

II. ECONOMIC AND FINANCIAL PLAN

CHAPTER II

ECONOMIC AND FINANCIAL PLAN

II-1 NATIONAL ECONOMY

1) Macroeconomic Overview

Trends and structure of GDP of Lao PDR during the period from 1990 to 1999 are summarized in the following tables and figures.

Table II-1 GDP by Industrial Origin

(Billion Kip at 1999 price)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
AGRICULTURE	3,705	3,640	3,941	4,047	4,384	4,520	4,645	4,969	5,122	5,542
INDUSTRY	878	1,052	1,132	1,248	1,381	1,563	1,833	1,981	2,163	2,333
SERVICES	1,327	1,414	1,469	1,582	1,670	1,842	1,996	2,146	2,265	2,422
Import duties	61	105	110	168	190	238	245	219	141	75
GDP at constant price	5,971	6,211	6,651	7,045	7,625	8,162	8,719	9,315	9,691	10,372
GDP at current price	613	722	844	951	1,108	1,430	1,726	2,201	4,240	10,372

Source: National Statistical Center/SPC Data

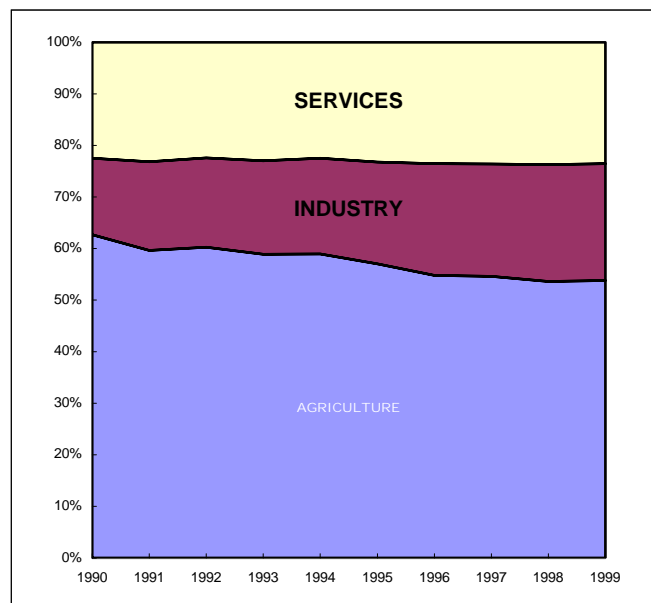


Figure II-1 Sector Share of GDP 1990-99

Table II-2 GDP Growth Rate by Industrial Origin

SERVICES	90/99	90/93	93/97	97/98	98/99	94/99
AGRICULTURE	4.6%	3.0%	5.3%	1.5%	4.0%	4.8%
INDUSTRY	11.5%	12.4%	12.2%	4.5%	3.9%	11.1%
SERVICES	6.9%	6.0%	7.9%	2.7%	3.4%	7.7%
Import duties	2.3%	40.0%	6.8%	-19.8%	-27.1%	-17.0%
GDP	6.3%	5.7%	7.2%	4.0%	7.0%	6.3%

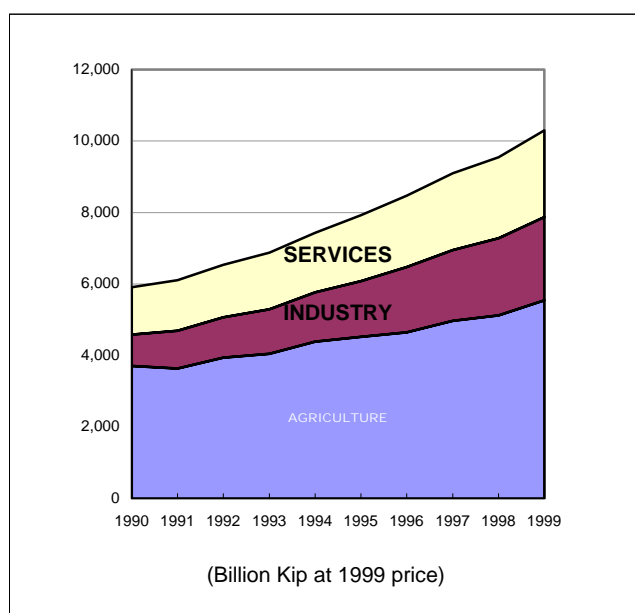


Figure II-2 Sector Composition of GDP 1990-99

Agriculture is the most important sector of the Lao economy. Although share of agriculture has fallen in recent years, it still accounted for 52% of GDP of the 1998 estimates. A large majority of Lao people are still engaged in subsistence agriculture.

Industry accounts for a growing share of GDP. Although a major part of the industry sector is limited to small-scale manufacturing of consumer products, the sector contributed 22% in 1998. The manufacturing sub-sector is predominantly concentrated in the Vientiane area. Garments, agribusiness, and wood products have been the main growth areas. The service sector accounts for a growing share of GDP contributing 25% in 1998. A major part of the service sector is limited to small-scale retail shops.

2) Small Population and Limitations as a Consumer Market

The population of Lao PDR is much smaller than those of its neighbors. This is a fact that makes Lao PDR unpromising as a consumer market. In many cases, a

Lao market alone is too small to feed an industry for consumer goods to grow large enough to survive in international competition. Estimated average population density in Lao PDR is 20 person per km² (1/10 compared with 214 per km² in Vietnam). On the other hand, land resources are plentiful and generally under utilized. This low-population-density nature of Lao socio-economy leads to the following implications for future development in Savannakhet and Khammouan Region (SKR).

- **Small-to-medium scale industries:** It is not viable to promote large-scale labor intensive industries. Thus, small to medium sized industries of a resource-based nature should be one of the focal points.
- **Better off in an open economy regime:** The “small-domestic market” also means that it is not viable, with few exceptions, to expect import barriers to help an industry to grow within a domestic market and eventually get a competitive edge on the international markets. Thus, AFTA which promotes integration of regional economy gives a much better chance for a Lao economy to induce FDI than a closed-border regime that limits the Lao economy which may offer access to a small domestic market of Lao PDR to investors.

3) Introduction of the New Economic Mechanism (NEM)

The Lao economy is in a middle of transition towards a market-based system. In November 1986, a major shift started with the introduction of the New Economic Mechanism (NEM). In the late 1980s, the government opened the economy to foreign investment. As a result, the average growth rate during the period of 1990-1993 was 5.8%. During the following period of 1993-97, growth rate reached 7.2%. By 1997, the World Bank estimated that Lao gross domestic product (GDP) had climbed to \$1.8 billion. Average GDP per capita rose to \$360, compared to \$320 in Vietnam and \$290 in Cambodia¹.

4) Trade and Investment: High Dependency on Neighboring Countries

International trade largely depends upon Thailand and Vietnam markets. 30% of exports go to Thailand, and 28% to Vietnam.

¹ World Bank estimates in 1997. Exchange rates are based on those in 1997, thus these figures are not directly comparable with figures based on 1999 price.

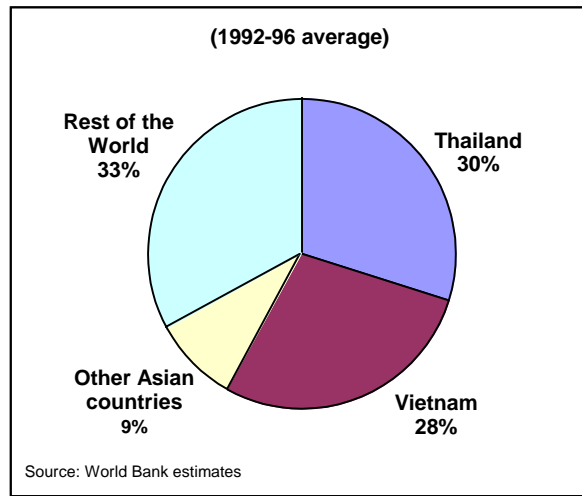


Figure II-3 Exports by Destination

Foreign direct investment (FDI) is nearly the only source of private capital investment in Lao PDR, given very low level of savings at a macro level. Thailand has been the predominant source accounting for 74% of FDIs. A high economic growth rate during the period of 1993-97 was largely generated by the capital inflow from Thailand.

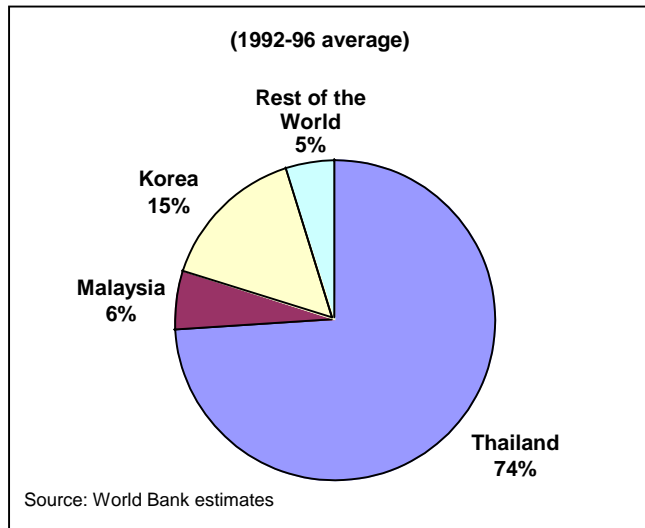


Figure II-4 FDI by Origin

5) The Asian Economic Crisis and the Lao Economy

Exposed the fundamental weaknesses of the Lao economy:

Up to 1997, the implementation of the 1986 New Economic Mechanism (NEM) had translated into steady economic growth, rising GDP per capita. This positive trend slowed down when the Asian crisis hit Lao PDR in the middle of 1997. The

Lao economy is quite vulnerable to changes in international trade conditions. Like the economies of other countries in Southeast Asia, the Lao economy suffered badly when the value of several Asian currencies fell sharply in the late 1990s. The comparatively high 1997 real GDP growth of 6.7 % dropped to 3.5 % in 1998, with a consequent decline in GDP per capita.

This crisis brought about a direct negative impact and exposed the fundamental weaknesses of the Lao economy in the following ways:

Declined Capital Inflow

The financial crisis in Asia caused a general liquidity crunch among investors and businesses. FDI, which is almost the only source of private capital investment in Lao PDR, decreased accordingly. Between 1996 and 1997 the value of total foreign investment commitments fell by 91 % from US\$ 1,292.6 million to US\$ 113.8 million. The total value of foreign investment in 1998 declined even further to US\$ 43 million. To date, there is no significant sign of recovery of this declining trend.

A fast depreciation of Kip coupled with rising inflation rates

The kip, which remained relatively stable in 1996, weakened notably in 1997 and became Asia's fastest depreciating currency in 1998. In this year, Lao PDR experienced declining growth rates and the highest depreciation and inflation rates in Asia. Inflation, which began in 1997, initially reflected a heavy reliance on Thai goods (52 % of imports). As inflation escalated into 1998, it became increasingly evident that its underlying cause was the fundamental weaknesses in overall economic management such as recent budget deficits. In 1998, annual inflation reached an unprecedented 142 %. Depreciation of currency and inflation caused significant social impacts.

- **Reduced real income:** Triple-digit annual inflation and substantial price increase in basic commodities have reduced real incomes and a purchasing power, forcing changes in consumption and saving patterns. Diets have been adjusted, spending on clothing has been reduced, and non-farming households are growing more of their own food.
- **Higher costs for BHN:** The costs of school supplies and drugs have increased significantly, beyond the reach of many poor rural families.
- **Widening income disparity:** More affluent farmers have benefited from higher agricultural prices in Thai markets and a favorable baht-kip exchange rate. However, poorer farmers and those with inadequate access to markets have suffered significant real income erosion, declining living conditions.
- **Traditional patterns of labor migration have shifted:** The number of Chinese laborers who once migrated south into Oudomxay to work in the

construction industry has decreased with the weakening of the kip against the Chinese yuan, opening up positions in the industry for Lao laborers. At the same time, Lao laborers in neighboring Thailand have been under pressure to return home, as competition from Thais, even for unskilled jobs, has increased.

Segmented Domestic Market

The weakness of the Lao economy is partly rooted in the fact that the Lao economy is actually “a group of separated small segments” of sub-national economies. The Lao economy lacks an integrated domestic market that acts as a “backstop of demand” when the trading environment is not favorable.

Timber and Hydropower sub-sectors were hardest hit:

The hydropower and the timber sectors had the deepest impact from the Asian crisis in 1998 due to their linkage with recessed regional economies. Both hydropower and timber are central elements of the Lao export equation. As a result of the fall of the real estate and construction sectors in Thailand, exports of Lao wood products fell 31 % in 1997. Since the Thai real estate sector remains in deep recession, demand for Lao wood products as building materials remained low in 1998. In addition to lower wood exports, projected Thai demand for hydropower significantly declined. This has slowed down investments for hydropower project development. Lao PDR need to find a way to diversify and look for new means of generating export income.

The garment industry, on the other hand, maintained a significant export growth, especially in the light of the recent re-activation of the Generalized System of Preferences (GSP) trade privileges by the European Union. In 1998, garment exports were expected to exceed a projected 20 % growth rate.

