Lao PDR perspectives and policies towards GMS

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1. LAOS
Located at the heart of the GMS
Area: 236,800 km²
Population density: 24/km²
GDP per capita: 645 USD

2. INTERNATIONAL COOPERATION

The forms of cooperation with other countries are multiple, and can be seen at various geographical levels, from the sub-state level passing through state, sub-regional and regional, to global. They could be bilateral or multilateral.

The cooperation at the sub-state level are (1) the cooperation or twinning of the border provinces, (2) the 3 and 4 parties cooperation between provinces of Laos, of Vietnam, of Cambodia, of Thailand, of Myanmar, and of China: Golden triangle, golden square, etc.

Taking ASEAN as a region, there is sub-regional cooperation such as GMS and AMECS. The latter was launched by Thailand in April 2003 and consists of Cambodia, Laos, Myanmar, Vietnam and Thailand, while GMS cooperation covers AMECS countries plus China (Yunnan and Guangxi provinces)
3. ORIGIN OF THE GMS

The concept of the Greater Mekong Sub-region (GMS) came into life in 1957 when the Mekong Committee was established. Unfortunately, divided by political conflicts, internally and externally, only little cooperation under the Committee had been achieved over the following three decades.

The Committee has regained its importance since 1992 when ADB initiated the first regional cooperation program aiming at promoting development through closer economic and social linkages among the members and to implement sub-regional projects in transport, energy, telecommunications, environment, human resource development, tourism, trade, private sector investment, and agriculture. The Lao PDR has been an active participant in the GMS Program of Economic Cooperation since the Program’s inception in 1992.

4. RATIONALES FOR JOINING GMS

There could be several arguments to support the Laotian decision to join the GMS cooperation with a strong commitment:
Firstly, taking into account its geographical location, Laos has adopted the “land-linked” strategy; and, in order to realize this strategy, the integration in the GMS community is indispensable. Indeed, “Laos is “Sandwiched” between larger economies like Thailand, Vietnam and China. Being a landlocked country, it is highly dependent on its neighbors. But at the same time, being coterminous to China, it can be seen as a bridge between China and the ASEAN-6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), and may function as a geographical link between Southeast Asia and the huge northeastern neighbor” (Lindberg 2006).

Secondly, Laos considers its initiative of going international as an active and positive way to face the process of regionalization and globalization, and therefore recognizes that regional cooperation and integration are integral to its development.

Thirdly, the GMS countries (Laos included) have the Mekong River in common, and any environmental issue of one member country has an impact on all the member countries. This situation needs a joint effort of all countries to manage it.

Fourthly, Laos can see the sub-regionalization (GMS) as a step of the regionalization (ASEAN), during which Laos could gradually learn how to move in the context of growing globalization.
5. The Land-Linked Strategy Underway

Being a landlocked country is one of the major obstacles that Laos faces, and this difficult situation can only be eased by proper infrastructure and by good relations with neighboring countries that can facilitate the transfer of goods to and from the country. Since 2001, the Lao government embarked on turning the geographical “constraint” into an “opportunity” by launching the slogan, as part of its development vision: “transforming the landlocked to the land-linked country”. However, as Lindberg (2006) noted, this vision maybe difficult to realize as many costs are involved for maintenance, and there is also the risk of ending up as a “country of transit”, rather than becoming a production base. Indeed, at the present time,
China, Vietnam and Thailand could better exploit the new opportunity than Laos does, because these countries have more important volume and variety of goods to export and to exchange between them. Note that by road, going from one country to the other, passing through Laos, by the East West Economic Corridor (linking Vietnam to Thailand) or Northern Economic Corridor (linking China to Thailand) needs less than 1 day with new roads and Mekong bridges.

