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Original Articles

Tiny, Poor, Land-locked, Indebted, but Growing: Lessons for Late Reforming Transition Economies from Laos

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Abstract

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growth and the beginnings of a relatively smooth transition from plan to market. This

examination of the Lao reform programme and the subsequent outcomes suggests that, contrary to some of the prevailing pessimism, late-comers can engage with the international economy, providing their reforms are reasonably effective and credible. Neighbourhood effects have obviously been supportive in the Lao case, but their importance should not be overstated.

Notes

We are most grateful to the editor and two referees for comments on an earlier draft. We also thank Malcolm Bosworth, George Fane, Jay Menon and Peter Warr for helpful comments and discussions, and several fieldwork respondents in Laos for much local insight. The opinions are those of the authors alone.

¹ The most comprehensive English-language history of Laos is provided by Stuart-Fox ([1997](#)).

² Over the period 1962–75, more than two million tons of ordnance was dropped on the country, of which an estimated one-third did not detonate. Nine out of the country's

17 provinces reported injuries or deaths. The total number of injuries and deaths related

³ It should be noted that the border between Laos and Thailand, with the

⁴ There is a growing body of literature on the impact of the Vietnam War on the independence of Laos, which provide

detail on the first decade of the war. For updates.

⁵ Among the countries in the region, Laos has the lowest GDP per capita and the lowest HDI rankings, and Burma (132), but

⁶ Note that these figures exclude the extensive unofficial border trade, mainly with Thailand.

⁷ Commercial debt constitutes just 6% of total public debt. One historical curiosum is that most of the 20% of public debt that is bilateral, i.e. owed to other governments, is with the Russian Federation, and was mainly contracted in the 1980s. The figure is thought to be vastly inflated by conversion at the unrealistic official exchange rate that prevailed under the USSR. It is thought unlikely that it will ever be repaid.

⁸ The results for the fourth round are expected shortly.

⁹ See also the analysis by Rigg ([2005](#)) of poverty and living conditions in nine villages located in three of the most prosperous provinces during 2001 and 2002.

¹⁰ See Menon & Warr ([2008](#)) on the link between the provision of transport infrastructure and poverty reduction in Laos.

¹¹ More than 1600 firms enjoy generous fiscal incentives under the investment laws. Moreover, these incentives appear to be tailor-made for particular firms and non-transparent in their allocation.

¹² For example, in June 1997, with the onset of the Asian financial crisis, the central bank attempted to use the mediating role of the exchange rate. During 1997–98, the bank tried to use the exchange rate as a tool to reduce inflation, though Laos experienced a sharp increase in inflation in 1997–98.

¹³ Menon and Warr (2008) discuss the role of the exchange rate in policy options.

¹⁴ The figure is from Menon and Warr (2007).

¹⁵ The figure is from Menon and Warr (2007). The figure shows that the relative price of non-tradable goods has increased significantly since 1997. The country's major trading partners are Thailand and Vietnam.

¹⁶ An alternative explanation for the increase in the price of non-tradable goods is that the construction sector has expanded rapidly. The increase in the price of non-tradable goods can be explained by the fact that the price of non-tradable goods are rising faster than those of tradable goods. The increase was substantial in the

1990s but modest thereafter. However, these data, not shown here, are at best indicative owing to doubts about the quality of the non-tradable price data. Menon ([2008](#)) also shows two real exchange rate series, confirming a modest appreciation since 2000. See also Warr ([2006](#)), who provides a very detailed examination of the potential ‘Dutch Disease’ effects of a subset of the hydropower investments, through the Nam Theun 2 project.

¹⁷ It is estimated that informal trade with Thailand constitutes an additional 30% of the officially reported figure, in addition to significant informal trade with China and Vietnam. These figures are unlikely to be affected by either WTO accession or implementation of AFTA. There are also substantial (illegal) subnational barriers to trade, run by local customs and military offices.

¹⁸ The system also introduces a cascading tariff structure whereby the highest rates apply to processed goods and the lowest rates to raw materials, resulting in very high levels of effective protection, even with a 40% tariff ceiling.

¹⁹ Until the reform, all producers/importers were required to produce an import plan each year for approval by MOIC, whether or not the products were on the controlled or prohibited list. Items imported were deducted against the overall plan at the customs border post. This system was a legacy of the old planned economy, and also of the

system of export-orientation. Inputs for export-oriented activities in these costs because of the subsidies associated with the system.

²⁰ Specific rules of origin requirements for imports and exports, rules of origin requirements for migration and quality control for imports and exports, and a provision for licensing of imports and exports.

²¹ For example, the authors in 2007 reported that the cost of shipping goods from Bangkok to Jakarta, and at a cost of 20% of the cost of shipping goods from the cost of shipping goods from Indonesia's garment industry, shipping through the Jakarta port. Note, however, that

trans-border shipment of goods from Thailand through Laos to Vietnam and back is virtually impossible, as pointed out in a recent, unpublished report by the freight company TNT.

²² For example, fieldwork revealed that pre-clearance is required at the entry point and original copies must be sent to the customs post at the other border station, involving a 2-day processing period.

²³ For further details, see www.doingbusiness.org

²⁴ According to the survey, Laos ranked 159 out of 175 countries in terms of ease of doing business. It ranks a good deal better in terms of starting a business (number 73), employing workers (number 71) and paying taxes (number 36). However, it is ranked among the lowest in the world in terms of getting credit (number 173), protecting investors (number 170) and trading across borders (number 161). It also ranks very low in dealing with licences, registering property, enforcing contracts and closing a business.

²⁵ These are Banque Commercial Exterior Lao (BCEL), Lao Development Bank (LDB) and Agriculture Promotion Bank (APB).

²⁶ The most frequently used collateral by SMEs in developing countries is land, but land ownership is often informal. In Laos, land is often used as collateral, but it is often chewed it as a form of collateral.

²⁷ The country's trade policy is based on the principle of reciprocity. Reductions in trade barriers are a key objective of the trade policy. The value of exports, however, is not a primary concern.

²⁸ Interest rates are high, and the financial sector is not well developed. The interest rate is high, and the financial sector is not well developed.



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