



Economic and Trade Office
Embassy of Israel in Hanoi

Economic Review
LAO PEOPLE'S DEMOCRATIC REPUBLIC

Basic Facts

Population:	6,477,211 (July 2011 est., CIA data)
Land area:	236,800 sq km
Capital:	Vientiane (population: 726,000 (2010))
GDP at market prices (K bn):	US\$ 61,878 (2010)
GDP (US\$bn):	7.5(2010)
Real GDP growth:	8.4% (2010)
GDP – per capita:	US\$ 2,435.652 (2010) ¹
Government:	One-party rule by the Lao People's Revolutionary Party
President:	Choummaly Sayasone (since 8 June 2006)
Prime minister:	Thongsing Thammavong
The last National Assembly election:	April 2011 (the next is due in April



Economy – Overview

The government of Laos, one of the few remaining one-party Communist states, began decentralizing control and encouraging private enterprise in 1986. The results, starting from an extremely low base, were striking - growth averaged 6% per year from 1988-2008 except during the short-lived drop caused by the Asian financial crisis that began in 1997. Despite this high growth rate, Laos remains a country with an underdeveloped infrastructure, particularly in rural areas. It has a rudimentary, but improving, road system, and limited external and internal telecommunications. China has signed a deal with the Lao to build a high speed rail system in the country. Construction on the \$7 billion project is slated to begin in April 2011 and will take five years. Disagreement over the number of Chinese immigrants moving to Laos under infrastructure-building contracts has delayed the project.² Electricity is available in urban areas and in many rural districts. Subsistence agriculture, dominated by rice cultivation in lowland areas, accounts for about 30% of GDP and 75% of total employment.

Economic growth has reduced official poverty rates from 46% in 1992 to 26% in 2010. The economy has benefited from high foreign investment in hydropower, mining, and construction. Laos gained Normal Trade Relations status with the US in 2004, and is taking steps required to join the World Trade Organization, such as reforming import licensing. Related trade policy reforms will improve the business environment.

¹

IMF,

<http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/weorept.aspx?sy=2008&ey=2011&scsm=1&ssd=1&sort=country&ds=.&br=1&c=544&s=NGDPD%2CNGDPDPC%2CPPPGDP%2CPPPPC%2CLP&grp=0&a=&pr.x=58&pr.y=5>

² Economic Intelligence Unit, Country Report, Laos, December 2011, UK.



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On the fiscal side, Laos initiated a VAT tax system in 2010. Simplified investment procedures and expanded bank credits for small farmers and small entrepreneurs will improve Lao's economic prospects. The government appears committed to raising the country's profile among investors. The World Bank has declared that Laos's goal of graduating from the UN Development Program's list of least-developed countries by 2020 is achievable. According to Laotian officials, the 7th Socio-Economic Development Plan for 2011-15 will outline efforts to achieve Millennium Development Goals.³

Annual indicators

	2007 ^a	2008 ^a	2009 ^a	2010 ^a	2011 ^b
GDP at market prices (K bn)	40,937	48,072	51,908	61,878	72,033
GDP (US\$ bn)	4.3	5.5	6.1	7.5	9.0
Real GDP growth (%)	7.4	7.6	7.4	8.4	8.5
Consumer price inflation (av; %)	4.5	7.6	0.0	6.0	7.8
Population (m)	6.1	6.2	6.3	6.4	6.6
Exports of goods fob (US\$ m)	923	1,092	1,053	1,746	2,131
Imports of goods cif (US\$ m)	1,065	1,403	1,461	2,061	2,370
Current-account balance (US\$ m)	139	78	-61	29	62
Foreign-exchange reserves excl gold (US\$ m)	533	629	609	703	779
Exchange rate (av) K:US\$	9,603	8,744	8,516	8,259	8,044

^a Actual. ^b Economist Intelligence Unit estimates.

Origins of gross domestic product 2010	% of total
Agriculture & forestry	30.8
Industry (incl construction)	27.4
Services	41.8

Principal exports (2010)--\$1.950 billion: gold and copper, electricity, wood and wood products, garments, coffee and other agricultural products, rattan, and tin.