Actually, the land-linked strategic vision is incorporated in the National Growth and Poverty Eradication Strategy, and is strongly pushed forwards by the Lao government, in particular under the framework of the regional and sub-regional cooperation (ASEAN, GMS and ACMECS). When Vientiane Capital of the Lao P.D.R. hosted the third GMS Summit, in March 2008, the theme chosen for the meeting was “Enhancing Competitiveness through Greater Connectivity”, and in his opening speech, the Lao Prime Minister, His Excellency Bouasone Bouphavanh, solemnly called on the GMS nations to make more efforts in infrastructure development so as to enhance competitiveness of the sub-region. He asked GMS countries to focus on the construction and rehabilitation of the remaining sections of GMS corridors while expanding the corridor network through multimodal linkages. He called on GMS countries to join hands in improving the infrastructure connectivity by establishing a mechanism and regulations that will facilitate goods and public transport among the countries. The similar proposal could be heard from the previous Prime Minister of the Lao PDR, His Excellency Boungnang Vorachith, at the second ACMECS summit in Bangkok, in November 2005: “there is a need for us to pay attention to creating a favorable environment for the realization of the ACMECS cooperation projects including bilateral and trilateral cooperation projects. Here, we have to jointly remove all obstacles and barriers to trade, tax and customs, transportation, term of payment and service regulations in order to ensure the smooth and speedy execution of cooperation programs as well as to build up our capacity and competitiveness in the market”. Dr. Thongloun Sisoulith, Vice Prime Minister, Minister of Foreign Affairs of the Lao PDR, at the ACMECS Ministerial Meeting in May 04, 2007, in Mandalay of Myanmar, told his counterparts especially Thailand, to continue to pay attention to transportation infrastructure: “⋯ I truly hope that we (mainly addressing to his Thai counterpart) will contin-
ue to closely work together in the development of the infrastructure in our region, especially in the construction of the third Mekong bridge linking Khammouane province of Laos and Nakhonephanom of Thailand and the bridge which links Huayxay and Chiangkhong as well as the establishment of communication and transport linkages between the natural tourist destinations in our region namely Tonglesab, Khonephapheng, PoPa Mountain, Khao Yai and Ha Long Bay which remains an important task for cooperation in this sector as adopted by the Second ACMECS Summit.”

5. THE RESULTS OF GMS COOPERATION

The Joint Summit Declaration (Vientiane, March 2008) noted significant results of GMS economic cooperation since 1992, in these terms: “The economic and development cooperation program has accelerated, delivered concrete results, and contributed to the realization of the shared vision. The expansion of trade, investment, and tourism, and greater understanding among the peoples of the GMS, resulting from the improved and expanded transportation infrastructure, has been substantial. The significant reduction in the incidence of poverty in the GMS since 1992 is a remarkable outcome.

Regarding the transportation infrastructure, there is an important improvement and expansion which is illustrated by the near completion of the East-West Corridor, North-South Corridor, and the Southern Corridor. Note that these corridors pass through parts of Laos.

There are concrete efforts to reduce non physical barriers to the cross-border movement of people and goods through the implementation of the landmark GMS Cross-Border Transport Agreement. This has contributed to reductions in cost and time of travel, increased cross-border trade and economic opportunities around border areas, and improved community contacts. Laos, Vietnam, and Thailand has implemented the GMS Cross-Border Transport Agreement at the Lao Bao (Vietnam) - Dansavanh (Laos), Mukdahan (Thailand) – Savannakhet (Laos), and Hekou - Lao Cai border crossing points. The single-window and single-stop customs inspection mechanism are implemented at Lao Bao (Viet Nam) – Dansavanh (Lao PDR) border check points since June 2005. In his opening speech at
the Third GMS Summit in Vientiane, the Lao Prime Minister His Excellency Bouasone Boupnhavanh called on GMS nations to make more efforts in infrastructure development so as to enhance competitiveness of the sub-region. He asked GMS countries to focus on the construction and rehabilitation of the remaining sections of GMS corridors while expanding the corridor network through multimodal linkages. He called on GMS countries to join hands in improving the infrastructure connectivity by establishing a mechanism and regulations that will facilitate goods and public transport among the countries.

Beside the transportation infrastructure, the Summit has observed important progress in other fields of cooperation as well: energy, telecommunications, tourism, agriculture, environment preservation, human resource development, and in trade and investment promotion.

