

Instantaneous Prosperity: the turning point for Lao's economy after joining the WTO



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The economic growth rate of Laos fluctuated narrowly from 2002 to 2011 with a growth rate of GDP running between 6.2% and 8.7%. During the same period, only three countries maintained such steady economic growth rate in the world: one is Laos, the others are Indonesia and Bangladesh in Asia. Economic growth of Asian developing countries is smoother and more rapid than the G7, which represents more mature economies.

Numbers tell the truth

Compared with other ASEAN member countries, Laos has trudged a tougher road transitioning from a natural and semi-natural economy to the commodity economy. The good news is that after 25 years' hard work of 6 million Laotians, Laos' national economy has made great progress. Its national economy grew at 7% per year from 1991 to 1996. After surviving the Asian financial crisis the Lao economy bounced back: annual growth rate from 2001 to 2006 was at 6.8% and expanded to 7.9% from 2006 to 2010. Meanwhile, its GNP per capita increased year by year receiving USD1030 in 2009.

Moreover, in the first half of the fiscal year 2012, Laos' GDP grew at 8% with GDP per capita reaching USD1355. Agroforestry increased by 2.7%, contributing 26.7% to the GDP; industry grew by 13.5%, occupying 28% of the GDP; services rose 8.1%, taking up 39.2% of the GDP. The sustained economic growth mainly owns to the Lao government's effort to improve the investment climate and attract more foreign investment and the recovery of the household consumption.

Break out by policy reform

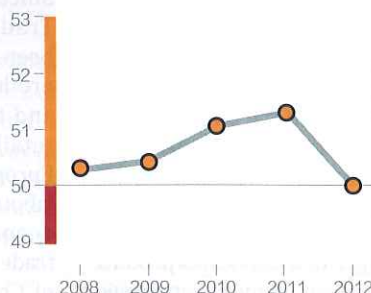
During its opening up and economic restructuring, Laos faces the reality of being a less developed country, and strives to leap ahead: learning from the

2012 INDEX OF ECONOMIC FREEDOM

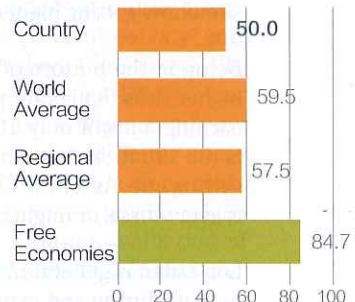
LAOS

■ 0-49.9 Oppressed ■ 50-59.9 Mostly Unfree ■ 60-69.9 Moderately Free ■ 70-79.9 Mostly Free ■ 80-100 Free

Country Score Over Time



2012 Score Comparison



Sources: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, 2012 Index of Economic Freedom (Washington, D.C: The Heritage Foundation and Dow Jones & Company, Inc., 2012), at www.heritage.org/index

successful experience of the others while drawing up and implementing economic development strategies based on its own characteristics. One of those strategies is to attract foreign investment. Since April 1994, Lao government has amended its foreign investment law, adding many preferential policies, for instance, promising non-interference in foreign-funded companies and allowing them to remit their profits, enabling foreign businessmen to set up businesses in either sole proprietorship or in partnership, and exempting taxes from those foreign companies for the first five years.

Secondly is to focus on the construction of special economic zones. Lao government has approved three economic special zones, two economic prefecture projects as of 2003. Currently there are 14 of that kind of projects waiting approval.

Thirdly is to fully carry out trade strategies involving foreign trade, production and import-export administration, transit trade services, market development and commodity management, talent development and public administration.

Fourthly is to strengthen regional economic cooperation. Under the guideline of "basing on ASEAN, integrating into Asia", Laos attaches great importance to develop cooperation with ASEAN and Asia region in recent years.

Fifthly, actively promote green industries. Tourism grows fastest in the country. The average annual growth rate of foreign tourists runs at 25% as of 2000 while 2.95 million foreign tourists have come to Laos in 2011.

Aligning with global economy

The World Trade Organization (WTO) recently offered the 158th membership to Laos ending the 15-year long effort by the country. Laos' chief negotiator, Industry and Commerce Minister Nam Viyaketh said, "We have amended relevant laws and regulations to smooth business activities in Laos and to lower production costs that enhance our international competitiveness. Our accession to membership status of the organization will help investors gain confidence in Laos, and realise our robust legal system, favourable investment climate. Moreover, it will lead Laos better integrate into the world economy."

Analysts say that Laos will benefit from its WTO membership for a wider and deeper involvement into the process of economic globalization. Meanwhile it will also help Laos attract foreign investment and boost foreign trade, push forward its reform and opening up, and speed up economic and social development. Additionally, Laos' entry into the WTO

will not only breathe new life to regional and global economy, but also contribute to the completion of ASEAN economic integration.

Trade hub between ASEAN and China

Most media in Southeast Asia believe that Laos, a country lying at the edge of ASEAN and bordering on China, will soon become a dynamic trade hub in this region. Laos' accession to the WTO also means that all ASEAN member countries have become members of the WTO, which help drive the process of realizing ASEAN economic community by 2015. Experts say that Laos' entry will align its rules and laws with international standard, and strengthen its economic and trade ties with Thailand and other ASEAN member countries. The offered membership will also help Laos play a bigger role in regional affairs.

Laos, Myanmar, Cambodia and Vietnam are less developed in ASEAN that share some economic commons such as lower labour costs in the favour of garment, home appliance and other manufacturing sectors. Recently, the six more developed ASEAN member countries start to shift their investment into the four countries, which will benefit industrial restructuring inside ASEAN, enhance and increase ASEAN's role in global industry value chain.

Investment opportunities

Compared to its neighbours, Laos still enjoys many advantages such as stable political environment, government policy packages and low criminal rate. It also has tremendous riches in water and mineral, vast expanse of land, low labour costs and sufficient power and water supply serving for manufacturing and processing industries. Though there are many other problems for Lao investment climate, Lao government has paid more attention to improve it.

To experts from the International Monetary Fund (IMF), Laos stands in the top 10 fastest growing economies. It maintains a growth rate around 8% to 9% in recent years, and shows its ability to leap ahead. Laos is rich in natural resources such as forest, water and mineral, its accession to the WTO will help it draw more attention to the sustainable development of energy and environment. Moreover, younger labour force is another big advantage of Laos, but more effort should be made to improve the quality of its labour force.

In addition to resources, investment climate in Laos has been greatly improved. As the reform is deepening and the opening up expanding, Laos is braced for more investment opportunities, especially upon the completion of the CAFTA. 