Principal imports--fuel, food, consumer, goods, machinery and equipment, vehicles and spare parts.

Main destinations of exports 2010	% of total	Main origins of imports 2010	% of total
Thailand	39.5	Thailand	65.1
China	29.3	China	14.5
Vietnam	16.4	Vietnam	6.6
UK	4.0	South Korea	3.4
US	3.2	Japan	1.9

^a IMF estimates.

³ CIA, the World Factbook, Laos, <https://www.cia.gov/library/publications/the-world-factbook/geos/la.html> (retrieved 6 December 2011).



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Agriculture

Approximately 4% of Lao PDR's land is arable, and permanent crops cover about 0.35%. Principal agricultural products include rice, vegetables, maize (the grain being used principally for livestock feed), roots and tubers (cassava, taro and sweet potatoes), sugarcane, bananas and watermelons. Other important cash crops include coffee, tobacco and tea. There is also a very large area of rubber trees that will begin to come into production within the next two years.

The country's staple is rice and consumption is among the highest in the world at around 206 kg/per capita. Some 85% of the rice grown in Lao PDR is glutinous or sticky rice.

Lao PDR has borders with five countries. Geography and lack of infrastructure mean that access to markets in Myanmar, China and Cambodia is limited, while major transit points to Viet Nam are far from both source in Lao PDR and destination in Viet Nam. However, the country has ample access to Thai markets. Although historically there has always been a significant cross-border movement of commodities, this has become more formalized in recent years with the granting of concessions to other countries, in particular China. There are now an estimated 300 000 hectares of rubber plantation, mostly planted in the last five years, under foreign ownership in one form or another. Other important concessions include sugarcane, eucalyptus, teak and jatropha. The area under maize, which is grown almost exclusively for livestock feed and mainly for the export market, has increased recently to more than 200,000 hectares.

Agriculture, in 2011, which accounts for a third of GDP but employs about three-fifths of the workforce, suffered from bad weather (droughts followed by floods) as well as from diseases in pigs and cattle. Production of rice, the main crop, increased by about 4% to 3.26 million tons and fisheries recorded solid growth of 7.0%. The sector as a whole, though, grew by just 2.0%.⁴

The Ministry of Agriculture is currently involved in discussions and negotiations with foreign governments, including those of Mongolia and some Middle Eastern countries, regarding the possible leasing of Lao PDR land to those countries for food-crop production. The foreign countries would be responsible for installing irrigation and other infrastructure and would then produce for their own requirements.⁵

Development challenges

A central challenge is to pursue growth, as called for in the new development plan, while preserving macroeconomic stability. A related issue is banking system soundness: high rates of growth in credit and a rapid expansion in the number of banks (from 13 to 23 in the 3 years to 2010) has increased risks for the

⁴ ADB, Asian Development Outlook 2011, Lao People's Democratic Republic.

⁵ Food and Agriculture Organisation of the United Nations, Rome, Special Report, FAO/WFP Crop and Food Security Assessment Mission, to Lao People's Democratic Republic, World Food Programme, Rome, 18 March 2011.



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banking system, which need to be addressed through vigilant supervision and a recapitalizing of state-owned banks. Enduring challenges involve reducing poverty (the incidence was about 26% in 2010⁶) and, related to this imperative, diversifying the economy's narrow base. Mining and hydropower have limited potential for job creation, and a heavy reliance on mining leaves the economy and the budget vulnerable to the inevitable downswings in global metal prices.

These twin goals therefore require investment and reforms in agriculture, which still supports the majority of the population, and improvements in the business environment to encourage a vibrant private sector. Progress on the latter depends heavily on reforms in public sector management (including state-owned enterprises) and in public service delivery, as well as a more transparent and predictable policy and legal environment. The country is near the bottom (171 out of 183 countries) in the World Bank's Doing Business 2011 ranking. Transparency International places the country 154 out of 178 on its 2010 Corruption Perceptions Index, partly because the implementation or enforcement of approved laws and regulations remains weak.⁷

ECONOMIC POLICY

Policy trends

Laos's relative economic isolation proved beneficial during the 2008-09 global financial crises, when the country's economy continued to grow fast. The development of several power projects will help to keep economic growth healthy in 2012-13 despite the gloomy outlook for the global economy. The main challenges for the authorities will be to keep inflationary pressures in check while maintaining support for the economy, and to move ahead with reforms aimed at making the business environment more conducive to private-sector activity. Foreign investment, predominantly from Asian countries and directed into the resources sector, will increase over the forecast period.

