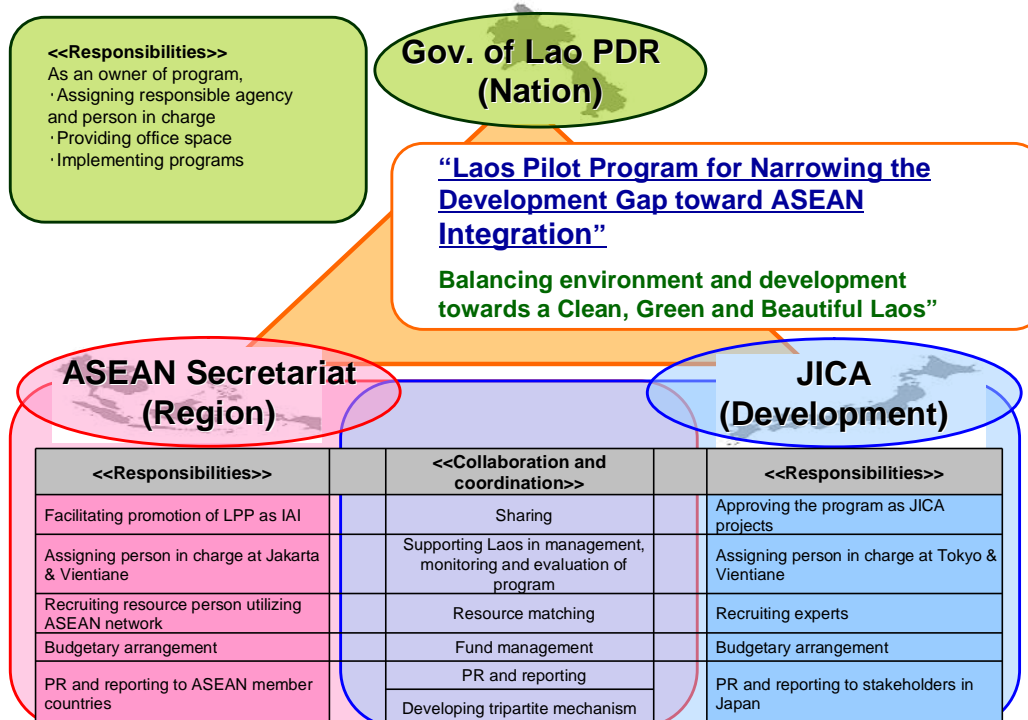


Part II DESIGNING LPP

Chapter 5 Basic Concept of LPP

Laos Pilot Program for Narrowing the Development Gap toward ASEAN Integration (LPP) is proposed as a pilot program to develop tripartite cooperation mechanism supporting initiative of ASEAN new member states for narrowing development gap toward ASEAN integration. The LPP is a program to contributing to the development of Lao PDR through the cooperation among Lao government, ASEAN Secretariat and JICA. It is to be implemented under the ownership of Lao PDR and with the necessary funds and staff to be allocated by ASEAN Secretary and JICA, respectively. It also makes a full use of various resources available in ASEAN countries as well as Japan. The LPP is the first attempt at verifying the effectiveness of this new tripartite mechanism. Based on this verification, a possibility shall be explored to apply the tripartite mechanism to other CLMV countries.

Tripartite Cooperation Mechanism



Source: JICA Study Team

Figure 5.1 Tripartite Cooperation Mechanism

The followings explain the basic concept and its background.

5.1 Tripartite Cooperation

(1) ASEAN Integration and Narrowing Development Gap (NDG)

Narrowing development gap (NDG) is one of the most important tasks for ASEAN who committed to accelerate the building of an ASEAN community by 2015. NDG is a key for the equitable and inclusive development of the ASEAN region to promote social cohesion and economic growth.