6) Negative Balance of Payments

Foreign reserves fell substantially in 1998. This was due to the overall balance of payments deficit, foreign exchange based public investment projects, and capital flight caused by foreign exchange rationing by the Bank of Lao. Even though the country's terms of trade have improved, gross official reserves in 1998 covered only 2.1 months worth of total imports compared to 2.7 months in 1997, and 2.8 months in 1996.

Table II-3 Public Finance and Current Account

	1996	1997	1998	1999 IMF est.
Public Finances 1/ (in percent GDP)				
Revenue	13.0	11.3	11.2	9.9
Expenditure	22.1	21.3	26.9	20.2
Overall Balance (inc. grants)	-5.6	-6.5	-10.0	-4.5
Money and Credit (end year percent change)				
Broad money	26.7	65.8	113.3	133.3
Credit to private sector	20.8	67.3	76.3	127.6
Interest Rates (in percent; end-year)				
One year deposits	16-19	17.5	19-25	na
Short term loans	24 - 27	20-27	30-36	na
External sector				
Current account (exc. official transfers; percent GDP)	-16.6	-16.3	-10.6	-10.7
Overall balance (US\$ millions)	69.3	-30.5	-17.8	15.0
Gross official reserves (US\$ millions)	167.0	136.0	114.0	125.0
(months of prospective goods and service imports)	2.8	2.7	2.1	2.2
External debt (percent of GDP) 2/	43.5	55.9	87.6	90.0

Sources: Lao PDR authorities; and IMF estimates.

1/ Fiscal data are on a fiscal year basis (October-September).

2/ Excludes debt to nonconvertible currency area; includes debt to IMF.

7) Budget Deficits

Chronic budget deficits

Over the past five years, budget deficits and a negative balance of payments have been symptomatic. During this period, the government fiscal deficits and the negative current account have been largely covered by external capital inflows. In the case of government budget deficit, deficit was covered by foreign assistance. The next table explains the fiscal deficit of the Lao government and how to finance this loss. In the year 1997/98, the revenue and expenditure were 11% and 27% of GDP, respectively, resulting in a deficit, 16% of GDP. This loss was financed by domestic, grants and foreign sources, 3%, 6% and 7% of GDP, respectively. In other words, most of the investment expenditure was financed by donations and external loans.

Table II-4 Fiscal Deficit and Foreign Finance

(Unit: Billion kip)

	1995/96	1996/97	1997/98	percent of GDP
Revenue	212	228	367	11%
Expenditure	361	430	886	27%
Current expenditure	166	192	268	8%
Capital expenditure	195	238	619	19%
Balance	-148	-202	-519	-16%
Domestic finance	-19	19	107	3%
Grants	58	70	190	6%
Foreign finance	109	114	222	7%
GDP	1,631	2,029	3,290	

Source: Recent Economic Development, IMF, November 1999

Budget deficits were another trigger of inflation

In 1998, for the first time in recent time, the government budget deficit exceeded the level of foreign assistance and had to be financed by the Central Bank. At the same time, rapid depreciation devalued public revenue earnings to all time low. The 1998 government revenues were disappointing, at 11% of GDP, while approved expenditures were estimated to be 27% of GDP. The government made efforts to keep spending within budget. The government was cautious about non-capital procurements and public-sector wages were maintained below inflation. However, due to the depreciation of the kip and the approval of the large scale rice self-sufficiency scheme, capital expenditures could not be contained. As a result the government budget, including foreign grants, recorded a 10 % deficit of GDP in 1998, compared to a 6.5% deficit in 1997 and a 5.6% deficit in 1996.

II.2 REGIONAL ECONOMY

1) Regional Outlooks

In Lao PDR, there are three primary economic centers in terms of the number of employed persons. These are Savannakhet Province, Champasack Province, and Vientiane Municipality (the national capital), in the order of size of employed population. Savannakhet accounts for 15% of employed persons, Champasack for 11% and Vientiane for 10% in 1995 respectively. Khammouan province belongs to the second group of provinces. Khammouan shares 6% of total employment with a relatively higher non-agricultural content.

Table II-1 Employed Persons by Sector in 1995

	Vientiane M.	Khammouan	Savannakhet	Champasack	Rest of Lao PDR	Total Persons
AGRICULTURE	102,801	121,902	300,445	205,925	1,117,962	1,849,035
INDUSTRY	41,268	4,253	6,521	5,674	18,570	76,286
SERVICES	72,797	12,171	28,276	25,369	100,586	239,199
Total	217,895	138,345	335,300	237,087	1,237,573	2,166,200

Source: Estimate based on 1995 Census Data, NSC

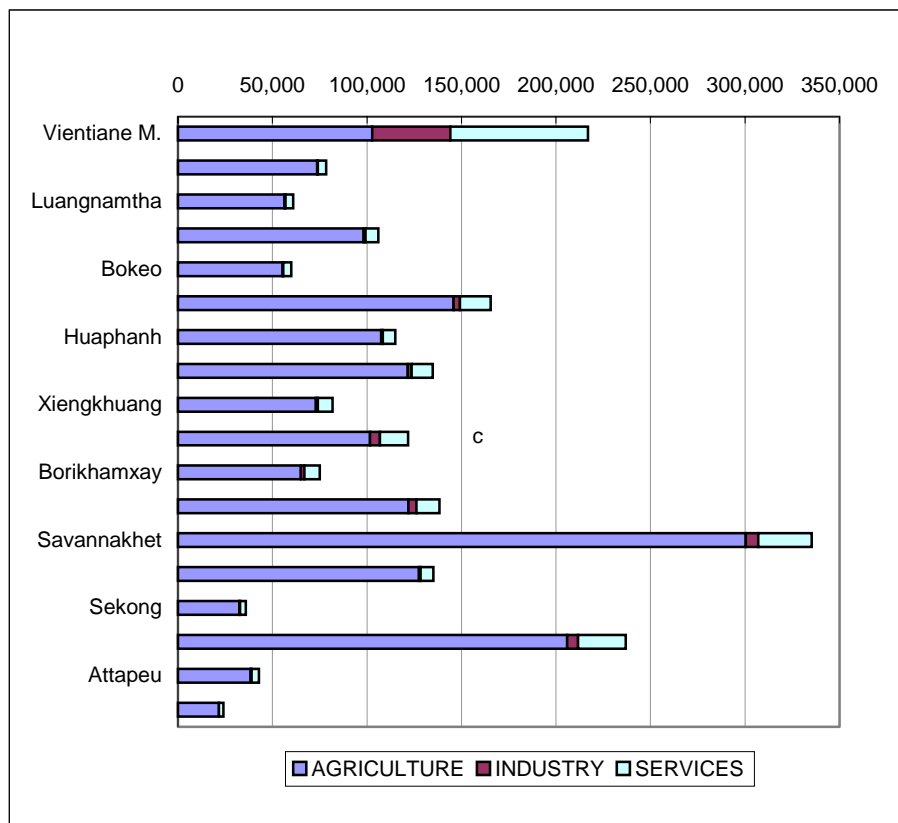


Figure II-2-1 Employed Persons by Sector by Province in 1995

On the other hand, non-agricultural activities are highly concentrated in Vientiane Municipality. Vientiane provides 54% of industry sector employment and 30% of the service sector employment in Lao PDR.

Table II-2 Share of Employed Persons by Sector

	Vientiane M.	Khammouan	Savannakhet	Champasack	Rest of Lao PDR	Total
AGRICULTURE	6%	7%	16%	11%	60%	100%
INDUSTRY	54%	6%	9%	7%	24%	100%
SERVICES	30%	5%	12%	11%	42%	100%
Total	10%	6%	15%	11%	57%	100%

Source: Estimate based on 1995 Census Data, NSC

This concentration of non-agricultural activities in Vientiane results in a wide income disparity between the capital city and the rest of the country. In 1995, per capita GPP in Vientiane is estimated to be US\$ 493 (at 1999 price) which is 2.5 times higher than the rest of the country.

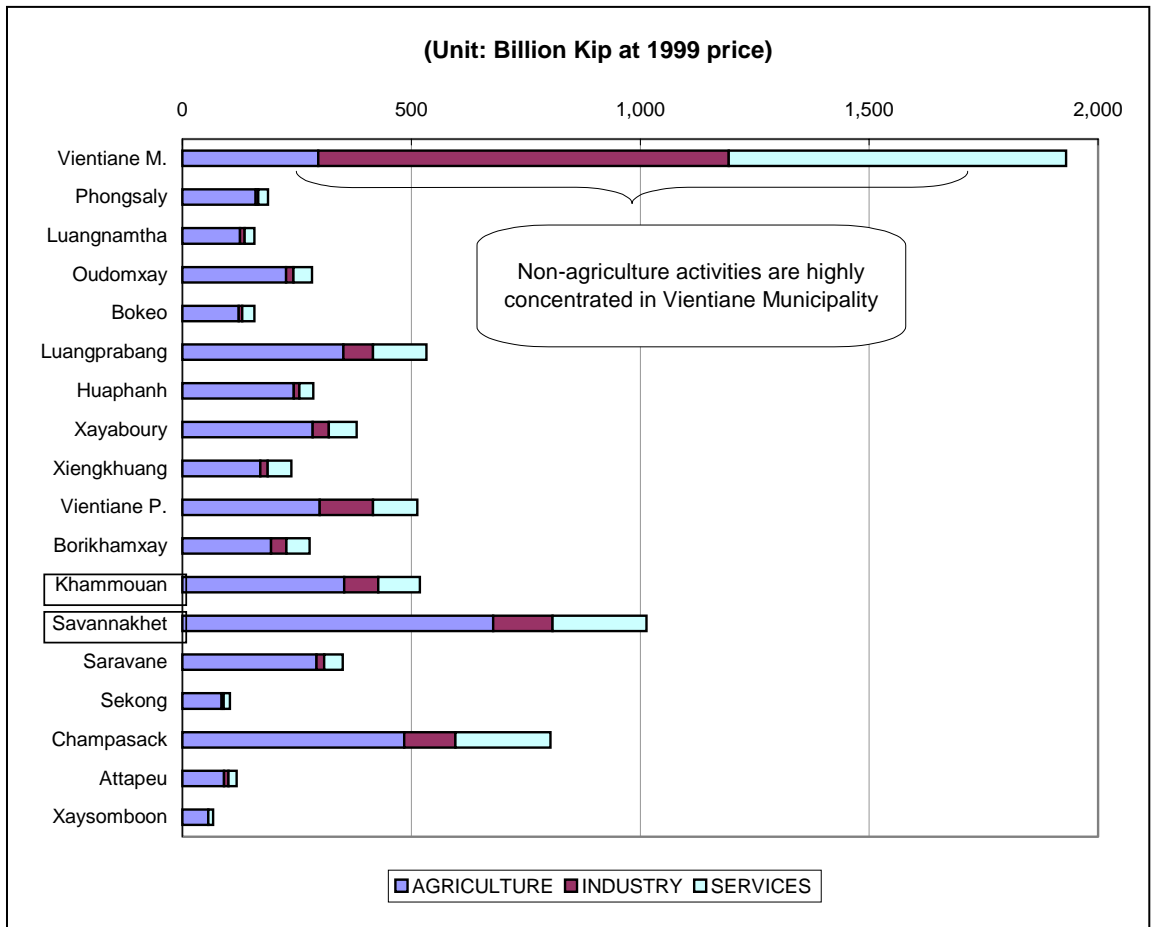


Figure II-2 Estimated GDP by Sector by Province in 1995

Economic Financial Plan

(at 1999 price)

Table II-3 GPP by Sector and Population in 1995

	Vientiane M.	Khammouan	Savannakhet	Champasack	Rest of Lao PDR	Total Billion Kip
GPP						
AGRICULTURE	297	354	679	484	2,706	4,520
INDUSTRY	896	74	130	112	351	1,563
SERVICES	737	91	205	208	600	1,841
Sub-total	1,930	519	1,014	804	3,657	7,923
Import duties	58	16	30	24	110	238
Total	1,988	534	1,044	828	3,766	8,161
% Share of Province in GDP by sector						
AGRICULTURE	7%	8%	15%	11%	60%	100%
INDUSTRY	57%	5%	8%	7%	22%	100%
SERVICES	40%	5%	11%	11%	33%	100%
% share in GDP	24%	7%	13%	10%	46%	100%
Population (persons)	524,107	272,463	671,758	501,387	2,607,133	4,576,848
Share of Province	11%	6%	15%	11%	57%	100%
GPP per capita (1000 Kip)	3,793	1,961	1,554	1,652	1,445	1,783
GPP per capita (US\$, \$1=7700Kip)	493	255	202	215	188	232

Source: Study team estimate based on 1995 Census Data, NSC

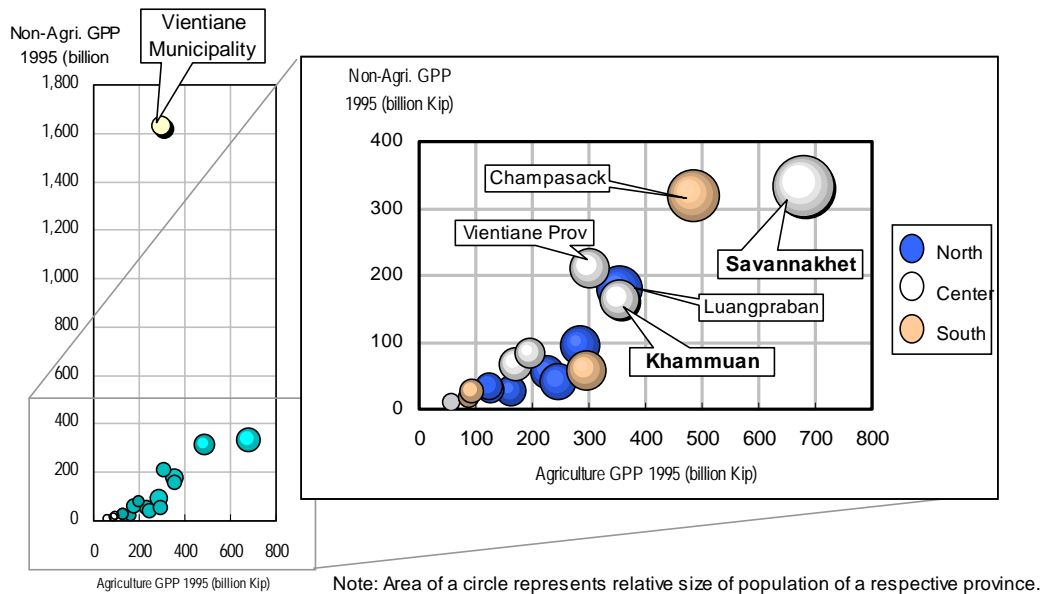


Figure II-2-3 Difference in Size and Structure of Economies among Provinces

2) Provincial Profile of Savannakhet and Khammouan

Savannakhet and Khammouan provinces accounted for about 20% of total GDP of Lao PDR in 1998.

