

Balancing Economic Growth and Human Development

Increasing international trade is affecting the Lao economy, employment of Lao workers, role of Lao women, education needs of Lao children, consumption patterns of Lao families, even Lao culture. The impacts will increase in the future. The third Lao National Human Development Report highlights the complex relationships between trade and human development, and while international trade is an important factor to increase economic growth and remains necessary for overall human development, the linkages between the three are neither automatic, nor guaranteed.

Exports with high potential for Human Development:

Manufactured exports, handicrafts, tourism, agricultural exports and labour exports are the most labour-intensive; hence favourable to employment, backward linkages, poverty reduction and other improvements in human development. Agriculture is the most important sector, employing most people in the export trade and having the highest potential to enhance human development as trade in agricultural commodities increases.

Main Challenges

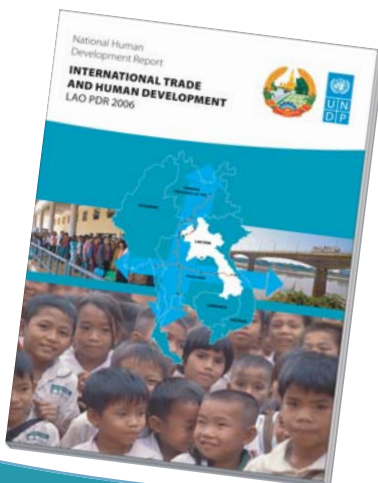
- o Lack of working capital
- o Inadequate human resources and skilled labour
- o Insufficient supporting industries
- o Poor market information
- o Absence of innovative design and marketing
- o High transport costs
- o Weak state banking system

Exports with low potential for Human Development:

Exports of products like minerals, timber, electricity and transit trade deploy much less labour and often pose threats to the environment. Nevertheless, these exports contribute to the government budget substantially. This revenue could be used for enhancing human development and reducing other impediments to trade.

Main Challenges

- o Environmental degradation
- o Downstream effects
- o Deforestation and erosion
- o Destruction of watersheds
- o Loss of habitat and NTFPs
- o Silting of rivers
- o Lower quality of life in resettlement villages
- o Loss of livelihoods of villagers
- o Little value addition
- o Reduced rainfall and tourism



Policy Recommendations:

Exports of minerals and electricity will increase considerably. The more labour-intensive exports might lose their relative share, but could still grow with the right policies and support. Market-oriented trade and equitable economic growth are sustainable and successful if accompanied by well-target public policies and appropriate and pro-poor governance reforms in their focus and outreach.

NHDR 2006 gives clear suggestions in order to increase the positive benefits of international trade and reduce the negative impacts. The rationale behind these suggestions is lead by the costs (expenditures) that would be required to implement the recommendations and the required level of government action:

DO LESS - Some suggestions would require simplifications of procedures and fewer interventions. The suggested changes would **cost little** to the government, and some might even result in an increase in government revenues because of increased economic activity:

- o Scrap export permits or (provincial) export taxes on agricultural exports including live animal exports
- o Do not levy profit taxes on small-holder exports of live animals
- o Do not use import forecasts or issue import quotas
- o Make livestock exports free from profit taxes
- o Do not impose fines on returning migrants or their parents
- o Do not prohibit, or impose special licenses, for import of improved agricultural inputs (e.g. breeding animals, hybrid seeds, fertilizer) as these make Lao agriculture less competitive internationally

Sector, Activity or Company	Investment/Single Job Creation (US\$)	Main Source of Investment
4 Hydro Projects	142,400	Government borrowing
Sepon Mine	113,000	Company
Tin Mine - ROK/JV	19,400	Company
Food Processing	7,134	Companies
Wood Products	4,134	Companies
Garments	3,344	Companies
Migrant to Thailand	<100	Migrants
Handicraft Weaver	<30	Retail Shop/Weaver
Contract Farmer	<20	Food processors
Farmer	<20	Farmer
NTFPs Collector	0	Gatherer efforts