The government is expected to make progress on reforming Laos's foreign trade regime, with the primary objective of enabling the country to become a member of the World Trade Organization (WTO). However, there has been no formal indication of when Laos will be allowed to join the WTO.

Fiscal Policy

Strong growth in government revenue, in part a result of high global prices for copper and gold, helped to rein in the budget deficit in FY2010. Growth in spending moderated relative to FY2009, when the government had lifted outlays to cushion the impact of the global recession. The budget deficit, including grants but excluding off-budget spending, narrowed to an estimated 3% of GDP from 5.1% in FY2009. Including off-budget spending, it was close to 5%.⁸

The government will continue to run small budget deficits in the forecast period. The fiscal deficit (including grants) narrowed to 2% of GDP in 2010 and is estimated to have stood at 2.2% of GDP in 2011. Owing to a number of revenue-raising measures the deficit will remain fairly low,

⁶ CIA World Factbook - Unless otherwise noted, information in this page is accurate as of October 14, 2011.

⁷ ADB, Asian Development Outlook 2011, Lao People's Democratic Republic.

⁸ ADB, Asian Development Outlook 2011, Lao People's Democratic Republic.



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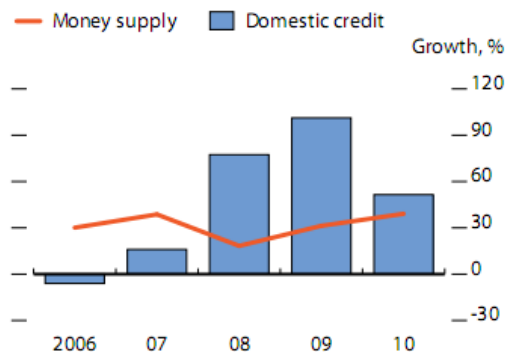
averaging 2% of GDP in 2012-13. A new tax on luxury goods has been imposed, and there are proposals to introduce taxes on land and inheritance. High global mineral prices will boost revenue.

However, prices are set to rise over the next two years, staying high by historical standards. The government will continue to receive royalties from the export to Thailand of electricity from the Nam Theun 2 hydropower facility, which began commercial operations in March 2010.

Monetary Policy

The central bank is in the process of tightening monetary policy, albeit very slowly. In response to the global recession, in 2009 the central bank lowered its policy interest rate by a total of 200 basis points, to a record low of 5%, and provided billions of kip to fund local infrastructure projects. Despite the fact that annual inflation has exceeded the rate of GDP growth for much of 2011, the central bank has decided against increasing its policy interest rates. However, inflationary pressures will remain high, and that this will compel the central bank to act, although possibly not until mid-2012. There will be steady improvements in the competitiveness of the banking system in the forecast period, owing to gradual reforms (such as the lowering of entry barriers) initiated by the central bank.

3.25.3 Monetary indicators



Source: Asian Development Outlook database.

[Click here for figure data](#)

Economic policy

Efforts to promote entrepreneurship as the basis for economic growth are moving forward. At the end of September the government injected an initial K16bn (US\$2m) into a new small and medium-sized enterprise (SME) development fund. According to the SME Promotion Office, about 80% of the money will be distributed as low-interest loans by a commercial bank, with priority given to agricultural processing companies. The rest is to be used for training programmes for local SMEs. The Promotion Office expects to receive an additional US\$2m from the government in 2012, and also funding from China and Vietnam. Innovation and understanding of markets will be crucial to



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the progress of small businesses, and with Laos still emerging from a rural communist society; instant success should not be expected.