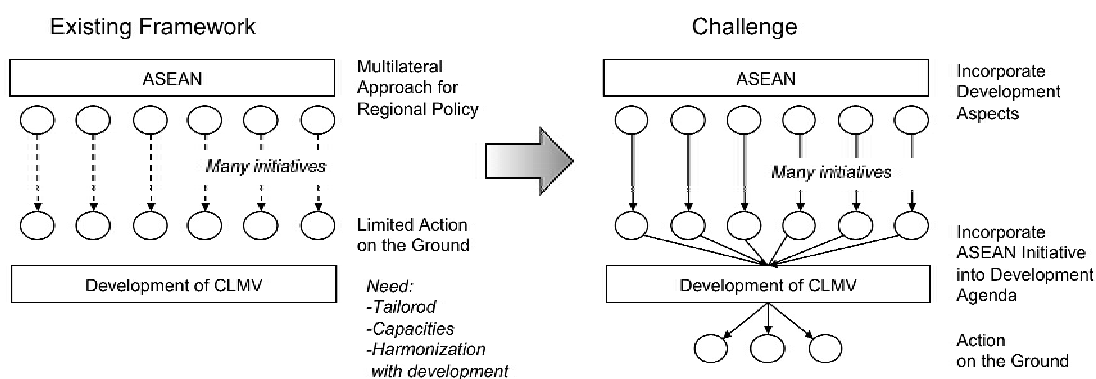
The integration of ASEAN region would give opportunities and/ or threats to the region. The regional integration might attract investments from within and/or outside the region and promote economic development. It would bring about the increase in peoples' income and regional demand. The regional economy thus could grow in a sustainable and stable manner, being resistant to the external economic shock such as the Asian monetary crisis in 1997 and the global financial crisis in 2008. Meanwhile, the integration might give threats to the region. The ASEAN region might be unstable, if economy grows only in limited parts in the region, leaving less developed new member states such as Cambodia, Lao PDR and Myanmar, and Vietnam (CLMV countries) behind. The regional integration thus entails poverty reduction and economic growth of CLMV countries. NDG is a crucial and important challenge to realize ASEAN vision 2020 where a region in peace, stable and shared prosperity is envisioned.

(2) Issues and Challenges of NDG

NDG is accelerated by the effective implementation of the Initiative for ASEAN Integration (IAI) and other regional initiatives. Mid-Term Review of the 1st IAI Work Plan 2002-2008 pointed out issues and challenges as follows: i) IAI needs to meet the precise needs of CLMV countries in terms of role in national development, effectiveness in capacity building for preparing ASEAN programs, and absorptive capacity; ii) IAI needs to enhance CLMV countries' ownership by full involvement throughout the project process and strengthening their IAI focal points through capacity building; and iii) IAI needs improved coordination within/ among CLMV, IAI Task Force/ Unit, and ASEAN-6.

ASEAN has prepared the Roadmap for an ASEAN Community. Each member state is supposed to prepare itself for regional integration based on the roadmap. Initiative for ASEAN Integration (IAI) has presented a broad framework for the cooperation to narrow the development gaps within the ASEAN region. However, member states have not fully been prepared for the regional integration. The ASEAN Secretariat faces itself with the task of how it can make use of the roadmap and IAI, in order to encourage and enable member states, new member states in particular, to prepare them for the regional integration. The followings are characteristics, issues and challenges for NDG:

- 1) Although narrowing development gap is identified as one of the most important task, the terminology of development gap is not clearly defined in ASEAN. Vientiane Action Plan in 2004 mentioned that gaps are per capita GDP and other human development dimensions such as life expectancy, literacy rate and poverty incidence. ASEAN Community progress monitoring system in 2007 raises 46 indicators for ASEAN community building. However, definition and indicators for development gap are not clearly defined. Thus, we cannot tell how development gap has been narrowed. It needs to define the development gap and to set frame in which we can tell whether NDG achieved or not.
- 2) Activities for NDG take the multilateral approach that gives equal opportunities to CLMV countries in a unified manner such as providing training course for all of CLMV countries. NDG efforts entail a country-specific tailor-made approach to meet the needs of respective country.
- 3) Efforts for NDG are to be made by CLMV countries with their ownership and initiative; The Support of ASEAN-6 to CLMV is to be facilitated by ASEAN Secretariat (ASEC). Efforts for NDG are dependent on the limited capacities of CLMV countries. There is a need for capacity building of CLMV countries at the national level for actual change.
- 4) The ongoing cooperation of development partners with ASEAN is mainly concerned with the capacities of ASEC and regional policies. Limited activities address the country-specific needs. Neighboring country cooperation by ASEAN member states need harmonization with other development activities. There is a cooperation need by development partners to address the issue to link ASEAN NDG and national development of CLMV countries.