Table II-4 GPP in 1998

(at 1999 price)

	Savannakhet	Khammouan	Vientiane M	Rest of Lao PDR
GDP at constant price (bill . Kip, at 1999 price)	1,206.7	808.0	2,325.8	5,323.9
Population (million)	0.73	0.29	0.50	3.45
Per Capita GDP (000 Kip, at 1999 price)	1,660.1	2,740.6	4,682.7	1,543.8

Source: Basic Statistics (Savannakhet Province, Khammouan Province, Lao PDR), 1998

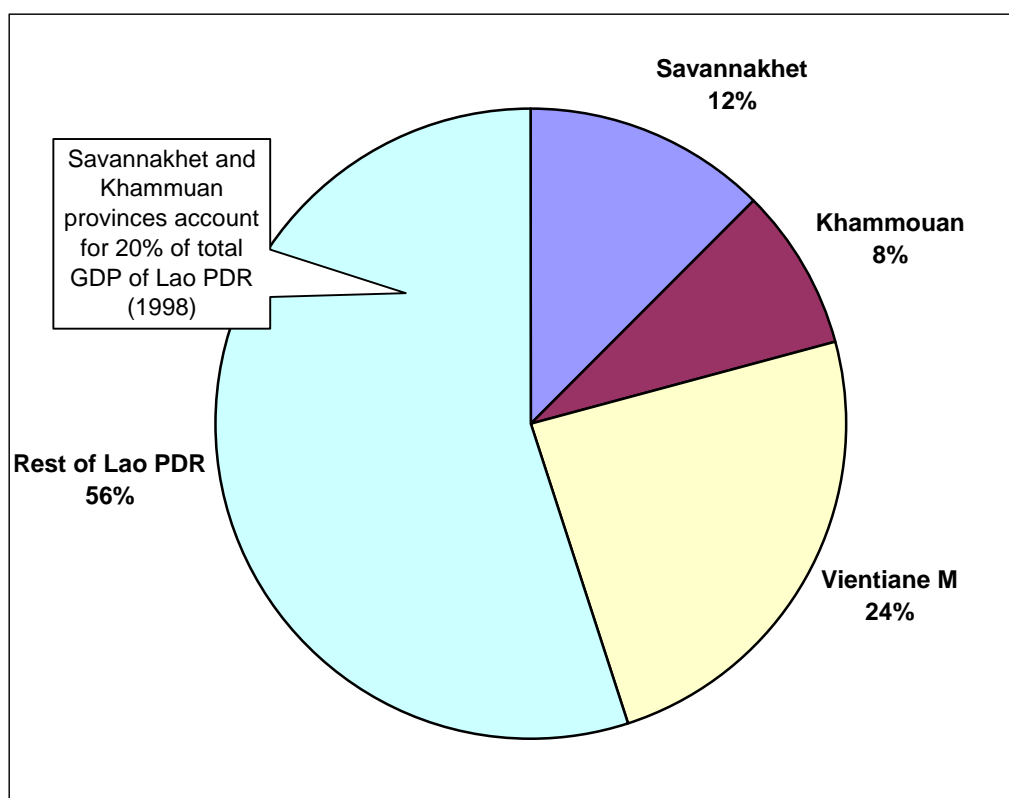


Figure II-2-4 Share of GDP in 1998

GDP and GPP by industrial origin are summarized as shown in the following tables and figures.

Table II-5 GDP and GPP by Industrial Origin in 1998

(Billion Kip at 1999 price)

	Lao PDR		Savannakhet		Khammouan		Vientiane M.*		Rest of Lao PDR*	
AGRICULTURE	5,122	54%	665	60%	547	69%	359	14%	3,551	69%
INDUSTRY	2,163	23%	117	11%	175	22%	1,233	49%	638	12%
SERVICES	2,265	24%	324	29%	75	9%	906	36%	960	19%
GDP at 1999 price	9,550	100%	1,107	100%	797	100%	2,497	100%	5,149	100%

* Estimates by the study team for comparison.

Source: Basic Statistics (Savannakhet Province, Khammouan Province, Lao PDR), 1998 and NSC data.

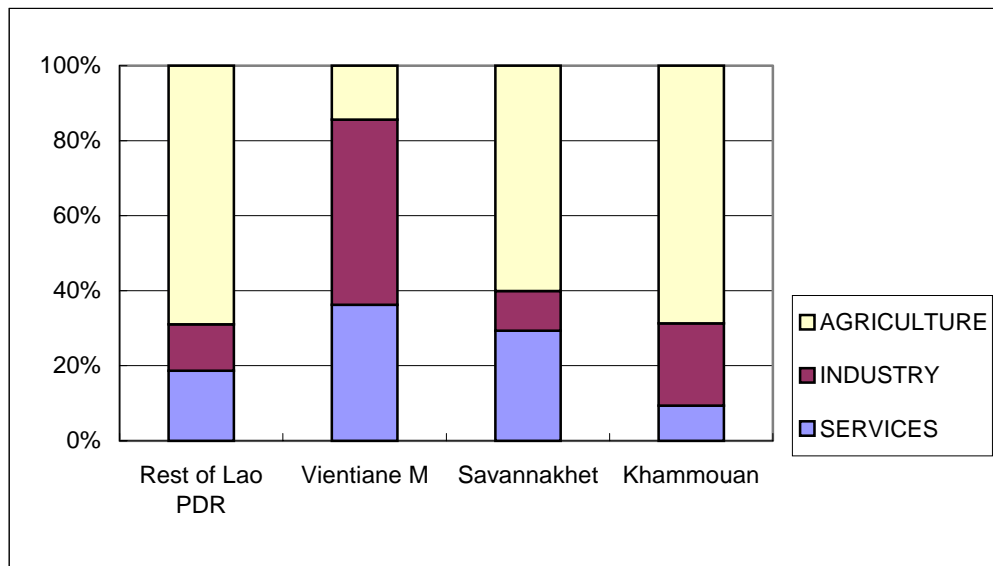


Figure II2-5 GDP and GPP composition, 1998

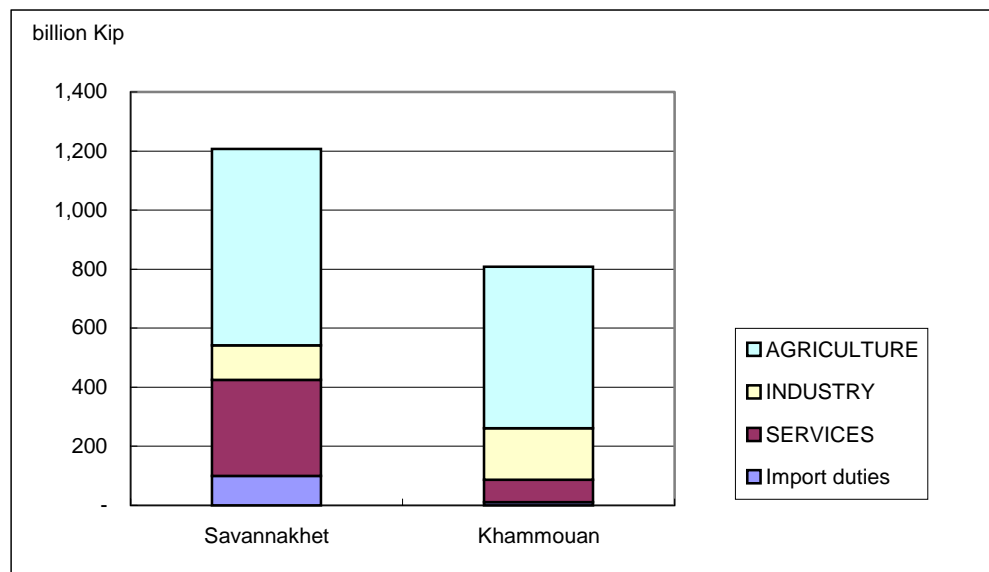


Figure II2-6 GPP in 1998 (at 1999 price)

3) GPP Structure

Savannakhet

At a glance, the Savannakhet economy has the following characteristics:

- The service sector has a large share that amounts for 29% of GPP in comparison with the national standard (19% national average excluding Vientiane Municipality).
- The Industrial sector has a small share (11% of GPP).

- The agricultural sector has a share at the level of the national average (60% of GPP)

Active Service Sector: A larger share of the service sector in GPP may imply higher content and productivity of commercial activities in the area. Savannakhet will be right at the crossroad of the new East-West Corridor (R9) and the North-South national trunk road (R13). Upgrading these axes will strongly induce transport related service activities. Thus, this will continue to be more and more important in the future.

Small-scale Industries: The Industrial sector in Savannakhet had the largest number of industry-handicraft establishments in the country in 1998. In terms of “number”, the industrial sector in Savannakhet is quite active in comparison with the other areas of Lao PDR. It is, however, also true that the province has the highest concentration of “small” sized establishments that often produce low-value added goods. These small establishments are industries which grow in proportion to the size of population. In contrast, Vientiane Municipality has the highest concentration of “large” scale establishments which bring up the GDP share of the industrial sector to 23% at the national level.

Large but Low Value-added Agriculture Sector: Savannakhet is the largest rice-producing province in Lao PDR. In 1998, the total rice harvested area in the province was 96,600 hectare and production was 316,000 ton (Lao PDR in total 617,000 ha and 1,674,500 ton respectively). The second largest rice producer was Champasack province (with a harvested area of 86,300 ha, and produced 219,100 tons respectively). In terms of value added, however, rice is one of the low value added commodities reflecting the current low level of its international price. Thus the income level of a farm household is lower than those in the South where crops are more diversified. In 1997/98, agricultural profit per household was 795,000 Kip in Savannakhet, whereas it was 1,116,000 Kip in Champasack in the South.

