



**National Policy Workshop
on
Fostering Productive Capacities, Export Diversification and Structural
Economic Transformation: Policies and Strategies for Sustainable Graduation
of Lao PDR from the category of LDCs**

12-13 March 2019¹

Concept Note

Background

The continued vulnerability of Least Developed Countries (LDCs) such as Lao PDR is due, mainly, to weak productive capacities, lack of structural economic transformation and export diversification. As with many landlocked developing countries, Lao PDR also faces geographical challenges as well as high trade-transport costs, which undermine the export competitiveness of the country. To address these complex trade and development challenges, UNCTAD has been undertaking a series of policy-oriented activities in support of LDCs and Landlocked Developing Countries (LLDCs). Beyond its analytical work on the concept of productive capacities and structural transformation, UNCTAD has also developed a Productive Capacities Index (PCI), including for Lao PDR. These activities, together with the national study which UNCTAD recently commissioned for Lao PDR, point to the fact that the country still faces several challenges even as it prepares for graduation from the LDC category.

Building on the above substantive and technical work, in 2018, UNCTAD in collaboration with the Office of the United Nations Resident Coordinator (UNRC), the Ministry of Foreign Affairs (MFA) and the Ministry of Planning and Investment (MPI) organized a technical level workshop in Vientiane. The technical workshop served as pre-consultation for the Annual Roundtable, and its summary outcome fed into the Roundtable Consultations.

¹ 13 March 2019 will be dedicated to technical level workshop to discuss points and sources of vulnerabilities of Lao PDR as part of the work of UNCTAD on Vulnerability Profile of Lao PDR

The technical level workshop recognized the impressive socioeconomic performance registered by Lao PDR over the last two decades. The average economic growth of around 7 percent since the early 2000s has enabled significant progress in terms of poverty reduction and other socio-economic goals. In particular, Lao PDR has achieved 7 of the 8 Millennium Development Goals including Goal 1 on halving extreme poverty, with the poverty ratio falling from 39% in 1997 to 23% in 2012. Subsequent reviews of the socioeconomic conditions of Lao PDR also showed that, in 2018, the country satisfied two of the three criteria for graduation from the LDC category for the first time. If Lao PDR sustains its current levels of socio-economic performance and meets the graduation criteria for the second time in the 2021 review, it will be recommended for graduation from the LDC category irrespective of reducing its economic vulnerability index. Given the continuing growth of the economy, it is widely expected that Lao PDR will graduate from the LDC category in 2021 by meeting either two or all the three graduation criteria.

The 2018 technical workshop also noted that despite the significant progress achieved and the prospect of graduation, the country still faces significant challenges. Firstly, the pace of poverty reduction achieved – while impressive – has not kept pace with the fast economic growth achieved at the national level. Secondly, poverty rates remain highly uneven across the country. Similarly, the country still faces challenges in reducing malnutrition and maternal mortality and raising secondary school enrolment. The more significant challenge, however, will be to avoid being stuck in the low-income group of developing countries after graduation. While graduation from the LDC-category is an important milestone, it is not a guarantee of continued growth and sustainable development. Proactive policies are needed to support the development process beyond graduation. In particular, the technical workshop recognized that addressing these challenges will require progress in building productive capacities and fostering structural transformation and export diversification.

Drawing on a qualitative and quantitative assessment, participants at the technical workshop recognized that Lao PDR had achieved progress in building productive capacities, but that its performance still lagged behind in a number of areas, including structural transformation. Based on this analysis, technical experts identified a number of priority areas for trade and development policies in Lao PDR. These include:

- Mainstreaming the building of productive capacities in domestic policy formulation and implementation.
- Ensuring effective coordination among institutions and policies to prioritize the building of productive capacities in development policy.
- Re-launching bilateral and regional initiatives key trade partners to continue benefiting from market access preferences in key export sectors that may be affected by graduation for a transitional period.

- Improving trade logistics as logistics services in Lao PDR are comparatively expensive due to the imbalance of trade between Lao PDR and its neighbours, as well as high costs related to customs clearance.
- Improving the poor quality of road connections between urban and rural areas, as well as the low standard of national roads (in comparison to the regional neighbours).
- Enhancing productivity of the agricultural sector accounts for the bulk of employment in Lao PDR and plays an important role in rural poverty reduction and ensuring food security.
- Leveraging the potential of the private sector in supporting the country's development process.

(For more details on key recommendations, please see the summary outcome of the technical-level workshop)

Objectives

The main objectives of the policy-level workshop are to seek ways and means to address the above-mentioned recommendations and challenges and identify priority areas for action by the Government of Lao PDR and its development partners. The focus will be on policies and strategies as well as international support mechanisms to enable Lao PDR to foster productive capacities, export diversification and structural transformation with the aim of accelerating progress towards the graduation and ensuring the country's readiness for the post-graduation environment.

More specifically, the policy level workshop will

- Sensitize experts, policy advisors and senior officials on the economic progress achieved by Lao PDR and the drivers of its graduation, as well as the remaining economic challenges for Lao PDR;
- Discuss the challenges and opportunities related to graduation from the LDC category;
- Identify policies needed to accelerate momentum for graduation and prepare the ground for the post-graduation environment;
- Identify critical areas and map strategies for Lao PDR to reduce any possible negative impact from graduation from the LDC status, including the re-orientation of exports, harnessing of regional market opportunities, as well as the diversification and upgrading of export products;
- Deliberate on economic vulnerabilities of Lao PDR and identify policies and strategies for building economic resilience during and after the graduation of the country from the LDCs' category.