



National Workshop on the Vulnerability Profile of Lao PDR and Building Resilience through Fostering Productive Capacities and Structural Economic Transformation

8-10 October 2019¹

Concept Note

1. Background

Over the past few years, UNCTAD's assistance to Lao PDR has focused on fostering productive capacities and structural economic transformation for sustainable graduation from the category of Least Developed Countries. This workshop builds on the outcome of previous activities of UNCTAD on the above-mentioned subject. There is growing understanding and consensus on the need to foster productive capacities and structural transformation for building the economic resilience of Lao PDR, in order to make the country's graduation sustainable, profound and impactful. Impressive economic growth, which is driven by mining and hydropower activities has been a key driver of Lao PDR's progress and socioeconomic gains over the last decade. These include improved economic growth, as well as progress in strengthening elements of the country's Human Assets Index (HAI), notably education and health.

As a result of improved socioeconomic conditions in the country, the Committee for Development Policy (CDP) found Lao PDR eligible for graduation from the LDC category for the first time in its 2018 triennial review. The review by the CDP indicates that Lao PDR has passed the thresholds for two graduation criteria: the GNI per capita and the Human Assets Index. While not yet meeting the threshold, Lao PDR has also managed to substantially reduce its Economic Vulnerability Index (EVI) to a level close to the threshold. If current progress is maintained, Lao PDR is likely to graduate from the LDC category in 2024 by meeting at least two of the three criteria, if not all of them.

¹ 10 October 2019 will be dedicated to a technical training for statisticians on computing the country-specific Productive Capacities Index (PCI) for Lao PDR by using the methodology developed by UNCTAD.

Following the mandate entrusted to it by the United Nations General Assembly, UNCTAD has prepared the Vulnerability Profile (VP) of Lao PDR, in consultation with the Ministry of Planning and Investment (MPI) and the Ministry of Foreign Affairs (MFA). The profile builds on the deliberations and conclusions of two national workshops – a technical workshop and a national policy workshop - held in Vientiane in 2018 and 2019, respectively. Both workshops were organized by UNCTAD, in collaboration with the Office of the United Nations Resident Coordinator (UNRC), the MFA and the MPI.

As required by the General Assembly, the VP of Lao will be one of the documents to be submitted to the CDP to support its deliberations on whether or not to recommend Lao PDR for graduation during its 2021 triennial review. The profile is expected to be an important input to the national process of developing the 9th Social and Economic Development Plan of Lao PDR, by identifying areas for action at the national, regional and international levels. UNCTAD has also developed the Productive Capacities Index (PCI), including for Lao PDR, to assist countries in their evidence-based policy making. The PCI will compare the performance of Lao PDR vis-à-vis other LDCs and landlocked developing countries, as well as neighboring countries. The PCI will be useful for highlighting the areas where Lao PDR has made progress, and where it lags. The construction of the PCI stresses the need for current and reliable data and statistics as important ingredients for policy formulation and implementation. Fostering productive capacities and structural economic transformation are critically important for inclusive and sustained economic growth. To that end, putting productive capacities at the center of domestic policies and strategies has become urgent, more so today than ever before. This requires, among other things, sound, up-to-date and internationally comparable data and statistics to inform policy-making processes. The PCI serves as a major monitoring and evaluation (M&E) tool to help countries track progress in building productive capacities. It also identifies critical areas for possible policy interventions. The PCI can also be very important in understanding the causal relationships between policy interventions and outcomes.

2. Objectives

The national workshop has two main objectives. The first is to review and enrich the draft of the VP of Lao PDR. The second is to discuss statistical and methodological issues for computing the PCI for Lao PDR, and train participants on how to best use available data for evidence-based policy making.

Organizationally, 8-9 October 2019 will be devoted to discussing the VP of Lao PDR, and the policies and strategies for reducing socioeconomic vulnerabilities, including fostering productive capacities and structural economic transformation. The third day of the workshop (10 October 2019) will focus on training selected statisticians from Lao PDR on the technical and methodological aspect of computing the PCI. The training will be held at the Lao Statistics Bureau.