Economic Financial Plan

Table II-2-6 Number of Industry-Handicraft Establishment by Province

Province	Establishment size						Total	
	Large		Middle		Small			
Vientiane Municipality	60	61%	134	29%	961	6%	1,155	7%
Phongsaly	0	0%	1	0%	464	3%	465	3%
Luangnamtha	1	1%	6	1%	418	3%	425	3%
Oudomxay	0	0%	51	11%	1,045	7%	1,096	7%
Bokeo	0	0%	8	2%	476	3%	484	3%
Luangprabang	0	0%	3	1%	1,355	8%	1,358	8%
Huaphanh	0	0%	2	0%	220	1%	222	1%
Xayaboury	0	0%	33	7%	1,254	8%	1,287	8%
Xiengkhuang	0	0%	11	2%	840	5%	851	5%
Vientiane Province	1	1%	46	10%	1,511	9%	1,558	9%
Borikhamxay	3	3%	22	5%	1,473	9%	1,498	9%
Khammouan	18	18%	8	2%	1,009	6%	1,035	6%
Savannakhet	10	10%	41	9%	1,760	11%	1,811	11%
Saravane	0	0%	19	4%	1,401	9%	1,420	9%
Sekong	0	0%	15	3%	278	2%	293	2%
Champasack	6	6%	53	11%	1,214	8%	1,273	8%
Attapeu	0	0%	7	2%	161	1%	168	1%
Xaysomboon Special Reg.	0	0%	2	0%	113	1%	115	1%
Total	99	100%	462	100%	15,953	100%	16,514	100%

Source: Basic Statistics 1998, Small (number of employees less than 9), Middle (number of employees from 10 to 99), Large (number of employees 100 or more than 100)

Table II-2-7 Agricultural Revenues and Expenditure per Household in 1997/98

(in 000 Kip/Household)

	Revenue	Fruit						Costs	Seed,				Profit	Profit Ratio
		Grain	Veget.	Meat	Fish	Wood	Others		Fodder	Equip	Wages	Other		
Lao PDR	1,299	605	154	286	163	9	82	211	98	21	46	46	1,088	0.84
North	1,230	616	155	277	83	8	91	138	79	12	22	25	1,092	0.89
Phongsaly	923	427	104	213	92	13	74	50	39	4	2	5	873	0.95
Luangnamtha	955	471	158	200	60	7	59	90	29	1	40	20	865	0.91
Oudomxay	879	464	113	156	76	2	68	88	42	21	16	9	791	0.90
Bokeo	1,232	564	218	266	104	10	70	129	67	8	29	25	1,103	0.90
Luangprabang	1,081	504	147	237	70	9	114	77	43	9	7	18	1,004	0.93
Huaphanh	1,003	505	85	262	74	4	73	170	150	1	15	4	833	0.83
Xayaboury	2,095	1,119	247	487	109	9	124	288	141	28	48	71	1,807	0.86
Center	1,312	574	156	313	178	13	78	297	128	21	73	75	1,015	0.77
Vientiane M.	1,506	462	206	552	92	8	186	349	160	6	126	57	1,157	0.77
Xiengkhuang	1,460	670	166	399	162	14	49	362	336	2	4	20	1,098	0.75
Vientiane P.	1,650	871	206	289	189	27	468	421	139	39	155	88	1,229	0.74
Borikhamxay	1,427	619	204	224	324	28	28	177	78	17	21	61	1,250	0.88
Khammouan	1,019	394	116	212	235	25	37	167	74	44	28	21	852	0.84
Savannakhet	1,073	584	100	178	178	1	32	279	82	20	51	126	794	0.74
Xaysomboon SR	1,273	489	122	261	279	10	112	233	58	42	26	107	1,040	0.82
South	1,378	662	146	237	253	5	75	122	58	35	19	10	1,256	0.91
Saravane	1,749	1,254	116	228	123	5	23	156	89	18	39	10	1,593	0.91
Sekong	1,213	370	281	259	159	2	142	131	22	10	7	2	1,082	0.89
Champasack	1,214	418	149	216	335	5	91	97	35	41	10	11	1,117	0.92
Attapeu	1,411	626	116	368	214	3	84	155	123	11	17	4	1,256	0.89

Source: Households of Lao PDR, Social Economic Indicators, Lao Expenditure and Consumption Survey 1997/98 (LECS2)

Khammouan

The Khammouan economy has following characteristics:

- The service sector has a small share (amounts for 9% of GPP).
- The agricultural sector has a large share with a higher forestry content (68% of GPP).
- The Industry sector has a share at a level of national average (22% of GPP)

Forestry related activities: A larger share of the agricultural sector in GPP implies a higher content of the forestry sub-sector in the area. The forestry sub-sector has value-added per labor higher than other agriculture sub-sectors, reflecting the export oriented nature of forestry products. Khammouan has been a major outlet of forestry related commodities through Takhek to Nakhon Phanom in Thailand. In 1997/98, agricultural profit per household was 852,000 in Khammouan.

Large-scale wood related industry: The industrial sector in Khammouan has the second highest number of “large” scale industry-handicraft establishments in the country. Many of them are wood related industries that have long been a major export-oriented segment of the Lao economy. Thus, in contrast to Savannakhet, the industry sector in Khammouan has a relatively high-value added profile. The service sector is still in the early stage reflecting limited urban activities in the area reflecting lower concentration of urban activities.

4) Employment Structure in Savannakhet and Khammouan

Employment by sector based upon 1995 Census Data is summarized in the table below. This table shows that the vast majority of people are engaged in the agricultural sector. At the same time, it is quite probable that income disparity between the agricultural sector and non-agricultural sector is quite large.

Table II-2-8 Economically Active Population and Employment in 1995

(1,000 persons)

	Savannakhet		Khammouan	
Population age over 10	464.3		188.3	
Economically Active Persons (Activity Rate=Active/Age 10+)	342.0 74%		141.4 75%	
Unemployed Persons (Unemployment Rate)	6.7 1.9%		3 2.2%	
Employed Persons	335.3	100%	138.3	100%
AGRICULTURE	300.4	90%	121.9	88%
INDUSTRY	6.5	2%	4.3	3%
SERVICE	28.3	8%	12.2	9%

Source: Population Census 1995

Economic Financial Plan

A more detailed breakdown of employment data is shown in the following table. Although available employment data is the one in 1995, the table shows some patterns consistent with GPP structure in 1998, e.g., Khammouan has a higher weight in "Forestry, logging and related activities", and Khammouan has a higher weight in "Manufacture of wood (except furniture)".

Table II-9 Employed Persons By Industry In Savannakhet and Khammouan (1995)

Sector	Subsector	Industry	Savannakhet		Khammuane		
AGRICULTURE	AGRICULTURE HUNTING AND FORESTRY	Agriculture, hunting and related activities	300311	89.56%	121591	87.89%	
		Forestry, logging and related activities	122	0.04%	296	0.21%	
	FISHING	Fishing, operation of fish hatcheries and fish farms	12	0.00%	15	0.01%	
AGRICULTURE total			300445	89.60%	121902	88.11%	
INDUSTRY	CONSTRUCTION	Construction	1619	0.48%	1265	0.91%	
	ELECTRICITY, GAS AND WATER SUPPLY	Collection, purification and distribution of water	66	0.02%	4	0.00%	
		Electricity, gas, steam and hot water supply	246	0.07%	176	0.13%	
	MANUFACTURING	Manufacture of basic metals	27	0.01%		0.00%	
		Manufacture of chemicals and chemical products	29	0.01%	4	0.00%	
		Manufacture of coke, refined petroleum products and nuclear fuel	5	0.00%	8	0.01%	
		Manufacture of electrical machinery and apparatus	97	0.03%	2	0.00%	
		Manufacture of fabricated metal products	187	0.06%	77	0.06%	
		Manufacture of food products and beverages	364	0.11%	112	0.08%	
		Manufacture of furniture	263	0.08%	142	0.10%	
		Manufacture of machinery and equipment not elsewhere classified.	1	0.00%		0.00%	
		Manufacture of medical and optical instruments		0.00%		0.00%	
		Manufacture of motor vehicles		0.00%		0.00%	
		Manufacture of office machinery	4	0.00%		0.00%	
		Manufacture of other non-metallic products	285	0.08%	165	0.12%	
		Manufacture of other transport equipment		0.00%		0.00%	
		Manufacture of paper and paper products	29	0.01%	6	0.00%	
		Manufacture of radio, televisions etc.		0.00%	2	0.00%	
		Manufacture of rubber and plastic products	77	0.02%	1	0.00%	
		Manufacture of textiles	89	0.03%	21	0.02%	
		Manufacture of tobacco products	20	0.01%	5	0.00%	
		Manufacture of wearing apparel	1206	0.36%	174	0.13%	
	Manufacture of wood (except furniture)	1174	0.35%	1241	0.90%		
	Publishing, printing	20	0.01%	9	0.01%		
	Recycling		0.00%	1	0.00%		
	Tanning and dressing of leather, manufacture of footwear etc.	7	0.00%	2	0.00%		
	MINING AND QUARRING	Extraction of crude petroleum and natural gas	237	0.07%	197	0.14%	
		Mining of coal and lignite, extraction of peat	388	0.12%	169	0.12%	
		Mining of metal ores	2	0.00%	241	0.17%	
		Mining of uranium and thorium ores	31	0.01%	29	0.02%	
		Other mining and quarrying	48	0.01%	200	0.14%	
	INDUSTRY total			6521	1.94%	4253	3.07%
	SERVICE	EDUCATION	Education	6779	2.02%	2394	1.73%
EXTRA-TERRITORIAL ORGANISATIONS		Extra-territorial organisations	58	0.02%	19	0.01%	
FINANCIAL INTERMEDIATION		Activities auxiliary to financial services	1	0.00%		0.00%	
		Insurance		0.00%	1	0.00%	
HEALTH AND SOCIAL WORK		Health and social work	1197	0.36%	754	0.55%	
HOTELS AND RESTAURANTS		Land transport	2149	0.64%	1366	0.99%	
OTHER COMMUNITY, SOCIAL AND PERSONAL SERVICE ACTIVITIES		Activities of membership organisations	8	0.00%		0.00%	
		Other service activities	1447	0.43%	381	0.28%	
		Recreational, cultural and sporting activities	119	0.04%	61	0.04%	
		Sewage and refuse disposal	6	0.00%	15	0.01%	
PRIVATE HOUSEHOLDS WITH EMPLOYED PERSONS		Private households with employed persons	25	0.01%	9	0.01%	
PUBLIC ADMINISTRATION AND DEFENCE		Public administration and defence	7015	2.09%	3499	2.53%	
REAL ESTATE, RENTING AND BUSINESS ACTIVITIES		Computer and related activities	15	0.00%	8	0.01%	
		Other business services	278	0.08%	67	0.05%	
		Real estate activities	5	0.00%	1	0.00%	
		Renting of machinery and equipment	6	0.00%		0.00%	
		Research and development	10	0.00%	28	0.02%	
TRANSPORT, STORAGE AND COMMUNICATIONS		Air transport	36	0.01%	4	0.00%	
		Financial services except insurance	122	0.04%	77	0.06%	
		Post and telecommunications	85	0.03%	37	0.03%	
	Travel agencies	9	0.00%	23	0.02%		
	Water transport	99	0.03%	46	0.03%		
WHOLESALE AND RETAIL, REPAIR OF MOTOR VEHICLES ETC.	Hotels and restaurants	254	0.08%	113	0.08%		
	Other wholesale trade	114	0.03%	18	0.01%		
	Retail trade, except motor vehicles	7908	2.36%	3030	2.19%		
	Sales and repair of motor vehicles, automotive fuel	589	0.18%	239	0.17%		
SERVICE total			28334	8.45%	12190	8.81%	
Total			335300	100.00%	138345	100.00%	

Source: Population Census 1995

5) Foreign Direct Investments (FDI)

Savannakhet

Share of FDI by country of origin in Savannakhet is as shown in the following table.

Table II-10 FDI by Country of Origin in Savannakhet

(Thousand US\$)

Country	Project	Capital Cost	Share
Thailand	5	14,541	45%
China	4	4,940	15%
France	1	154	0%
Australia	1	5,000	15%
Japan	1	775	2%
Vietnam	1	249	1%
Singapore	1	3,227	10%
Finland	1	504	2%
Taiwan	1	210	1%
South Korea	1	1,566	5%
Malaysia	1	1,200	4%
Total		32,366	100%

Registered capital cost

Source: Basic Statistics of Savannakhet 1998

Table II-11 Foreign Direct Investment in Savannakhet

(Thousand US\$)

Name of enterprise	1995	1996	1997	1998	total	Share
Industrial sector	10,950	200	1,740	816	13,706	62%
Savannakhet Garment	0	0	0	0	0	0%
Nippontex. CO. LTD	0	0	0	816	816	4%
Vannavith C.P	0	0	0	0	0	0%
Goldenland garment	0	0	0	0	0	0%
Hardware and construction factory	0	0	0	0	0	0%
Goodluck cigarette factory	0	0	0	0	0	0%
Up gain Lao garment	10,950	0	0	0	10,950	50%
LaneXang mineral	0	0	0	0	0	0%
Savan agricultural advantage	0	200	0	0	200	1%
Kolao developing	0	0	1,740	0	1,740	8%
Agriculture sector	0	0	300	0	300	1%
Savan agricultural development	0	0	300	0	300	1%
Service sector	2,368	720	4,871	0	7,959	36%
Savannakhet city devel't CO., LTD	0	0	2,602	0	2,602	12%
Nane Hai hotel	0	0	0	0	0	0%
Mekong hotel	0	0	0	0	0	0%
Rio resort	2,368	0	0	0	2,368	11%
travel rcsort	0	720	0	0	720	3%
Savan- Nahal IMPORT-EXPORT	0	0	269	0	269	1%
Lao S.T.Handee Co., (service) Ltd	0	0	2,000	0	2,000	9%
Total	13,318	920	6,911	816	21,965	100%

Source: Basic Statistics of Savannakhet 1998

Although Thailand is the largest source of FDI accounting for 45% and 5 projects, there is some diversification of origins of FDI in comparison with the 1992-96 national average where Thailand accounted for more than 70% of total FDI. Thailand is followed by China (15%, 4 projects). During the period of 1995-1998, industrial sector accounted for the largest share of 62%, followed by the service sector (36%). The share of the agricultural sector FDI was very small (1%).

Khammouan

Share of FDI by country of origin in Khammouan is as shown in the following table. China (HongKong, 42% and 1 project) is the largest source of FDI followed by Korea (20%, 1 project), Thailand (14%, 4 projects), and Russia (14%, 1 project). In terms of the number of FDI projects, Thailand provides the largest number.

