Linking Laos
Unlocking Policies
Lao PDR
Country Economic Memorandum

Report Launch June 7th, 2022
Resource-driven growth has created few jobs, while leading to significant macroeconomic and environmental pressures.
Natural resources drove fast growth...

**Figure O.1**
Natural resources and related investments have been a major driver of growth

GDP growth and sectoral contributions to growth

**Figure 2.1**
Resource sector contributions to GDP (2012 constant prices)

Source: https://seadelt.net/Documents/?of=1&os=d
... but this growth was not inclusive or job-creating
Growth has also resulted in environmental pressures ...
... without significantly increasing government revenue

**Figure 1.1**
General government revenues, compared with peers

**Figure 1.4**
Resource and non-resource revenues

Source: IMF WEO Database, April 2022. 2020 and 2021 Laos data are based on WB estimates.

Source: MoF.
Fiscal risks associated with the electricity sector are large.
Fiscal, external and financial vulnerabilities threaten macroeconomic stability

**Figure 1.16**
Total PPG external debt service projections

**Figure 1.19**
Nominal and real effective exchange rates

Source: Data is based on MoF and World Bank 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
Laos participates in commodity GVCs, but exports recently diversified.
Export-oriented manufacturing FDI linked to local economic development

**Figure 4.13**

Lao economic development was linked to export-oriented manufacturing FDI, 2003-20

(a) Total FDI in manufacturing since 2003, $ million

(b) 2013-2003 difference

(c) 2020-2014 difference

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

**Figure 4.14**
Laos’ performance in Enabling Business for Agriculture

**Figure 4.4**
Tracking the impact of COVID-19 on Laos monthly trade
(d) Lao exports by product categories

Source: Monthly Customs data China, Thailand USA, EU, Japan.
Scope to improve manufacturing competitiveness

Figure 4.20
Businesses that both import and export dominate GVC participation

Figure 3.2
Trends in the manufacturing sector, 2009–18

Latest observation:
- Laos: 2009-2018
- Structural peers
- Regional peers
- Aspirational peers

Source: Staff analysis using WBES, various years.

Source: Adapted from WDR2020.
Global value chains thrive on predictable business environment

Figure 4.25
GVCs thrive on predictable business environments

(a) Logistics and connectivity matter for manufacturing GVC integration

(b) And consistent policy implementation

Source: WEF and WDI data and WDR2020 GVC taxonomy.
A sound vision, but deeper policy changes needed to realize potential

- Launched December 2, 2021
- 414-kilometer railway (10 stations) from Vientiane Capital to Kunming, China
- Connect to Thai-Sino Railway Vientiane to Bangkok by 2025

**Expected impact:**
- < 4 hours Vientiane to China (15h drive)
- 30-40 percent drop in transport costs for transit cargo
- Up to 1.5 million tons traded between China and ASEAN; 2.0 million tons traded between China and Lao PDR redirected from maritime routes to the railway
- Opportunities for tourism

Policy leads for more inclusive and sustainable growth
I. Engineering a return to macro-fiscal stability

<table>
<thead>
<tr>
<th>Objective</th>
<th>Timeline for implementation</th>
<th>Responsible ministry or agency</th>
<th>Link with NSEDP 9 (outputs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Explore sources of external financing but limit new commercial borrowing to the amount necessary to service existing market term borrowing.</td>
<td>Short term</td>
<td>MOF</td>
<td>Outcome 1 (2)</td>
</tr>
<tr>
<td>2. Finalize ongoing debt negotiations with large creditors, giving appropriate consideration to debt sustainability and transparency.</td>
<td>Short term</td>
<td>MOF</td>
<td>Outcome 1 (2)</td>
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<tr>
<td>3. Strengthen due diligence and approval processes for new public investments, on-lending arrangements, issuance of public guarantees, and PPP proposals.</td>
<td>Medium term</td>
<td>MOF, MPI</td>
<td>Outcome 1 (2,3,5)</td>
</tr>
<tr>
<td>4. Mobilize domestic revenue by improving administration of large taxpayers, reviewing tax incentives and concessions (particularly for resource sector projects), and reducing the scope for discretion in taxation and revenue-sharing arrangements.</td>
<td>Medium term</td>
<td>MOF</td>
<td>Outcome 1 (2)</td>
</tr>
<tr>
<td>5. Consider the adoption of a medium-term fiscal framework to ensure that budget settings and new PPG borrowing plans (including SOE borrowing) are consistent with public debt sustainability.</td>
<td>Medium term</td>
<td>MOF</td>
<td>Outcome 1 (2)</td>
</tr>
<tr>
<td>6. Resolve balance sheet vulnerabilities in state-owned banks and reassess their role in the provision of credit to government and SOEs.</td>
<td>Medium term</td>
<td>MOF, BOL</td>
<td>Outcome 1 (2)</td>
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II. Ensuring the use of natural capital is socially and environmentally sustainable