- The project for building new power generation and transmission facilities and broadening cooperation to other energy sub-sectors are in the process, and the foundations for future sub-regional power trade and energy market is laid down. Rich country in hydropower, Laos will be able to export hydroelectricity in better conditions.
- In telecommunications, the sub-regional telecommunications backbone has been put in place, and the development of the GMS Information Superhighway Network is in advanced stages.
- In tourism, there is a move forward on a concrete action plan for the next five years covering the promotion of the sub-region as a single tourism destination and tourism-related infrastructure development.
- In agriculture, a program that will further promote cross-border agricultural trade, ensure food safety, and improve farmers’ livelihoods is being implemented.
- In human resource development, the programs for the prevention and control of communicable diseases, and the Phnom Penh Plan that provides learning programs in development management for the government officials are implemented successfully.
In the environment sector, the implementation of a comprehensive program to address the sub-region’s key environmental challenges, including the establishment of pilot biodiversity conservation corridors is in full gear.

In the trade and investment sectors, there is progress in creating a conducive, favorable, and competitive environment through the implementation of the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI). These gains have laid a strong foundation for sustaining and deepening the cooperation in the coming years.

6. GAP BETWEEN CLMV AND SEAN-6

Considering the Per Capita GDP, when Laos became full member of ASEAN in 1997, two years after Vietnam, and two years before Cambodia, the average Per Capita GDP of the group CLMV was 276USD (with Myanmar: 100USD, Cambodia: 285USD, Laos: 357USD, and Vietnam: 361USD) and the average of the ASEAN-6 was 8,994USD, 33 times more important (with the Philippines: 1,170USD, Indonesia: 1,184USD, Thailand: 2,496USD, Malaysia: 4,623USD, Brunei: 17,225USD, and Singapore: 25,270USD). In 2007, ten years after, it becomes 23 times: the gap is getting narrower, but remains still important. Nevertheless, the evolution of the average GDP shows that the CLMV group has certainly got benefit from the membership of the ASEAN community.

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<td>17,225</td>
<td>13,085</td>
<td>14,514</td>
<td>18,477</td>
<td>16,830</td>
<td>17,146</td>
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<td>773</td>
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<td>910</td>
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<td>966</td>
<td>982</td>
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<td>1,154</td>
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<tr>
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<td>1,270</td>
<td>1,486</td>
<td>1,716</td>
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Sources: International Monetary Fund, World Economic Outlook Database, April 2007
Lao PDR perspectives and policies towards GMS (Nouansavanh)

Figure 4. Average gap of Per Capita GDP between ASEAN-6 and CLMV

<table>
<thead>
<tr>
<th>Years</th>
<th>ASEAN-6 or A6</th>
<th>CLMV or A4</th>
<th>Gap: A6/A4</th>
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<td>8,994</td>
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<td>2000</td>
<td>8,528</td>
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<td>2001</td>
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<td>2002</td>
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<tr>
<td>2003</td>
<td>8,557</td>
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<tr>
<td>2004</td>
<td>9,782</td>
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<td>2005</td>
<td>10,808</td>
<td>448</td>
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<td>2006</td>
<td>12,344</td>
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<tr>
<td>2007</td>
<td>13,060</td>
<td>559</td>
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7. Economic Corridors and Laos

According to ADB source, during the period 1992–2005, exports of the Lao PDR to the other five GMS countries grew by 16%, from $48 million to $314 million, accounting for almost half of total exports, which similarly grew by an average of 16%. During the same period, real GDP grew by 6.5%, on average, and its openness ratio (defined as the ratio of total trade to GDP) averaged almost 50%, indicating the growing importance of trade, including cross-border trade.