Table II-12 FDI by Country of Origin in Khammouan

(Thousand US\$)			
Country	Project	Capital Cost	Share
Thailand	4	5,271	14%
Korea	1	6,800	20%
Japan	1	2,000	6%
China (HongKong)	1	14,060	42%
Taiwan	1	1,000	3%
Russia	1	4,578	14%
Total		33,709	100%

Registered capital cost

Source: Basic Statistics of Khammouan 1998

6) Local Public Revenue and Expenditure

The Prime Minister Decree 68 issued in 1991 applied a centralized control principle of the government budget and finance, allowing the central authority to direct local finance. In 1992, the national congress passed the first national budget, including the central and 17 provincial governments. This centralized control of budget and finance has brought about increase in national revenue compared to that in the 1980's. The central government distributes the national expenditure budget to the local governments, preparing the national project budget to the designated provinces or reducing inequality of expenditure among local governments.

The revenue collection and distribution was modified thereafter, and the 1998/1999 system is characterized as follows:

- (i) Revenue collected by local governments accounts for 67%, twice as much as that gathered by the central government. Because revenue collection work

has been gradually shifted from the central to local government under the policy of public finance decentralization.

- (ii) Total amount of grants and foreign finance has increased to nearly the same as the domestic revenue. In other words, public expenditure has become more dependent on external finance.
- (iii) Expenditure of the central government accounts for 82%, larger than 75% in 1992/93. Large projects with external finance are under the supervision of the central government. Local authorities will, however, gradually be involved in these works.
- (iv) The main source of public investment in provinces comes from the expenditure budget of the central government.

Distribution of revenue and expenditure in 1992/93 and 1998/99 is shown in the table and figure below.

Table II-13 Revenue and Expenditure

		Total	Central govt.	Local govt.	Khammouan	Savannakhet
1992/9	Total revenue	128 100%	81 63%	47 37%	5	12
	Total expenditure	175 100%	132 75%	44 25%	3	7
	Expenditure/revenue	137%	163%	92%	63%	58%
1998/9	Total revenue	929 100%	310 33%	620 67%	106	153
	Total expenditure	1,800 100%	1,482 82%	319 18%	38	37
	Expenditure/revenue	194%	479%	51%	36%	24%

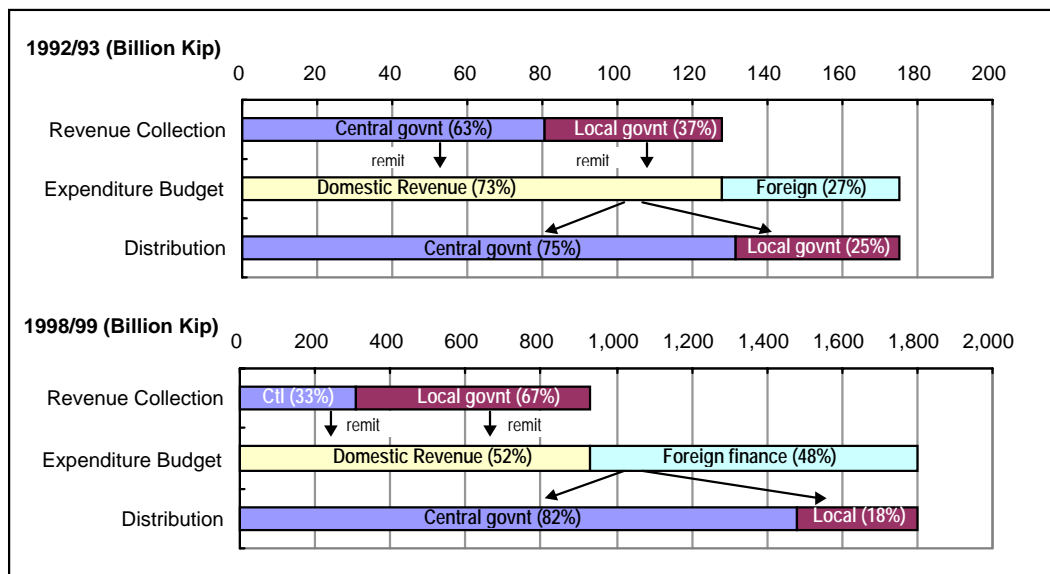


Figure II-7 Distribution of Revenue and Expenditure

In 1999, the government started the “Provincial Tax Sharing Arrangement” to give more incentives and autonomy of tax collection and its usage to the local authorities. This arrangement classifies provinces into three types:

- (i) Provinces in budget surplus (4 provinces including Savannakhet and Khammouan)
- (ii) Self sufficient provinces (9 provinces)
- (iii) Provinces in budget deficit (4 provinces)

In particular, provinces in budget surplus (e.g., Savannakhet and Khammouan provinces) are allowed to retain 50% of any tax collection above the revenue target for the projects approved by the central government. The autonomy of tax collection and its usage under the Provincial Tax Sharing Arrangement is illustrated below.

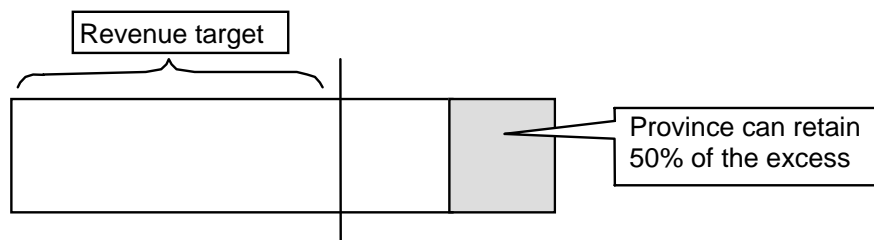


Figure II2-8 Provincial Tax Sharing System

7) Revenue Structure

The revenues of Savannakhet and Khammouan provinces in 1998/99 were Kip 153 and 106 billion, respectively. The revenue of Khammouan province mainly consisted of the timber royalty (63% of the total revenue), turnover tax (13%) and profit tax/income tax (12%). The revenues of Savannakhet include timber royalty (22% of the total revenue), excise tax (34%), tax on foreign trade (18%) and turnover tax (13%). The portion of revenue from the timber royalty in 1998/99 was much larger in the two provinces because they sold much more timber to cover the deficit caused by the Asian Economic Crisis in 1997.

Khammouan and Savannakhet provinces remitted these revenues to MOF and received the allocated budget of expenditures, 38 and 37 billion Kip, respectively. The ratios of expenditure divided by revenue in 1998/99 were 36% in Khammouan province and 24% in Savannakhet province.

Table II-14 Revenue Structure in Savannakhet and Khammouan

(Unit: Billion Kip in 1998/1999)

	Savannakhet		Khammouan	
Revenue	155		106	
Profit tax/income tax	8	5%	13	12%
Agricultural land tax	0	0%	0	0%
Business licences	0	0%	0	0%
Turnover Tax	21	13%	13	13%
Tax on foreign trade	28	18%	5	5%
Excise tax	53	34%	4	4%
Timber royalty	34	22%	67	63%
Other	11	7%	3	3%
Expenditure	37		38	
Current expen.	20		10	
Capital expen.	17		29	
Expenditure/revenue	24%		36%	

Source: Provincial Department of Finance

8) Expenditure Structure

The expenditure consists of current and capital ones. The current expenditure includes salary, travel allowance, maintenance and administration cost. The capital expenditure involves infrastructure construction, such as rural roads, schools and housing. In 1999/2000, the two provincial governments had capital expenditure budgets of 7-13 billion kip (equivalent to 1-2 million US dollars at 7,700 kip/\$) as summarized below.

Table II-15 Capital Expenditure in Savannakhet and Khammouan

(Billion Kip)

	Khammouan	Savannakhet
1998/99	29	17
1999/2000	7	13

Source: MOF, June 2000.

II-3 MACROECONOMIC FRAMEWORK FOR SKR DEVELOPMENT

II-3.1 Methodology

By definition, a framework itself should not be considered as a projection that is independent from sector scenarios. The only exception is the population projection. A framework provides a common platform to integrate various sector development images into one picture. Thus, it is a sector scenario that actually determines a final output by providing a concrete basis of the future images and assumptions.

The macroeconomic framework for SKR development is formulated with the following steps:

Step 1: Set present value by province

Population:

- Set present population by province following available data.

Production and Employment:

- Set present GDP level and structure following available data.
- Estimate present employment by sector by province.
- Estimate present levels of value-added per employed person by sector
- Estimate present GPP by province by sector.

Step 2: Estimate future level at the provincial level

Population and Labor Force:

- Estimate future population by province based upon "Projection By NSC in 2000".
- Intensity of urbanization: Allocate additional population increase to urban areas following a set of scenarios.
- Estimate size of labor force in urban and rural areas with assumed labor participation ratio.

Production and Employment:

- Estimate future GDP for Lao PDR and GPP for Savannakhet and Khammouan following a set of policy targets in Vision 2020.
- Production structure: Allocate estimated additional production at the provincial level into sub-sector breakdown by allocating different growth margins (annual growth rates) to each sub-sector following sector scenarios for economic growth.

- Estimate employment by province by sector in accordance with GPP structure using adjusted labor productivity.
- A gap between sizes of estimated labor force and employed population is assumed to be the unemployed population. This is used to examine social viability of the framework.

A conceptual flow of different elements and factors of Macroeconomic-framework for SKR is illustrated below.

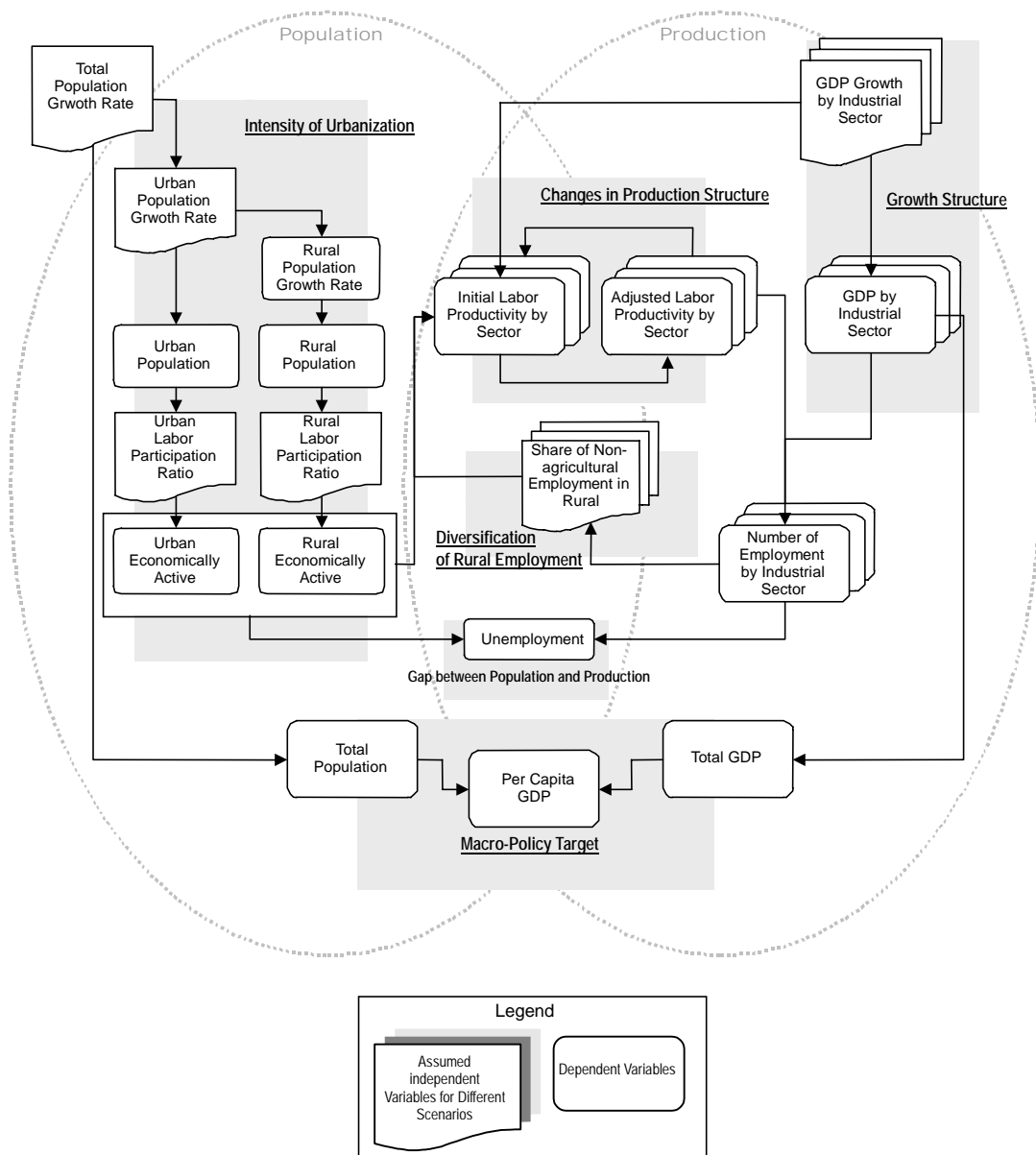


Figure II3-1 Conceptual Flow of Macro-Framework for SKR Development

II-3.2 Future Socio-economic Framework

1) Population

The future population structure is determined by a natural growth rate and size of inflowing population out from rural area and into the urban area. These two factors are estimated as follows.