In September the deputy planning and investment minister, Thongmy Phomvisay, admitted that Laos needed to improve its investment procedures in order to enhance the business operating environment in the country. To encourage creative investment and to diversify the economic base, businesses that invest in research and education will be given tax incentives when the government begins to enforce the newly amended investment promotion law.

Laos has slipped two places in the annual ranking of countries for ease of doing business, according to the *Doing Business* report published by the International Finance Corporation (IFC) and World Bank. The report places Laos at 165 out of 183 economies, and says that despite the proliferation of banks in the country, Laos remains one of the hardest places in the world to access credit for business purposes.⁹

ECONOMIC INDICATORS

Economic growth

Economic growth will remain healthy, averaging 8% a year in 2012-13, following an estimated 8.5% in 2011. Despite weakness in the global economy, the expansion in the Lao economy will still be supported by reasonably strong growth in its main trading partners in the region, particularly China. High global prices for minerals have also created strong foreign interest in Laos. Extractive sector and the leading mining companies operating in the country are looking to maximise their profits by increasing production. The construction of the Laos-China railway should boost economic growth, but the extensive use of Chinese engineers and workers on the project means that Laos will benefit only from efficiency gains in the long term, when the time taken to transport goods will be reduced. Recent severe flooding has hit agricultural output growth, but improvements in productivity should be felt in 2012-13 (weather permitting) as large areas of farmland are leased to foreign investors. The outlook for services is partly dependent on the health of other economies in the region, given that the majority of tourists visiting Laos come from Southeast Asia.¹⁰

Inflation

Inflation quickened in the first half of 2011, from 6% in January to 9.5% in June. Although it slowed early in the second half, easing to 6.3% in August, food prices are again coming under pressure, driven in part by the damage to rice crops from recent flooding, both in Laos and neighbouring Thailand. The strength of the Thai baht and continued rapid growth in the money

⁹ Economic Intelligence Unit, Country Report, Laos, December 2011, UK.

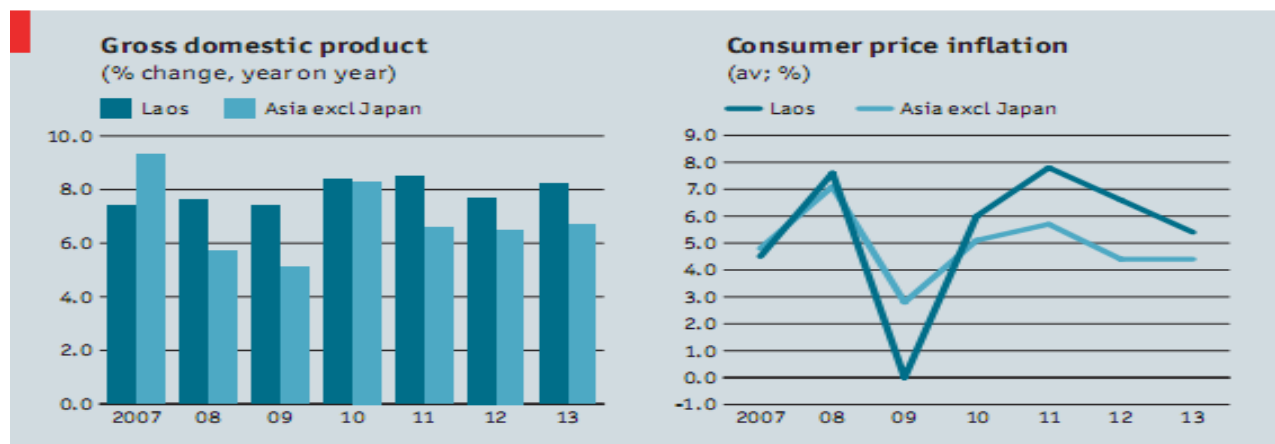
¹⁰ Economic Intelligence Unit, Country Report, Laos, December 2011, UK.



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supply, driven by strong inflows of foreign investment are expected to be the factors to have pushed up inflation in 2011, to an average of 7.8%. However, a fall in global food prices will cause local inflation to slow to an annual average rate of 6% in 2012-13.

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.