The Vulnerability Profile of Lao PDR

The VP assesses the key binding constraints on the development of Lao PDR that expose the country to economic, natural, environmental, and other shocks. It starts by analyzing Lao PDR's path to graduation, and its progress in meeting the LDC criteria, acknowledging the remarkable socioeconomic achievements realized over the last two decades. It examines the components of the EVI, where Lao PDR has made progress, those where it still faces challenges, and identifies the main sources of vulnerability that explain Lao PDR's current EVI score. Furthermore, the Profile goes beyond the limited scope of the EVI criteria, and discusses additional sources of vulnerability that have not been identified in the LDC graduation indicators.

Mining and hydropower are the key drivers of GDP and export growth in Lao PDR, as well as of its progress towards the graduation thresholds. The growing dependence of the country on natural resources, if not well managed, can further expose the economy to various external economic shocks. This can be the main source of risk for the country, from which three intertwined types of vulnerabilities can be derived: environmental, social and economic. In addition, the continued presence of Unexploded Ordnance (UXO) that reduces access to agricultural land, hinders transport networks, and regularly causes serious accidents, thus increasing the costs of all development projects must be considered.

The VP found that Lao PDR's growth and socioeconomic progress are highly vulnerable to the trends in mining and electricity prices, weather conditions, and the rate of depletion of its natural resources. This vulnerability is exacerbated by rising macro-economic imbalances (high levels of external public debt, and fiscal and current account deficits) whose reduction depends on the growth of revenues from resource-based activities.

Furthermore, mining and hydropower activities have a high potential to generate negative environmental impacts and to threaten the livelihood of people living in rural areas (at present, nearly 80% of the total population). These activities, that are the most dynamic in the economy, are capital-intensive, with few linkages to the local economic sectors. They also have a low capacity to absorb employment, and make only a modest contribution to Government revenues. This explains the slow pace of poverty reduction and the relatively limited impact of strong economic growth on health and education where, despite the advances, significant deficiencies remain. The latter hinder the development of human capital and the labor force, thus affects the country's competitiveness.

The above description highlights the importance of building resilience to ensure sustained economic growth and ensure the sustainable development of Lao PDR. In this context, the VP analyzes the current situation in terms of productive capacities, economic diversification, the state of enterprise and private sector development, and national policies to mitigate and adapt to environmental shocks, which are all key elements for resilience building.

Past policies and strategies that enabled Lao PDR to meet the graduation thresholds may no longer be adequate to secure sustainable and inclusive development. A new generation of policies and strategies need to focus on fostering productive capacities, enhancing economic diversification, developing a good business environment, and mitigating and adapting to environmental shocks.

The UNCTAD PCI

In order to formulate and implement policies centered on fostering productive capacities and structural transformation, it is important to assess the levels of productive capacities and the degree of transformation occurring in a given economy. With this in mind, UNCTAD developed the PCI for several countries including Lao PDR. The Index, beyond assessing and measuring productive capacities, can also serve as a monitoring tool for policy interventions and outcomes. The CDP has also decided, recently, that the PCI should form an additional element in assessing countries' progress towards graduation thresholds. Therefore, new generation VPs, including for Lao PDR, will incorporate a brief section on the country's performance with respect to the PCI. The workshop will provide an opportunity to discuss Lao-specific productive capacities. As part of the workshop, there will be a dedicated training session for statisticians from Lao PDR on how to compute and update the PCI at the country level for use in the design of evidence-based policies and strategies. The training will also address data collection, organization and validation processes. It will be based on the methodology developed by UNCTAD. More specifically, the training is expected to help participants learn the latest data collection, organization, and validation processes, as well as aggregation systems and techniques.

3. Key questions to be addressed during the workshop and the training are as follows:

- Where does Lao PDR stand in terms of progress towards LDC graduation? Can the country achieve a three-pronged graduation?
- What are the main sources of socioeconomic vulnerabilities of Lao PDR and how can they be addressed?
- What is the state of productive capacities' development in Lao PDR and what policy measures are needed to accelerate building such capacities?
- How can data and statistics, as well as UNCTAD's PCI be used in evidence-based policymaking in Lao PDR for achieving inclusive and sustainable growth?