

Press Release



National Statistics Centre – National Human Development Reporting Project
Tel.: 021-243670

Lao PDR

International Trade – Making changes happen

Vientiane, Laos: The National Human Development Reporting - Project based at the National Statistics Center (CPI), supported by the UNDP, is discussing with representatives from the government, academia and public institutions the key-findings and policy recommendations of their recently published NHDR 2006. With this workshop the NHDR project is focusing on promoting the implementation of their recommendations in policy strategy planning, which would lead to real changes in human development, making economic growth more beneficial for a higher proportion of the Lao population, without compromising the ability of future generations to meet their own needs.

Free trade has spurred record economic growth in South East Asia but has also widened income inequality as unskilled workers are left behind. A small developing country like the Lao PDR has to tread carefully to take advantage of the tremendous opportunities international trade and globalization bring, while avoiding the economic pitfalls that have plagued many countries around the world over the past few decades. Lao PDR's opening to the global market since the introduction of the NEM in 1986 has propelled economic growth and reduced income poverty. *"The country has embraced globalization but globalization cannot embrace the country's poor without future determined action on the part of government,"* Mr. Kikeo said during the workshop. *"Although free trade has helped to reduce poverty, and the number of people living on less than one dollar a day has fallen, globalization has exacerbated inequalities in some areas of the country and we are still facing many challenges international trade is bringing with-it".*

The recently published third NHDR clearly shows that only a few industries have the potential as a launch pad for their industrial development in Lao PDR but competition from China is threatening job opportunities.

The best prospects for large increases in direct employment in exports are in agriculture, handicrafts, international tourism and labour migration. Agriculture – with around 75 % of Lao PDR's labour - is clearly the most important sector. It has the highest potential to increase exports at the lowest investment cost and with the highest potential benefits for human development. In a comparison of different sectors, the NHDR shows, that in order to create one additional job in the farming sector, an investment of only 20\$ is needed, in stark contrast to the 142,400 \$ that would be needed to create one additional job within an average Hydro Power Project.

Unfortunately, the potential of the agricultural sector is not recognized in its full extent yet and the investment in this sector is far too little. At the moment not enough goods are produced to meet the demand. The reasons for this are complex.

Lao PDR is a low-cost producer of raw agricultural products for especially the Thai and Chinese markets. Most importantly, the contract farming patterns show that there are critical 'missing markets' in Lao agriculture that the cross-border contracts are helping to bridge at the moment. The missing markets are mainly credit markets, high-quality input markets and future (niche) markets.

These missing markets go along way in explaining why the agricultural sector still lags and why subsistence production is still so high. Poor farmers are risk adverse. Unless they are sure that there will be a market providing dependable and profitable price for new or expanded production, that they can get credit to expand production, and that they can buy better inputs with that credit, they will not take the risk. Potential investors in Lao food processing plants are likewise not sure there will be enough domestic supply, so they may keep their operations small, or not invest at all. Markets in agriculture are also characterized by problems of asymmetric information - one actor knows more than another in a transaction. A

Chinese buyer of NTFPs (particularly of ingredients for Chinese herbal medicine) knows much more about final market prices and premiums for quality than a Lao NTFP collector or other seller. As a result, returns to the collectors are lower and rural poverty higher than they otherwise might be.

Minerals and electricity are important exports, and will even increase in the future, but they will only create a few jobs and their social and environmental impacts may even harm human development in the long term run, leading to fewer choices in the livelihood of many people in rural areas. Due to these exports revenues will increase dramatically. If those revenues are used for investing in human development priorities such as health and education, negative impacts may be compensated to some extent.

Lao PDR's Total Fertility Rate (TFR) of 4.8 children is one of the highest in South East Asia. Lao labour force is projected to increase by 1,325,000 workers or nearly 45 % in the next 15 years and the school age population is projected to grow by 753,950 potential students, also by 45 %. The fact that most of the labour force growth will occur in rural areas but additional employment opportunities in agriculture are limited is a huge challenge for policy makers. The children who will enter the labour force between 2005 and 2020 have already been born. Finding productive work for all will be difficult.

Lao educational attainment lags behind the thresholds necessary for an economy to increase its productivity. This poses a serious challenge to the competitiveness of Lao exports and of domestic goods and services, which need to compete against imports, as the various trade agreements are implemented. Education in rural areas is less available and of lower quality than in urban areas. Lower educational attainment levels mean lower overall agricultural productivity. "Human Resource development is one of the most serious challenges the country faces. There is a big need to be both upgrading the skills of the existing labour force and improving the enrolment, retention and quality of education of Lao children. Otherwise the critical shift from a natural resource based economy to a human resource based economy could be delayed for a generation or longer", Mr. Kikeo worries during the dissemination workshop.

The National Human Development Report was produced by an international team of authors and researchers, presenting their thoughts, ideas and findings, independently. The NHDR does not necessarily reflect the opinion of many policy makers and development workers. However, even if opinions differ, this report shall be seen as a guideline and useful reference book helping decision makers to gain more in-depth knowledge about the complex relationship between international trade, economic growth and human development.

END

A version of the third "National Human Development Report Lao PDR 2006 – International Trade and Human Development" is available on request.

For more information please contact Oliver Schoenweger (Communication Specialist for the NHDR project) or

Ms. Souphavone Dalavong (Project Coordinator) at the National Statistics Centre.

+ (856 21) 243670, + (856 20) 7801032, oliver.schoenweger@undp.org,

+ (856 21) 243670, nhdr@etllao.com

Notes for editors:

National Statistics Centre (NSC) is the hub in Lao PDR's statistical work by using, producing and coordinating all official statistics. National Statistics Centre supplies support and satisfies Governmental Institutions and other public, private and international users with data and information.

The UN Development Programme (UNDP) is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life. We are on the ground in 166 countries, working with them on their own solutions to global and national development challenges. As they develop local capacity, they draw on the people of UNDP and our wide range of partners.

The National Human Development Reports are periodic publications that aim to contribute towards widening the development choices for sustainable and equitable growth as well as and to increase public awareness of the real human situation, drawing attention to actual critical concerns. It is a tool for policy makers in development planning and resource allocation. The next NHDR- which will be the fourth of this kind - will deal with the issue "Labour force" and its multiple aspects and challenges for the Human Development in the Lao PDR