Exchange rates

In 2011 high global prices for Laos’s commodity exports and continued inflows of foreign investment supported the kip, which is estimated to have averaged K8,044:US\$1 for the year as a whole, up from K8,259:US\$1 in 2010. The currency is supposed to remain fairly stable in the next two years, supported by on-going foreign investment inflows. The current account is expected to be close to balance, and inflation will ease gradually. Given the importance of Thailand as a trading partner, the Lao authorities will be keen to prevent dramatic shifts in the value of the kip against the baht and will intervene in currency markets to keep the rate as stable as possible.

External sector

The merchandise trade deficit (on a balance-of-payments basis) narrowed to US\$314m in 2010, from US\$408m in 2009, with exports soaring by 66%, outpacing growth of 41% in the import bill. Continued growth in sales of electricity to Thailand (in the first nine months of 2011 Thailand’s imports from Laos soared by 66% year on year) as well as high commodity prices will have maintained the healthy pace of growth in export receipts in 2011. Export growth is expected to remain on a positive trend in 2012-13, but weaker commodity prices and sluggish global demand will slow the pace of expansion. Tourism revenue will also increase as Laos attracts greater numbers of foreign visitors. Imports will be supported by lower tariff barriers, in line with Laos’s commitments as part of the ASEAN-China Free-Trade Area (ACFTA) and the poor competitiveness of local products.¹¹

¹¹ Economic Intelligence Unit, Country Report, Laos, December 2011, UK.



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TRADE PERFORMANCE¹²

MERCHANDISE TRADE				
	<i>Value</i>		<i>Annual percentage change</i>	
	2010	2005-2010	2009	2010
Merchandise exports, f.o.b. (million US\$)	1 600	24	-5	55
Merchandise imports, c.i.f. (million US\$)	1 800	15	1	27
	<hr/>			2010
Share in world total exports	0.01			Share in world total imports
Breakdown in economy's total exports				Breakdown in economy's total imports
By main commodity group (ITS)				By main commodity group (ITS)
Agricultural products	...			Agricultural products
Fuels and mining products	...			Fuels and mining products
Manufactures	...			Manufactures
By main destination				By main origin
1. ...	...			1. ...
2. ...	...			2. ...
3. ...	...			3. ...
4. ...	...			4. ...
5. ...	...			5. ...
<hr/>				
COMMERCIAL SERVICES TRADE				
	<i>Value</i>		<i>Annual percentage change</i>	
	2009	2005-2009	2008	2009
Commercial services exports (million US\$)	368	19	41	2
Commercial services imports (million US\$)	114	41	111	44
	<hr/>			2009
Share in world total exports	0.01			Share in world total imports
Breakdown in economy's total exports				Breakdown in economy's total imports
By principal services item				By principal services item
Transportation	8.2			Transportation
Travel	72.7			Travel
Other commercial services	19.1			Other commercial services

According to the Ministry of Industry and Commerce, in the first nine months of fiscal year 2010/11 Laos had a merchandise trade deficit of US\$324m, with imports increasing to around US\$1.7bn and exports to around US\$1.3bn. The National Socio-Economic Development Plan for 2011-12 ambitiously targets a trade surplus for 2011/12, hoping for exports worth US\$1.6bn and imports of US\$1.4bn.

Trade remains dominated by regional relationships, with Laos's only exports to the EU and the US being garments and some agricultural products. Two-way trade between China and Laos exceeded US\$1bn in 2010, marking year-on-year growth of more than 40%.

¹² Laos Trade Profile, October 2011,
<http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=LA>.



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In October the governments of Vietnam and Laos agreed to revise the preferential tax agreement originally made between the two countries in 1998. The updated agreement aims to boost bilateral trade value to US\$2bn by 2015. Total bilateral trade during the first six months of 2011 reached about US\$350m, up by 65% year on year.

REGIONAL TRADE AGREEMENTS

In its capacity of member of the Association of Southeast Nations (ASEAN), Lao P.D.R. is part of the trade agreements with China, Japan, Australia and New Zealand.

Laos hopes to join the WTO within one year

The government is expected to make progress on reforming Laos's foreign trade regime, with the primary objective of enabling the country to become a member of the World Trade Organisation (WTO). Laos's achievements were noted at a meeting in September 2010, when the WTO praised its progress in a number of reform areas, including tax, trade and intellectual property.