Source: JICA Study Team

Figure 5.2 Issues of NDG

(3) Challenges facing CLMV countries

There are large gaps in socio-economic situations and large difference in preparation toward the Community among the ASEAN member countries, discussed and analyzed in the Chapter 1 to 3. In general, socio-economic situations of ASEAN-6 are well advanced in comparison with those of CLMV countries. Also, the former member countries are several steps ahead of the latter member countries in preparation for establishment of the Community. For this reason, CLMV countries have to address two important challenges by 2015. These challenges are:

- 1) To close socio-economic gaps with ASEAN-6 through the national development, and
- 2) To move faster in preparing for establishment of the ASEAN Community and to promote the establishment.

CLMV countries have not addressed to these two challenges in a coordinated manner. In other word, the second challenge related to NDG and ASEAN integration initiatives has not been incorporated into the national development agenda as mentioned in the first challenge. CLMV countries need to harmonize the ASEAN regional community building and integration initiatives with the national development agenda.

(4) Tripartite Cooperation Proposed

For addressing the above-mentioned issues and challenge facing both ASEC and CLMV countries, *tripartite cooperation* is proposed as a new modality of cooperation for NDG. Tripartite cooperation is cooperation mechanism among governments of CLMV countries, ASEC and JICA by which ASEC and JICA jointly support respective CLMV countries at the national level.

Each of these three parties has own advantages and disadvantages. CLMV countries have been continuously been assisted by many development partners. However, these assistances have little been coordinated in line with the ASEAN integration. ASEC has been effective in cumulating experience and knowledge on sector-by-sector basis. However, it has not been well organized to participate in development in a country-specific manner. JICA, as a development partner with strength of field-based approach, has cumulated a lot of experience of development and cooperation in ASEAN. In fact, ASEAN has been the main target of Japan's development assistance. Being a bi-lateral aid agency, however, it has not been well organized to participate in development on regional basis.

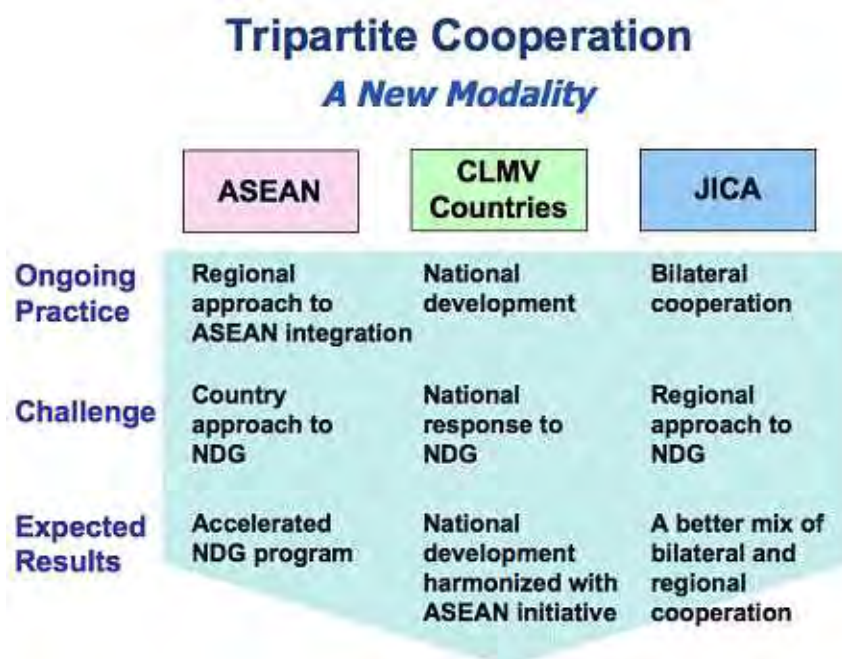
It is in the context above that an attempt is made to combine these three parties so that they can best make use of their advantages and complement each other to overcome their disadvantages. An emphasis shall be given to reinforcing the capacity of:

- 1) CLMV countries to make best use of international cooperation toward ASEAN integration and to effectively respond to ASEAN integration with greater ownership.
- 2) ASEC to facilitate NDG program and to assist development of CLMV, respectively, by making full use of its advantage.
- 3) JICA to make full use of the experience of assistance to ASEAN countries on bi-lateral basis for the development of CLMV.