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<tr>
<td>7. Review options to ensure the financial sustainability of EDL’s payments to IPPs, and adjust electricity tariffs to ensure EDL’s cost recovery, while protecting customers with less capacity to pay.</td>
<td>Short term</td>
<td>EDL, MEM, MOF</td>
<td>Outcome 1 (5)</td>
</tr>
<tr>
<td>8. Optimize hydropower system planning and reorient investment toward improving transmission and interconnection systems with neighboring countries.</td>
<td>Medium term</td>
<td>EDL, MEM, MPI</td>
<td>Outcome 1 (5) and outcome 5 (1)</td>
</tr>
<tr>
<td>9. Develop the potential to firm electricity supply through renewables rather than coal.</td>
<td>Medium term</td>
<td>MEM</td>
<td>Outcome 4 (2) and outcome 5 (2)</td>
</tr>
<tr>
<td>10. Resolve ongoing constraints to new mining investment, including by implementing the mineral licensing system and reviewing the beneficiation policy, while prioritizing the minimization of environmental impacts.</td>
<td>Medium term</td>
<td>MEM, MONRE</td>
<td>Outcome 1 (1,3)</td>
</tr>
<tr>
<td>11. Clarify and standardize licensing and land allocation processes and the legal framework to improve certainty for investors in environmentally-sustainable tree plantations and nature-based tourism.</td>
<td>Medium term</td>
<td>MAF, MONRE, MICT</td>
<td>Outcome 4 (1,2)</td>
</tr>
<tr>
<td>12. Prepare strategic environmental assessments to identify the cumulative longer-term effects of resource sector projects and manage trade-offs between different land uses.</td>
<td>Medium/long term</td>
<td>MONRE</td>
<td>Outcome 4 (1)</td>
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### III. Making domestic markets work for job creation

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<td>13. Deepen business climate reforms to facilitate the entry and expansion of domestic and foreign firms.</td>
<td>Short term</td>
<td>MOIC, MPI</td>
<td>Outcome 1 (3,4)</td>
</tr>
<tr>
<td>14. Implement one-stop business registration service to cut the burdensome process and encourage formalization. Eliminate and streamline regulations for transparency and consistency in the tax and regulatory systems to curb informal practices.</td>
<td>Short term</td>
<td>MOF, MOIC, MPI</td>
<td>Outcome 1 (3,4)</td>
</tr>
<tr>
<td>15. Leverage remittances to support investment in agriculture and manufacturing. Allow remittances to be used in local public investment projects, decided by the migrants for their home village.</td>
<td>Short term</td>
<td>MAF</td>
<td>Outcome 1 (3)</td>
</tr>
<tr>
<td>16. Strengthen labor laws and enforcement to protect workers, male and female without jeopardizing firm competitiveness.</td>
<td>Medium term</td>
<td>MOES, MOLSW</td>
<td>Outcome 2 (2,3)</td>
</tr>
<tr>
<td>17. Strengthen vocational training and employment services that allow qualified workers to find suitable jobs. Involve the private sector especially lead GVC firms.</td>
<td>Medium term</td>
<td>MOES, MOLSW</td>
<td>Outcome 2 (2,3)</td>
</tr>
<tr>
<td>18. Promote skill retraining and geographically targeted employment subsidies to foster employment in areas more at risk.</td>
<td>Medium term</td>
<td>MOES, MOLSW</td>
<td>Outcome 2 (2,3)</td>
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### IV. Leveraging strategic location to diversify away from natural resources

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<td>19. Advance trade policy reforms, with a focus on non-tariff measures to support quality upgrades in businesses.</td>
<td>Short term</td>
<td>MOIC, MOF</td>
<td>Outcome 5 (2)</td>
</tr>
<tr>
<td>20. Assess the effectiveness of SEZs and related investment incentives in attracting FDI, encouraging export growth and diversification, and creating jobs.</td>
<td>Short term</td>
<td>MPI, MOIC</td>
<td>Outcome 1 (5) and outcome 5 (4)</td>
</tr>
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<td>21. Facilitate SEZ backward linkages with domestic firms to help raise productivity, competitiveness, and resilience. Develop win-win deals with foreign lead GVC firms to develop downward services or training centers that also benefit other exporters or products.</td>
<td>Medium term</td>
<td>MOIC, MPI</td>
<td>Outcome 1 (5) and outcome 5 (4)</td>
</tr>
<tr>
<td>22. Improve the ability of businesses to satisfy core labor, environmental and governance standards to anticipate the increasing focus on social and environmental issues among buyers in overseas markets.</td>
<td>Medium term</td>
<td>MOIC, MAF</td>
<td>Outcome 5 (2)</td>
</tr>
<tr>
<td>23. Improve infrastructure and governance and promote competition in transport and logistics.</td>
<td>Medium term</td>
<td>MPWT</td>
<td>Outcome 5 (1,3)</td>
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## V. Building skills and capacity for effective reforms

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<td>24. Improve data and knowledge to support effective policy making.</td>
<td>Short term</td>
<td>All</td>
<td>Outcome 6</td>
</tr>
<tr>
<td>25. Develop comprehensive and inclusive communication strategy within each lead ministry and leverage feedback from stakeholders.</td>
<td>Medium term</td>
<td>All</td>
<td>Outcome 6</td>
</tr>
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http://wrld.bg/tmsw50JmKGa