- A natural growth rate is assumed to be at the level of “Population Projection by SPC/ NSC 2000” summarized in Part 2, Section 2.1.
- Given this natural growth rate, size of in-flowing population to urban areas (Intensity of Urbanization) is incorporated as an additional point of population growth rate in the urban areas. In exchange, the rural population growth rate is lowered accordingly.
- Provincial population growth rates are assumed to follow the same trend as at the national level.

Results are as shown in the summary tables of the Macroeconomic Framework.

2) National Target

Future GPP of SKR has been set in accordance with a national policy target of Vision 2020, which states Lao PDR shall no longer be a low-income country by the year 2020. This national target is translated into the level of per capita GDP in 2020 that shall be more than US\$ 760 or 5,850 thousand Kip at 1999 price.²

3) Provincial GPP Target:

SKR is expected to be one of the leading regions for national economic development. Thus, per capita GPP in 2020 of Savannakhet and Khammouan provinces shall be higher than those national targets.

Both in Savannakhet and Khammouan, the service sector is assumed to be the largest growth engine. In the case of Savannakhet, the growth rate of the service and industrial sectors for 2000 to 2010 is assumed to be much higher than the ones during 2010-2020. This is mainly because the major portion of the industrial and service sector growth is assumed to take place around the period of the expected completion of the New Mekong Bridge. Khammouan is assumed to

² Exchange rate is assumed to be \$1=7,700 kip, following average exchange rate during January to September in 1999, in IMF Economic Report in 2000.

follow the same trend as Savannakhet but with less intensity in terms of level of peak growth considering the distance from the New Mekong Bridge.

This implies that more time is needed for the other part of the country to reach the level of critical mass of urban activities to accelerate industrial growth. The only exceptions are the Vientiane Municipality and Province. In these areas, there are more existing industrial areas with considerable room that are ready to accommodate additional factories. Thus, at the national level, it is assumed that the capital city area will still take a major portion of non-agricultural urban activities by 2020.

Regarding the agriculture sector, a moderate and steady growth rate is given for the whole period. The share of agriculture will decrease over time. Up to the year 2010, major sources of growth are assumed to be the additional supply of labor in the rural areas and more intensive use of existing agricultural resources including irrigation. After 2010 to 2020, it is assumed that a more capital intensive production system shall be introduced to respond to the decreasing rate of labor supply.

4) Employment

Employment by sector is estimated from a set of GDP, GPP and labor productivity levels during 2000 to 2020.

Estimated national averages of labor productivity for 11 sub-sectors in 1995 are adopted as a baseline level. Usually, labor productivities improve as capital input per unit labor increases. Thus, sources of production growth is the sum of increase in labor input and increase in capital input. Given the lack of capital investment data with sub-sector breakdown, improvement in labor productivities are calculated by deducting contribution of additional labor supply from pre-set sub-sector growth.

Employment by different sectors are estimated as shown in Tables II3-1, II3-2 and II3-3. The agricultural sector takes the largest share of employment at present. It is assumed that growth rates of non-agricultural employment shall be higher than the one for agriculture, especially after 2010. The agricultural sector, however, will take the largest share of employment. The following two factors are considered.

Firstly, considering the fact that the study area will retain large agro-resource-based areas in their eastern part, a total picture is less urban intensive even in 2010. It should be noted, however, that the western part of SKR along NR 13, and crossroads with NR 9, is expected to have urban center growth.

Secondly, there is a physical limit in intensity of urbanization. Given limited public investment capacity, it is not viable to assume more than 5% of urban growth, which in turn limits population out-migration from the rural to urban areas.

Table II-3-1 Summary Table of Macroeconomic Framework for Savannakhet

	GPP in Billion Kip at 1999 Price						Growth Rate 2000-2020	Index 2000=100	GDP Share by Sector					
	1995	2000	2005	2010	2015	2020			1995	2000	2005	2010	2015	2020
AGRICULTURE	679	993	1,325	1,682	2,023	2,400	4.5%	242	65.0%	56.2%	51.4%	39.6%	34.3%	32.4%
Crops	480	726	1,018	1,293	1,536	1,816	4.7%	250	46.0%	41.1%	39.5%	30.5%	26.0%	24.5%
Livestock & Fishery	160	212	246	322	412	502	4.4%	236	15.3%	12.0%	9.5%	7.6%	7.0%	6.8%
Forestry	39	55	61	67	74	83	2.1%	151	3.7%	3.1%	2.4%	1.6%	1.3%	1.1%
INDUSTRY	130	219	354	726	1,011	1,358	9.6%	620	12.4%	12.4%	13.7%	17.1%	17.1%	18.3%
Mining & Quarring	3	6	9	11	12	14	4.0%	218	0.3%	0.4%	0.4%	0.2%	0.2%	0.2%
Manufacturing	96	163	246	560	800	1,091	10.0%	670	9.2%	9.2%	9.5%	13.2%	13.6%	14.7%
Construction	20	31	75	125	159	203	9.9%	656	2.0%	1.8%	2.9%	2.9%	2.7%	2.7%
Electricity & water	10	19	24	31	39	50	5.0%	265	1.0%	1.1%	0.9%	0.7%	0.7%	0.7%
SERVICES	205	545	885	1,821	2,846	3,632	10.0%	667	19.7%	30.8%	34.4%	42.9%	48.2%	49.0%
Transport & Communi.	50	144	254	606	958	1,222	11.3%	846	4.8%	8.2%	9.9%	14.3%	16.2%	16.5%
Wholesale & retail trade	72	200	323	708	1,050	1,339	10.0%	671	6.9%	11.3%	12.5%	16.7%	17.8%	18.1%
Banking	7	15	18	24	33	42	5.2%	278	0.6%	0.9%	0.7%	0.6%	0.6%	0.6%
Public wage bill	30	42	60	83	117	149	6.5%	352	2.9%	2.4%	2.3%	2.0%	2.0%	2.0%
Hotel & restaurant	7	23	38	90	189	241	12.4%	1,028	0.7%	1.3%	1.5%	2.1%	3.2%	3.3%
Other services	40	119	192	310	499	637	8.7%	533	3.8%	6.8%	7.5%	7.3%	8.5%	8.6%
Import duties	30	10	13	16	21	27	5.0%	265	2.9%	0.6%	0.5%	0.4%	0.4%	0.4%
GDP at constant price	1,044	1,767	2,577	4,246	5,900	7,417	7.4%	420	100%	100%	100%	100%	100%	100%
GDP Per Capita (000kip)	1,554	2,315	2,994	4,377	5,475	6,196	5.0%	268						
GDP Per Capita (US\$1=7700kip)	202	301	389	568	711	805								

Employment by Sector	Employment by Sector (000 Persons)						Growth Rate 2000-2020	Index 2000=100	Employment Share by Sector					
	1995	2000	2005	2010	2015	2020			1995	2000	2005	2010	2015	2020
AGRICULTURE	300.4	349.0	393.6	427.1	436.4	429.9	1.0%	123	89.6%	89.2%	88.8%	88.1%	83.8%	79.4%
Crops&Livestock & Fishery	300.3	348.8	393.4	426.9	436.2	429.7	1.0%	123	89.6%	89.2%	88.8%	88.1%	83.8%	79.3%
Forestry	0.1	0.2	0.2	0.2	0.2	0.2	1.0%	122	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
INDUSTRY	6.5	7.9	9.3	10.8	15.8	20.8	5.0%	265	1.9%	2.0%	2.1%	2.2%	3.0%	3.8%
Mining & Quarring	0.7	0.9	1.0	1.2	1.7	2.3	5.0%	265	0.2%	0.2%	0.2%	0.2%	0.3%	0.4%
Manufacturing	3.9	4.7	5.5	6.4	9.4	12.4	5.0%	265	1.2%	1.2%	1.2%	1.3%	1.8%	2.3%
Construction	1.6	2.0	2.3	2.7	3.9	5.2	5.0%	265	0.5%	0.5%	0.5%	0.6%	0.8%	1.0%
Electricity & water	0.3	0.4	0.4	0.5	0.8	1.0	5.0%	265	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
SERVICES	28.3	34.3	40.4	46.9	68.7	90.8	5.0%	265	8.4%	8.8%	9.1%	9.7%	13.2%	16.8%
Transport & Communi.	2.4	2.9	3.4	3.9	5.7	7.6	5.0%	265	0.7%	0.7%	0.8%	0.8%	1.1%	1.4%
Wholesale & retail trade	8.6	10.4	12.2	14.2	20.8	27.5	5.0%	265	2.6%	2.7%	2.8%	2.9%	4.0%	5.1%
Banking	0.1	0.3	0.3	0.4	0.6	0.8	5.2%	278	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
Public wage bill	15.0	18.1	21.3	24.7	36.2	47.9	5.0%	265	4.5%	4.6%	4.8%	5.1%	7.0%	8.9%
Hotel & restaurant	0.3	0.3	0.4	0.4	0.6	0.8	5.0%	265	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other services	1.9	2.3	2.7	3.2	4.6	6.1	5.0%	265	0.6%	0.6%	0.6%	0.7%	0.9%	1.1%
Unknown	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	335.3	391.2	443.2	484.7	520.9	541.6	1.6%	138	100%	100%	100%	100%	100%	100%
Employed	335.3	391.2	443.2	484.7	520.9	541.6	1.6%	138	100%	100%	100%	100%	100%	100%
Urban	40.9	47.4	53.6	57.6	62.6	68.6	1.9%	145	12%	12%	12%	12%	12%	13%
Rural	294.4	343.8	389.7	427.1	458.2	472.9	1.6%	138	88%	88%	88%	88%	88%	87%
Share non-agriculture in rural	-2%	-2%	-1%	0%	5%	10%	-	-	Unemployment ratio as % of Economically active Pop					
Unemployed	8.0	7.7	8.8	9.9	12.0	14.0	-	-	2.3%	1.9%	2.0%	2.0%	2.3%	2.5%
Urban	2.7	3.2	3.8	4.4	5.0	3.2	-	-	0.8%	0.8%	0.8%	0.9%	0.9%	0.6%
Rural	5.2	4.4	5.0	5.5	7.0	10.8	-	-	1.5%	1.1%	1.1%	1.1%	1.3%	2.0%

Population	000 Persons						Growth Rate 2000-2020	Index 2000=100	Growth Rate					
	1995	2000	2005	2010	2015	2020			1995	95-00	2000-05	2005-10	2010-15	2015-20
Total	672	763	860	970	1,078	1,197	2.3%	157	2.5%	2.6%	2.4%	2.4%	2.1%	2.1%
Urban	100	121	144	171	204	242	3.5%	200	-	3.8%	3.6%	3.5%	3.5%	3.5%
Rural	571	642	716	799	874	955	2.0%	149	-	2.4%	2.2%	2.2%	1.8%	1.8%
Economically Active Pop	342	399	452	495	533	556	1.7%	139	100%	100%	100%	100%	100%	100%
Urban	44	51	57	62	68	72	1.8%	142	13%	13%	13%	13%	13%	13%
Rural	300	348	395	433	465	484	1.7%	139	88%	87%	87%	87%	87%	87%