Thus, tripartite cooperation can support:

- 1) CLMV countries to harmonize national development agenda and ASEAN initiative,
- 2) ASEC to accelerate NDG programs at the national level with a tailored-made approach to meet the needs of CLMV countries, and
- 3) Bridging ASEAN and CLMV countries towards ASEAN integration.

Supporting NDG also contributes to realizing stable and prosperous East Asia. This concept is summarized in the following figure.



Source: JICA Study Team

Figure 5.3 Tripartite Cooperation as a New Modality

(5) Pilot Program for Tripartite Mechanism

Why Starting in Laos?

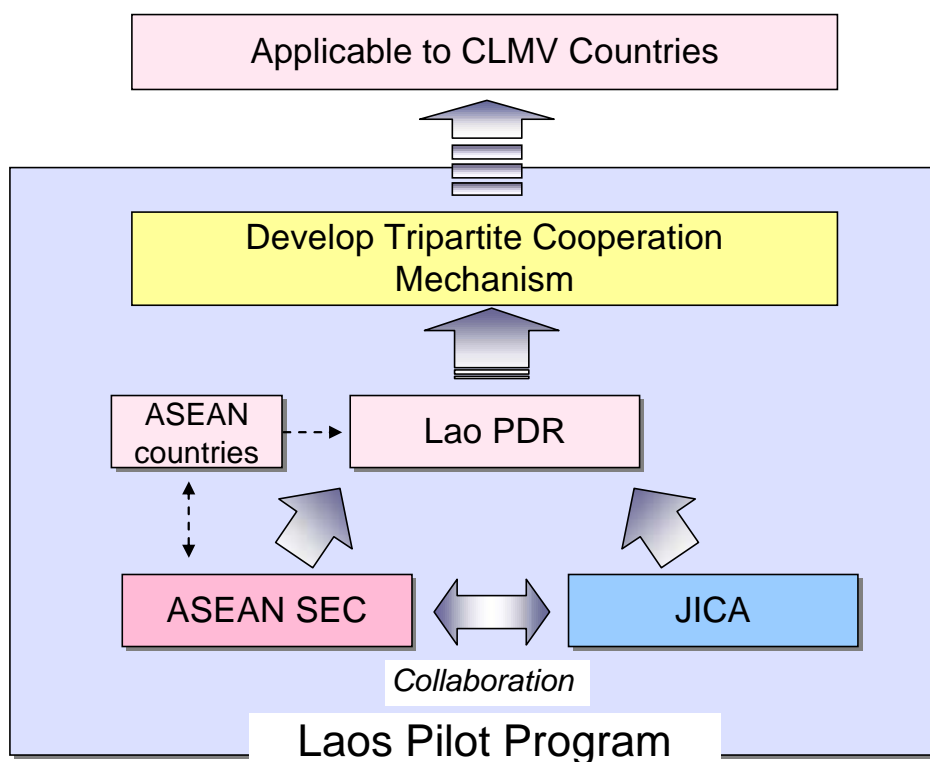
Among CLMV countries, Lao PDR was selected as a pilot country for an indicative program,

Lao Pilot Program (LPP), to show how socio-economic gaps can be closed through it by 2015. The reason for the selection is that Lao PDR is her least developed nature among CLMV countries in terms of three aspects; poverty gap ratio, educational attainment, and productivity of the agricultural sector as mentioned in Chapter 1.1. Especially, educational attainment is crucial since it is a base for the future development of country. This is also closely related to the capacities of Lao PDR to promote national development and to prepare for the ASEAN integration. Limited capacity is recognized as the most serious weakness of Lao PDR in IAI process.

Pilot Program for Tripartite Cooperation

In LPP, Lao PDR is a main actor to address the two challenges mentioned. There are to solve socio-economic problems to attain her aims and to adjust economic and institutional systems toward the ASEAN Community. ASEAN Secretariat, the second actor, will help adjust economic and institutional systems toward establishment of the Community by 2015. It does not provide financial assistance except several cases. Instead, its strong points are that it can mobilize various kinds of resources from other ASEAN countries to the countries concerned. The last actor is JICA who can provide assistance to improve production systems and to reduce poverty gaps.