In November the foreign minister, called on the National Committee for International Economic Integration to speed up legislative amendments in the hope that Laos will gain WTO membership before the Asia-Europe Meeting to be held in Vientiane in November 2012. Laos has undertaken the required reforms in some areas over the past few years and has also concluded relevant bilateral trade agreements with Australia, Canada, Taiwan, South Korea, China and Japan. Further negotiations with the US, EU and Ukraine are on-going as part of the membership process. However, there has been no formal indication of when Laos will be allowed to join the WTO.

In line with its goal of becoming a WTO member, the government has abolished its policy of trying to limit the merchandise trade deficit to a maximum of 5% of GDP and has decided to leave trade to market mechanisms. There are now therefore no plans to limit imports despite the wide trade deficit.

However, in September the Ministry of Finance announced that it would continue to set fixed import tariffs on some commodities until 2013, despite calls from international companies to abolish the trade barriers. From 2013 customs duties will be based on the actual price of most imported goods as Laos looks to join the WTO. Fixed levies will remain on certain commodities, in particular on fuel. Fuel tariffs account for more than 30% of total revenue collected from imports.¹³

¹³ Economic Intelligence Unit, Country Report, Laos, December 2011, UK.



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OUTLOOK/FORECAST

There is little likelihood that the ruling Lao People's Revolutionary Party (LPRP) will face a serious challenge to its authority in the next two years. Continued rapid economic growth and the extensive security apparatus will keep the LPRP's position secure, despite the risks posed by an increasing gap between rural and urban incomes and the unpopularity of the government's practice of leasing land to foreign companies. Real GDP growth will remain strong in 2012-13, at an average of 8% a year. A fall in global food prices will cause local inflation to slow to an annual average of 6% in 2012-13.

Following one of the heaviest wet seasons in living memory, flooding in Laos and neighboring countries is threatening to stall economic growth in the region. Coping with the situation has dominated the government's agenda for much of the past quarter. Hydropower dams have been blamed for contributing to the flooding, after operators were forced to release water from full reservoirs, notably the Nam Ngum reservoir in Vientiane province. This is worrying for the government, as hydropower development is a central part of economic planning, a policy that carries some political risk both domestically and on a regional scale.

Efforts to promote entrepreneurship as the basis for economic growth are moving forward. At the end of September the government injected an initial K16bn (US\$2m) into a new small and medium-sized enterprise (SME) development fund. A symbol of economic progress emerged in late July, when the World Bank raised Laos's ranking from a low-income economy to a lower-middle income economy.¹⁴

Forecast summary

(% unless otherwise indicated)

	2010 ^a	2011 ^b	2012 ^c	2013 ^c
Real GDP growth	8.4	8.5	7.7	8.2
Gross agricultural production growth	3.0	3.0	3.0	3.0
Consumer price inflation (av)	6.0	7.8	6.6	5.4
Lending interest rate	22.6	22.0	22.3	22.3
Central government balance (% of GDP)	-2.0	-2.2	-2.1	-1.9
Exports of goods fob (US\$ bn)	1.7	2.1	2.3	2.6
Imports of goods fob (US\$ bn)	-2.1	-2.4	-2.7	-3.1
Current-account balance (US\$ m)	29.3	62.2	-17.7	61.6
Current-account balance (% of GDP)	0.4	0.7	-0.2	0.5
Exchange rate K:US\$ (av)	8,259	8,044	8,024	8,048
Exchange rate K:¥100 (av)	9,412	10,152	10,696	10,202
Exchange rate K:€ (end-period)	10,792	10,720	10,121	9,916
Exchange rate K:SDR (end-period)	12,644	12,692	12,352	12,260

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

¹⁴ Economic Intelligence Unit, Country Report, Laos, December 2011, UK.



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About Us

The Economic & Trade Mission at the Embassy of Israel in Vietnam aims to enhance the business relations between the two countries by arranging a wide range of activities through which mutual trust and cooperation can be achieved.

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