Economic Financial Plan

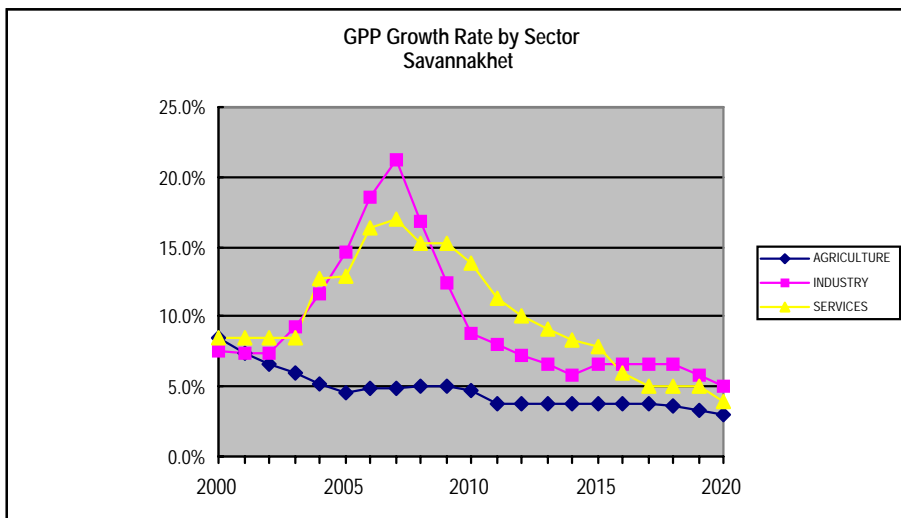
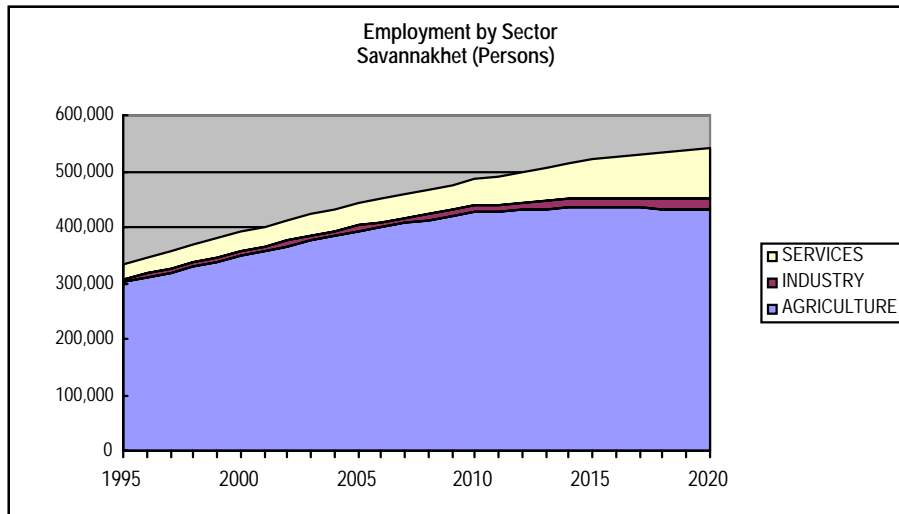
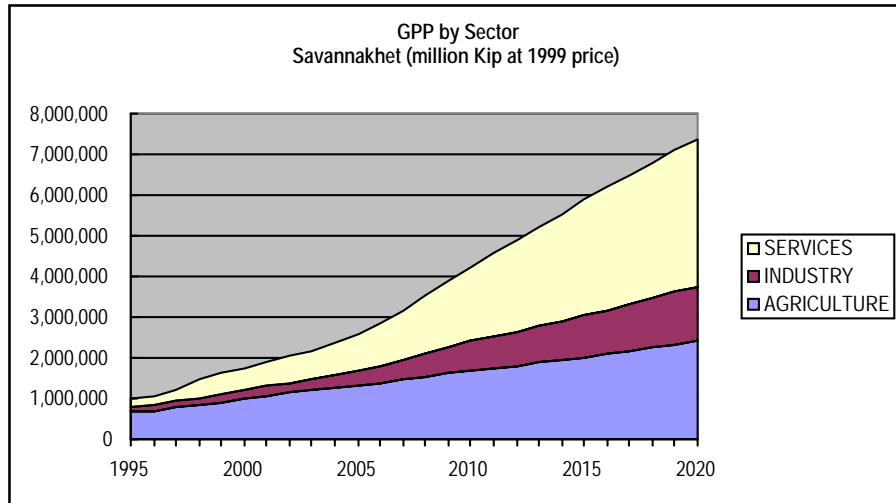


Figure II3-2 Macroeconomic Framework for Savannakhet

Table II-2 Summary Table of Macroeconomic Framework for Khammouan

	GPP in Billion Kip at 1999 Price						Growth Rate 2000-2020	Index 2000=100	GDP Share by Sector					
	1995	2000	2005	2010	2015	2020			1995	2000	2005	2010	2015	2020
AGRICULTURE	354	493	635	788	938	1,104	4.1%	224	66.2%	56.7%	51.5%	41.7%	35.6%	33.2%
Crops	194	294	412	524	622	735	4.7%	250	36.4%	33.8%	33.4%	27.7%	23.6%	22.1%
Livestock & Fishery	65	86	100	130	167	203	4.4%	236	12.1%	9.9%	8.1%	6.9%	6.3%	6.1%
Forestry	95	113	123	135	149	166	1.9%	146	17.7%	13.0%	10.0%	7.1%	5.7%	5.0%
INDUSTRY	74	132	213	408	612	841	9.7%	637	13.9%	15.2%	17.3%	21.6%	23.2%	25.2%
Mining & Quarring	3	8	11	12	14	17	4.0%	218	0.6%	0.9%	0.9%	0.7%	0.5%	0.5%
Manufacturing	49	89	146	307	485	680	10.7%	762	9.1%	10.2%	11.8%	16.2%	18.4%	20.4%
Construction	16	24	42	71	90	115	8.1%	476	3.0%	2.8%	3.4%	3.7%	3.4%	3.5%
Electricity & water	6	11	14	18	23	29	5.0%	265	1.1%	1.2%	1.1%	0.9%	0.9%	0.9%
SERVICES	91	240	380	686	1,075	1,372	9.1%	571	17.0%	27.6%	30.7%	36.3%	40.8%	41.2%
Transport & Communi.	31	90	144	254	402	513	9.1%	572	5.8%	10.3%	11.7%	13.4%	15.2%	15.4%
Wholesale & retail trade	27	76	123	248	368	469	9.5%	616	5.1%	8.7%	10.0%	13.1%	13.9%	14.1%
Banking	4	10	11	15	21	27	5.2%	278	0.8%	1.1%	0.9%	0.8%	0.8%	0.8%
Public wage bill	14	19	26	37	52	66	6.5%	352	2.5%	2.2%	2.1%	2.0%	2.0%	2.0%
Hotel & reataurant	3	10	17	40	84	107	12.4%	1,028	0.6%	1.2%	1.4%	2.1%	3.2%	3.2%
Other services	12	35	57	92	148	189	8.7%	533	2.2%	4.1%	4.6%	4.9%	5.6%	5.7%
Import duties	16	5	7	8	11	14	5.0%	265	2.9%	0.6%	0.5%	0.4%	0.4%	0.4%
GDP at constant price	534	871	1,235	1,891	2,636	3,330	6.9%	382	100%	100%	100%	100%	100%	100%
GDP Per Capita (000kip)	1,961	2,816	3,542	4,813	6,040	6,869	4.6%	244						
GDP Per Capita (US\$1=7700kip)	255	366	460	625	784	892								

Employment by Sector	Employment by Sector (000Persons)						Growth Rate 2000-2020	Index 2000=100	Employment Share by Sector					
	1995	2000	2005	2010	2015	2020			1995	2000	2005	2010	2015	2020
AGRICULTURE	121.9	141.7	160.6	176.0	181.7	183.0	1.3%	129	88.1%	88.1%	88.1%	88.2%	84.6%	81.8%
Crops&Livestock & Fishery	121.6	141.4	160.2	175.6	181.3	182.5	1.3%	129	87.9%	87.9%	87.9%	88.0%	84.4%	81.6%
Forestry	0.3	0.4	0.4	0.3	0.4	0.4	0.9%	120	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
INDUSTRY	4.3	4.9	5.6	6.1	8.5	10.5	3.8%	212	3.1%	3.1%	3.1%	3.0%	4.0%	4.7%
Mining & Quarring	0.8	1.0	1.1	1.2	1.7	2.1	3.8%	212	0.6%	0.6%	0.6%	0.6%	0.8%	0.9%
Manufacturing	2.0	2.3	2.6	2.8	3.9	4.9	3.8%	212	1.4%	1.4%	1.4%	1.4%	1.8%	2.2%
Construction	1.3	1.5	1.7	1.8	2.5	3.1	3.8%	212	0.9%	0.9%	0.9%	0.9%	1.2%	1.4%
Electricity & water	0.2	0.2	0.2	0.3	0.4	0.4	3.8%	212	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%
SERVICES	12.2	14.2	16.1	17.5	24.6	30.2	3.8%	213	8.8%	8.8%	8.8%	8.8%	11.4%	13.5%
Transport & Communi.	1.5	1.7	1.9	2.1	3.0	3.6	3.8%	212	1.1%	1.1%	1.1%	1.1%	1.4%	1.6%
Wholesale & retail trade	3.3	3.8	4.3	4.7	6.6	8.1	3.8%	212	2.4%	2.4%	2.4%	2.3%	3.1%	3.6%
Banking	0.1	0.2	0.2	0.3	0.4	0.5	5.2%	278	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%
Public wage bill	6.6	7.7	8.8	9.5	13.3	16.4	3.8%	212	4.8%	4.8%	4.8%	4.7%	6.2%	7.3%
Hotel & reataurant	0.1	0.1	0.1	0.2	0.2	0.3	3.8%	212	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other services	0.6	0.7	0.8	0.8	1.1	1.4	3.8%	212	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%
Unknown	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	138.3	160.9	182.4	199.5	214.7	223.7	1.7%	139	100%	100%	100%	100%	100%	100%
Employed	138.3	160.9	182.4	199.5	214.7	223.7	1.7%	139	100%	100%	100%	100%	100%	100%
Urban	15.2	17.8	20.1	21.8	24.0	26.1	1.9%	147	11%	11%	11%	11%	11%	12%
Rural	123.1	143.2	162.2	177.7	190.7	197.6	1.6%	138	89%	89%	89%	89%	89%	88%
Share non-agriculture in rural	1%	1%	1%	1%	5%	8%	-	-	Unemployment ratio as % of Economically active Pop					
Unemployed	1.5	1.5	1.7	1.9	2.3	2.5	-	-	1.0%	0.9%	0.9%	1.0%	1.1%	1.1%
Urban	0.7	0.8	0.9	0.9	0.7	0.2	-	-	0.5%	0.5%	0.5%	0.4%	0.3%	0.1%
Rural	0.7	0.8	0.9	1.0	1.6	2.3	-	-	0.5%	0.5%	0.5%	0.5%	0.7%	1.0%

Population	000 Persons						Growth Rate 2000-2020	Index 2000=100	Growth Rate					
	1995	2000	2005	2010	2015	2020			1995	95-00	2000-05	2005-10	2010-15	2015-20
Total	272	309	349	393	436	485	2.3%	157	2.5%	2.6%	2.4%	2.4%	2.1%	2.1%
Urban	37	44	52	62	74	88	3.6%	201	-	3.7%	3.6%	3.5%	3.5%	3.5%
Rural	236	265	296	330	362	396	2.0%	149	-	2.4%	2.2%	2.2%	1.8%	1.8%
Economically Active Pop	140	162	184	201	217	226	1.7%	139	100%	100%	100%	100%	100%	100%
Urban	16	19	21	23	25	26	1.8%	142	11%	11%	11%	11%	11%	12%
Rural	124	144	163	179	192	200	1.7%	139	89%	89%	89%	89%	89%	88%