The joint publication by Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC) and World Bank (WB), entitled “Connecting East Asia: A New Framework for Infrastructure” (2005), noted that the participation of the Lao PDR in the GMS has enabled it to take advantage of its geographical location to pursue its development objectives through greater regional integration, and that the GMS investments in the Lao PDR promote inclusive development for large remote areas in landlocked Lao PDR. It cited, for example, the GMS Northern Economic Corridor Project (Boten-Houayxay), along the North-South Economic Corridor (Kunming-ChiangRai-Bangkok) in the Lao PDR, does not provide only the physical infrastructure for a trade and transit corridor, but also components that will benefit local communities along the road, such as community roads, small water and sanitation schemes, education and HIV/AIDS awareness programs, and local capacity building.
Under the GMS Transport Sector Strategy Study completed in May 2006, the Lao PDR is expected to benefit in terms of identifying additional priority projects that will improve its links with a more integrated, multimodal GMS transport network. The strategy will also help attract investments to critical transport infrastructure needed for completing major transport corridors, in the process of improving Lao PDR’s competitiveness through reduced travel time and transport costs. Actually, the Laotian portions of the East-West and North-South corridors are nearly complete, and this year, the railway line has crossed the Lao-Thai Friendship Bridge, and linked Thailand (Nongkhai) to Laos (Vientiane Capital). According to the National Railway Authority of the Ministry of Public Works and Transport, in addition to the railway line Vientiane-Nongkhai, the Lao PDR plans to construct a comprehensive railway system aiming at connecting the main cities of the country and to the neighboring countries.

However, Laos still gains few benefit from the new road network. When analyzing the EWEC, the Kenan Institute Asia has observed that at the present time, Laos is rather a transit country, because of the short distance between Thailand and Vietnam, or Thailand and China, the countries that have much more important economy. To remedy the situation the Institute provides a set of practical recommendations:

**For Lao Government**

- Warehouse locations need to be identified and incentives provided for warehouses and container
- Encourage establishment of joint venture logistics providers along the route to take advantage of fact that Lao trucks can go into both Thailand and Vietnam
- Encourage establishment of roadside services including gasoline stations and rest stops

**For tourism: Government should develop tourism by:**

- Providing incentives to build hotels
- Improving road condition with good signboards
- Improving tourism facilities – rest rooms, markets, hotels, tourist attractions
- Simplifying the visa on arrival service
• Providing money exchange services
• Marketing tourism more actively
• Focusing on sustainable tourism, eco-tourism
• Make sure that no unexploded bombs left near the tourists sites
• On site facilities; bus parking area, clean toilette, souvenir shops to generate income for covering the administrative cost and also provide tour guide, and restaurant or small vendors

For Savanh-Seno Special Economic Zone

• Infrastructure in the zone needs to be ready
• Incentives offered must be concrete and not undercut by local government taxes and restrictions
• Rules and regulations on crossing border should facilitate the transportation of goods
• Need to develop skilled labor
• Develop good marketing strategy to promote the zone
• Invite investment in duty free shops and department stores
• Warehouse and container yard should be built along the route since at Savanh–Seno area is the intersection between road number 9 and road number 13 from north to south but the exact area need to be identified in the next step by using center of gravity model by weighting transportation cost per ton, distance, and product weight (ton)
• Container yard also be a potential investment since the rule and regulations by 3 countries still need to change the trucks along the route.

In terms of conclusion, Laos has adopted the open door policy in 1986:
• 1986: Resolution of the 4th Congress of the Lao People Revolutionary Party: “the New Economic Mechanism” was adopted;
• 1991: First Constitution of the Lao PDR, and the country confirmed its strong willingness to establish a State of Law;
• 1992: GMS cooperation
• 1997: Member of ASEAN and expected to join AFTA in 2008.
• Etc.

Since, the country actively develops its international cooperation with other countries of the region and of the world, and knows a quite stable growth (except the year of Asian Crisis: 1998).
In the recent years, Lao economy performed well with the annual GDP growth of 6.1% in 2003, 6.4% in 2004, 7.1% in 2005, 7.6% in 2006 and 7.1% (estimated) in 2007. At the same time the annual inflation rate decreased 15.5% in 2003, 10.5% in 2004, 7.2% in 2005, 6.8% in 2006, and 4.0% (estimated) in 2007. These are indisputably benefits of the economic development from the cooperation with other countries, the GMS included.
Source: ADB
Source: NERI – 2002, adapted