cultural and historical and world heritage sites- 58% of forest area in Lao PDR with effective ban on logging from production forests- Localized SDG 14 to fit the landlocked country status	<ul style="list-style-type: none">- Increasing urban population requiring more investment in city and transport infrastructure and policies- Unaligned government methodology and data collection with international disaster data collection initiatives such as EM-DAT

Outcome of 2018 LDCs Graduation Review

The Committee for Development Policy announced early this year that Lao PDR has passed two out of three of LDCs Graduation Criteria's namely:

- 1. Gross National Income per capita of US\$ 1,996 exceeded the graduation threshold of US\$ 1,230 or above.**
- 2. Human Assets Index reached 72.8 compared to a threshold of 66 or above**

The Economic Vulnerability Index reached 33.7, close to the threshold of 32 or below.

III. Lesson learned

- Lao PDR has achieved high economic growth during a decade. However, quality of growth is not high and Income distribution is not even.
- Good progress in LDC graduation, but many key socio-economic development indicators are still below international standard.

VI. Looking Forward on productivity capacity

- Continue to pursue the 9th NSEDP toward the LDC Graduation by focusing on industrial and Infrastructure Development as an important factor for productivity capacity.
- Avoid the middle income trap, Lao PDR has to find diversified avenues for growth, design strategies for continued economic transformation right from the start, and invest in transforming education and health systems to fuel the innovation process and inclusive economic growth.
- Modernizing the economy will involve diversifying and upgrading exports. Improvements in output and productivity in agriculture would release labor to the nonfarm sectors (trade and services).

IV. Looking Forward (Cont.)

- Positive momentum has been gained on LDC graduation. However, **EVI, measuring the country's resilience to shocks and instability, is still to be met for the next LDC review.**
- Strengthening the country's **productive capacity is the key to reducing its economic vulnerability.**
- Lao PDR will continue working closely with development partners, international organizations and relevant stakeholders to source for funding and allocate resources effectively.

Thank you for your attention