Economic Financial Plan

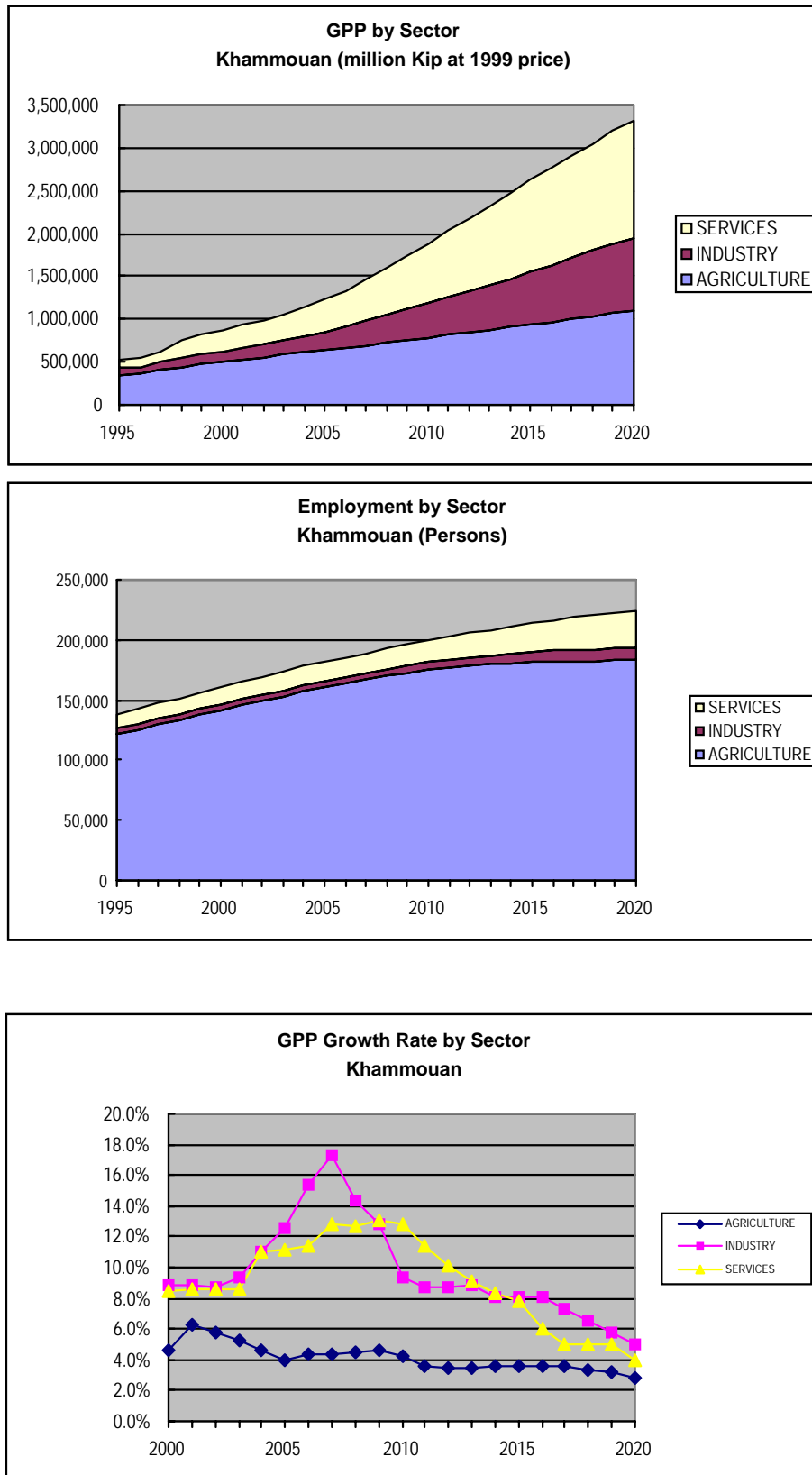


Figure II3-3 Macroeconomic Framework for Khammouan

**Table II-3 Summary Table of Macroeconomic Framework for SKR
(Savannakhet + Khammouan)**

	GDP in Billion Kip at 1999 Price						Growth Rate		Index		GDP Share by Sector					
	1995	2000	2005	2010	2015	2020	2000-2020	2000=100	1995	2000	2005	2010	2015	2020		
AGRICULTURE	1,033	1,487	1,960	2,470	2,961	3,504	4.4%	236	65.4%	56.4%	51.4%	40.3%	34.7%	32.6%		
Crops	674	1,020	1,431	1,817	2,158	2,551	4.7%	250	42.7%	38.7%	37.5%	29.6%	25.3%	23.7%		
Livestock & Fishery	225	298	346	452	579	705	4.4%	236	14.2%	11.3%	9.1%	7.4%	6.8%	6.6%		
Forestry	134	168	184	202	224	248	2.0%	148	8.5%	6.4%	4.8%	3.3%	2.6%	2.3%		
INDUSTRY	204	351	567	1,134	1,623	2,199	9.6%	626	12.9%	13.3%	14.9%	18.5%	19.0%	20.5%		
Mining & Quarring	6	14	20	23	27	31	4.0%	218	0.4%	0.5%	0.5%	0.4%	0.3%	0.3%		
Manufacturing	145	252	392	867	1,285	1,771	10.2%	703	9.2%	9.6%	10.3%	14.1%	15.1%	16.5%		
Construction	36	55	117	195	249	318	9.2%	577	2.3%	2.1%	3.1%	3.2%	2.9%	3.0%		
Electricity & water	16	30	38	48	62	79	5.0%	265	1.0%	1.1%	1.0%	0.8%	0.7%	0.7%		
SERVICES	296	785	1,265	2,508	3,920	5,003	9.7%	637	18.8%	29.8%	33.2%	40.9%	45.9%	46.6%		
Transport & Communi.	81	234	399	860	1,359	1,735	10.5%	741	5.1%	8.9%	10.5%	14.0%	15.9%	16.1%		
Wholesale & retail trade	99	276	447	956	1,417	1,809	9.9%	656	6.3%	10.5%	11.7%	15.6%	16.6%	16.8%		
Banking	11	25	30	39	54	69	5.2%	278	0.7%	0.9%	0.8%	0.6%	0.6%	0.6%		
Public wage bill	44	61	86	120	169	216	6.5%	352	2.8%	2.3%	2.3%	2.0%	2.0%	2.0%		
Hotel & reataurant	10	34	55	130	273	349	12.4%	1,028	0.6%	1.3%	1.4%	2.1%	3.2%	3.2%		
Other services	51	155	250	402	647	826	8.7%	533	3.3%	5.9%	6.5%	6.5%	7.6%	7.7%		
Import duties	46	15	19	25	32	40	5.0%	265	2.9%	0.6%	0.5%	0.4%	0.4%	0.4%		
GDP at constant price	1,578	2,638	3,811	6,136	8,536	10,746	7.3%	407	100%	100%	100%	100%	100%	100%		
GDP Per Capita (000kip)	1,672	2,460	3,152	4,502	5,638	6,390	4.9%	260								
GDP Per Capita (US\$1=7700kip)	217	319	409	585	732	830										

Employment by Sector	Employment by Sector (000 Persons)						Growth Rate		Index		Employment Share by Sector					
	1995	2000	2005	2010	2015	2020	2000-2020	2000=100	1995	2000	2005	2010	2015	2020		
AGRICULTURE	422.3	490.8	554.2	603.0	618.1	612.9	1.1%	125	89.2%	88.9%	88.6%	88.1%	84.0%	80.1%		
Crops&Livestock & Fishery	421.9	490.2	553.7	602.5	617.5	612.3	1.1%	125	89.1%	88.8%	88.5%	88.1%	83.9%	80.0%		
Forestry	0.4	0.5	0.6	0.5	0.6	0.6	0.9%	120	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%		
INDUSTRY	10.8	12.8	14.9	16.8	24.3	31.3	4.6%	244	2.3%	2.3%	2.4%	2.5%	3.3%	4.1%		
Mining & Quarring	1.5	1.8	2.1	2.4	3.4	4.3	4.4%	236	0.3%	0.3%	0.3%	0.3%	0.5%	0.6%		
Manufacturing	5.9	7.0	8.1	9.2	13.3	17.3	4.6%	247	1.2%	1.3%	1.3%	1.3%	1.8%	2.3%		
Construction	2.9	3.4	4.0	4.5	6.4	8.3	4.5%	242	0.6%	0.6%	0.6%	0.7%	0.9%	1.1%		
Electricity & water	0.5	0.6	0.7	0.8	1.1	1.4	4.6%	246	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%		
SERVICES	40.4	48.5	56.5	64.4	93.2	121.0	4.7%	249	8.5%	8.8%	9.0%	9.4%	12.7%	15.8%		
Transport & Communi.	3.9	4.6	5.3	6.0	8.7	11.2	4.6%	245	0.8%	0.8%	0.9%	0.9%	1.2%	1.5%		
Wholesale & retail trade	11.9	14.2	16.6	18.9	27.4	35.6	4.7%	250	2.5%	2.6%	2.6%	2.8%	3.7%	4.7%		
Banking	0.2	0.5	0.5	0.7	1.0	1.3	5.2%	278	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%		
Public wage bill	21.6	25.8	30.1	34.2	49.5	64.3	4.7%	249	4.6%	4.7%	4.8%	5.0%	6.7%	8.4%		
Hotel & reataurant	0.4	0.4	0.5	0.6	0.8	1.1	4.7%	249	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%		
Other services	2.5	3.0	3.5	4.0	5.8	7.5	4.7%	253	0.5%	0.5%	0.6%	0.6%	0.8%	1.0%		
Unknown	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total	473.6	552.1	625.6	684.2	735.6	765.3	1.6%	139	100%	100%	100%	100%	100%	100%		
Employed	473.6	552.1	625.6	684.2	735.6	765.3	1.6%	139	100%	100%	100%	100%	100%	100%		
Urban	56.1	65.2	73.7	79.4	86.6	94.7	1.9%	145	12%	12%	12%	12%	12%	12%		
Rural	417.6	486.9	551.9	604.8	649.0	670.5	1.6%	138	88%	88%	88%	88%	88%	88%		
<i>Share non-agriculture in rural</i>	-1.1%	-0.8%	-0.4%	0.3%	5.0%	9.4%	-	-	Unemployment ratio as % of Economically active Pop							
Unemployed	9.4	9.2	10.6	11.8	14.3	16.6	-	-	2.0%	1.6%	1.7%	1.7%	1.9%	2.1%		
Urban	3.4	4.0	4.7	5.3	5.8	3.4	-	-	0.7%	0.7%	0.7%	0.8%	0.8%	0.4%		
Rural	6.0	5.2	5.9	6.5	8.6	13.2	-	-	1.2%	0.9%	0.9%	0.9%	1.1%	1.7%		

Population	000 Persons						Growth Rate		Index		Growth Rate					
	1995	2000	2005	2010	2015	2020	2000-2020	2000=100	1995	95-00	2000-05	2005-10	2010-15	2015-20		
Total	944	1,072	1,209	1,363	1,514	1,682	2.3%	157	2.5%	2.6%	2.4%	2.4%	2.1%	2.1%		
Urban	137	165	197	234	278	330	3.5%	200	-	3.8%	3.6%	3.5%	3.5%	3.5%		
Rural	807	908	1,012	1,129	1,236	1,351	2.0%	149	-	2.4%	2.2%	2.2%	1.8%	1.8%		
Economically Active Pop	482	561	636	696	750	782	1.7%	139	100%	100%	100%	100%	100%	100%		
Urban	60	69	78	85	92	98	1.8%	142	12%	12%	12%	12%	12%	13%		
Rural	424	492	558	611	658	684	1.7%	139	88%	88%	88%	88%	88%	87%		

Economic Financial Plan

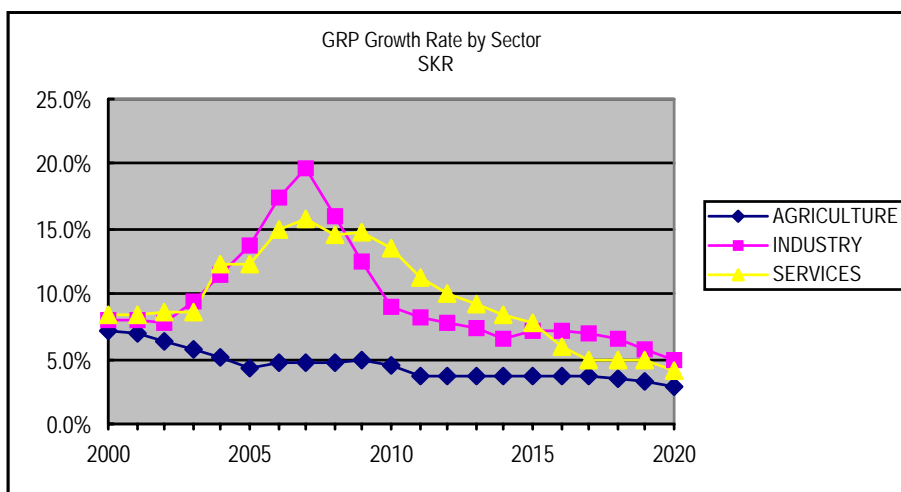
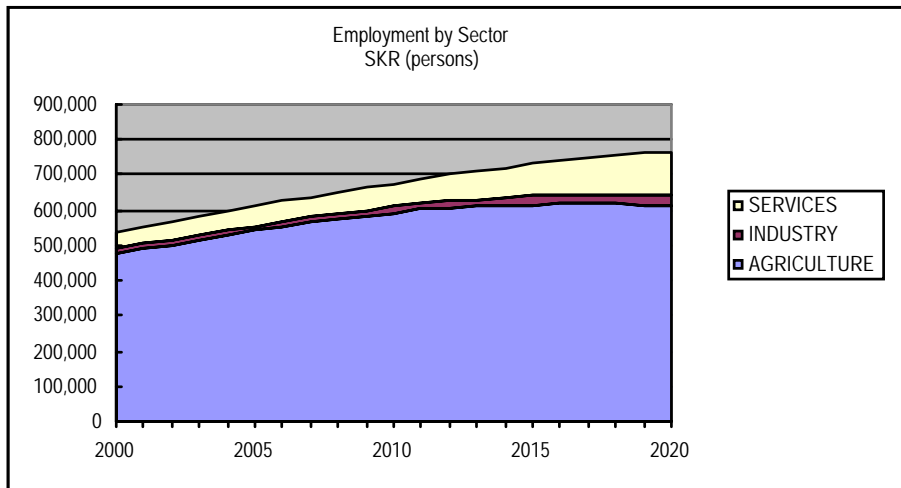
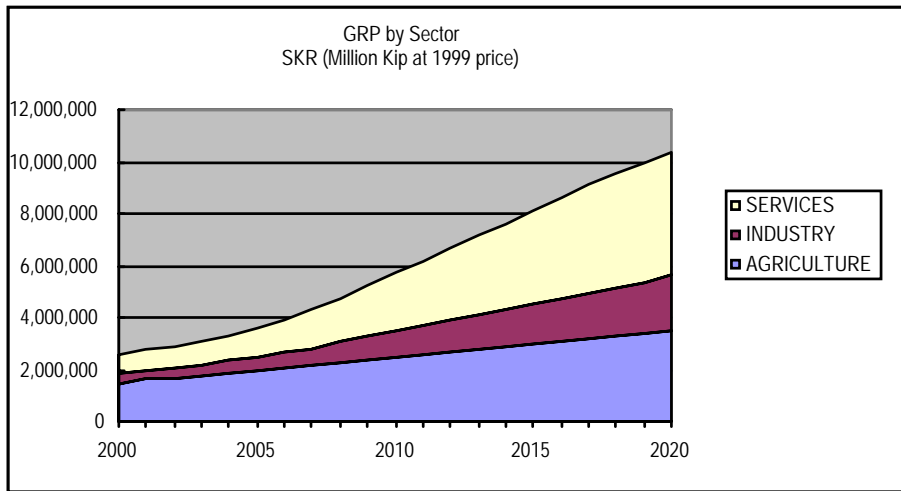


Figure II3-4 Macroeconomic Framework for SKR