Table 1: Comparison of investment needed to create one Export-job

DO NOTHING - Some of the existing patterns and practices (including informal trade) that contribute to increasing human development, are best left alone at the moment and would **cost nothing** to the government:

- o Leave informal patterns of Cross Border Trade alone until more formal patterns can replicate all the benefits of the "democratic access" to trading opportunities
- o Leave remittances alone for the time being
- o Remittances should be given some of the same privileges as FDI

DO MORE - In some aspects more actions are needed, but at **little or no cost** to the government budget:

- o Certify the skills of Lao workers so that more could be hired for dams, mines and other export construction projects
- o Require that all new mining and dam projects pay for initial electricity connections
- o Cross subsidize the cost of electricity so that the costs to rural households are lowered
- o Permit higher legal waivers of duties and licenses on both imports and exports in "small-scale" Cross Border Trade

- o Relax FDI restrictions on new firms for production and export of manufactured wood products
- o Establish international standards and promote best practices for resettlement of families by dam and mining projects

Some policy suggestions would require *more action combined with increased expenditures* from the government budget:

- o Investment in education and training - this is the top priority
- o Replace the turnover tax with a VAT
- o Improve the Customs Service, with less focus on revenue generation and more focus on rapidly clearing merchandise
- o Increase support for the Ministry of Industry and Commerce to help improve market information among exporters
- o Increase support for the Ministry of Agriculture and Forestry to help deal with problems of missing markets in agriculture and information among farmers, to improve veterinary medicine, to help agricultural exports meet SPS standards, and "organic" certification requirements in export markets
- o Increase support in "Community Forestry"
- o Invest to improve the quality and diversity of Lao TV programming

International Trade	Potential HD Benefits	Potential HD Threats	Potential Constraints
Manufactured exports, garments, wood products, processed foods, and handicrafts	Employment, particularly of women, remittances sent back to rural areas	Exploitation of workers, loss of market and of employment to other countries' exports	Low education and productivity, lack of credit for Lao firms to upgrade, limits on inputs and linkages, high costs to ports
International tourism	Employment, backward linkages and multiplier effects, increased sales of handicrafts	Possible negative impacts on the environment, on Lao culture and spread of HIV/AIDS	Limited marketing and promotion, visa requirements, internal transport, shortage of skilled workers
Agricultural exports	Higher rural incomes, opportunities and choices	Specialization may hurt food security	Limited marketed production, low productivity
Labour exports to Thailand	Income and remittances, new skills and self-confidence	Trafficking and exploitation of migrants, particularly young women	Migration for work in Thailand without a passport and exit visa is illegal and subject to fines
Informal cross-border trade	Employment and income opportunities for many people in border districts, access to inexpensive consumer goods	Loss of government revenue, informal channels used for drugs and other trafficking	Inconsistent customs enforcement and waivers, prevalence of informal payments to border officials, companies favoured over individual traders
Minerals exports	Increased government revenue, improved balance of payments, employment in small-scale mining, resettled households and adjacent communities better off	Environmental damage, promises to resettled households and adjacent communities not kept, commodity price cycles	Transport costs and other infrastructure, limited bargaining power
Timber exports	Some employment	Loss of habitat and NTFPs, erosion, Lao timber helping export industry in neighbouring countries	Transport costs
Electricity exports	Rural electrification (ten percent set aside policy) resettled households and adjacent communities better off, increased government revenue	Downstream and other environmental effects, promises to resettled households and adjacent communities not kept	Limiting bargaining power, competition from hydro-power and other energy exports from Myanmar
Transit trade	Increased government revenue	Little value-added, risk of HIV/AIDS and increased trafficking	Limited pricing power on some routes
Imports of consumers and intermediate goods, ICT, mobile phones, and Thai TV programs	Lower prices for households, lower burdens on women, employment in trading and retail sales, better access to information	Reduced employment if Lao producers cannot compete, threats to Lao language and culture	Some tariffs and NTBs, but decreasing rapidly with implementation of AFTA agreements

Table 2: Potential Relationships between Trade and Human Development

