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Trade Liberalization, Economic Reform and Poverty Reduction in Lao PDR

George Fane

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ABSTRACT

Since 1986 Lao PDR has greatly reduced the barriers to international trade and the government's direct controls over the economy. Aggregate growth during this reform period has been quite rapid. Although the benefits of growth have gone disproportionately to the non-poor and inequality has increased, poverty incidence is nevertheless estimated to have fallen from about 45% in 1992–93 to 30% in 2002–03. After surveying these developments, this paper discusses the policies that the government is currently proposing as ways to ensure that the benefits of further opening of the economy are more equally shared.

KEY WORDS:

Laos | poverty | trade liberalization

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Notes

∗Per capita real consumption is measured in LAK per month, at the average prices in urban areas in the period March 1997 to February 1998.

∗∗Severity of poverty is the P2 measure of Foster et al. (1984). See Note 1.

1. The headcount ratio is the proportion of the population below the poverty line; the poverty gap is the headcount ratio multiplied by the proportionate amount by which the mean real private consumption of poor people is below the poverty line. Equivalently, it is the ratio of the aggregate amount by which the real private consumption of all poor people is below the poverty line to the product of the population and the poverty line. The severity of poverty is the headcount ratio multiplied by the mean, for all poor people, of the squared proportionate shortfall of real private consumption below the poverty line. The headcount ratio, the poverty gap and the severity of poverty are, respectively, the P0, P1 and P2 indices of Foster et al. (1984).

2. Since 1999, the World Bank and IMF have based their assistance to low income countries on ‘Poverty Reduction Strategy Papers’ (PRSPs). The Lao government prepared an Interim PRSP for the World Bank and IMF in March 2001; see Government of Lao PDR (2001). As this document was revised its name was changed, first to National Poverty Eradication Program and then to NGPES. The final version is Government of Lao PDR (2003).

3. On the relationship between openness and growth see: Edwards (1993, 1998), Dollar (1992), World Bank (1993), Harrison (1996) and Sachs & Warner (1995).

4. Steering Committee for the Agricultural Census (2000), Tables 37 and 38.

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