LPP is a pilot program of tripartite cooperation to develop a tripartite cooperation mechanism, which will be applicable to other CLMV countries. This idea is conceptualized as shown in the following figure.



Source: JICA Study Team

Figure 5.4 Pilot Program to Develop Tripartite Cooperation Mechanism

LPP has to be developed by three actors together. At an initial stage of project development, individual role of actors and a mechanism of coordination will be discussed thoroughly and then will be implemented by them.

5.2 Developing a Basic Concept in Lao Context

ASEAN integration would positive and/ or negative impacts on the society and economy of Lao PDR. Lao PDR has to make strategic efforts to respond to ASEAN integration to be harmonized with the national development strategy. Lao PDR has a limited awareness and capacities to respond to ASEAN integration. Lao PDR has to make coordinated efforts to ASEAN integration as well as to the national development. In the national administration, Ministry of Foreign Affairs is focal point role for ASEAN integration, and Ministry of Planning and Investment plays a pivotal role for the national development. There is a need to harmonize ASEAN integration and national development agenda through coordination between these ministries. In doing so, Lao PDR can create synergy effects between ASEAN initiatives and the national development strategies.

This section tries to develop a *Basic Concept of LPP* in Lao context that is a strategic idea of

LPP for harmonizing the national development agenda of Lao PDR and ASEAN integration. First, this section (1) reviews the national development strategies of Lao PDR, then (2) analyzes the situation of Lao PDR for the forthcoming the ASEAN integration, and (3) Proposes a Basic Concept of LPP.

(1) National Development Agenda

The national development objectives are to sustain and increase broad-based economic growth, to eliminate mass poverty, to meet the Millennium Development Goals (MDGs) and to graduate from least developed country (LDC) status by 2020.

Current Strategies

National Growth and Poverty Eradication Strategy (NGPES) sets its poverty eradication goals as eradicating mass poverty by 2010, eliminating all poverty and tripling per capita income by 2020, and graduating from Least Development Country (LDC) by 2020. The strategy identifies regional integration, export growth and diversification as important elements of the agenda to achieve these goals.

The 6th National Socio-Economic Development Plan (NSED 2006-2010) added the goal of achieving targets in the Millennium Development Goals (MDGs). NSED aims at accelerating economic growth and improving the people's quality of life through further building a market economy based on the country's rich resources and international integration.

New Strategy under Preparation

According to the draft for discussion in Round Table Implementation Meeting (RTIM) held in 2009, **the 7th NSED (2011-2015)** under the preparation aims at improving the living standards and livelihoods of people, reducing poverty, striving to achieve MDGs in 2015, and leaving the country out of LDC status by 2020. The strategy aims at rapid growth at 8% per annum GDP, which allows GDP per capita reaching 1,700 USD in 2015. It is noted that the new strategy pays attention to the close linkage among economic development, social development and environment protection; as well as the development of necessary capacity for regional and global integration.

The Prime Minister of Lao PDR also mentioned in his speech at RTIM 2009 *“the economic development is also largely dependent on the exploitation of natural resources while the financing for development comes mainly from external resources. ... Socio-Economic Development Plan ... will continue to focus on addressing fundamental issues of the Lao PDR namely the poverty of the people and the underdevelopment of the country; It is a plan designed to accelerate the efficient exploitation of natural resources and untapped domestic potential together with environment protection and sustainable-wise development. In addition, the plan*

is drawn up for the country's participation in the Mekong Sub-Regional Integration and the ASEAN Community Building".

In sum under the current national development strategies, the development goal is eradicating poverty. In order to achieve goal, major strategies are highlighted as follows:

- 1) Achieving rapid economic growth,
- 2) Sharing the benefits of economic growth broadly, and
- 3) Balancing economy, society, and environment for the sustainable society.

To eradicate poverty, economic growth is necessary. Next, the benefit of economic growth shall be share among the people broadly to reduce poverty incidence. Then, it needs to sustain the state of reduced poverty, society and environment.

(2) Analysis of Development Potential of Lao PDR in ASEAN Integration

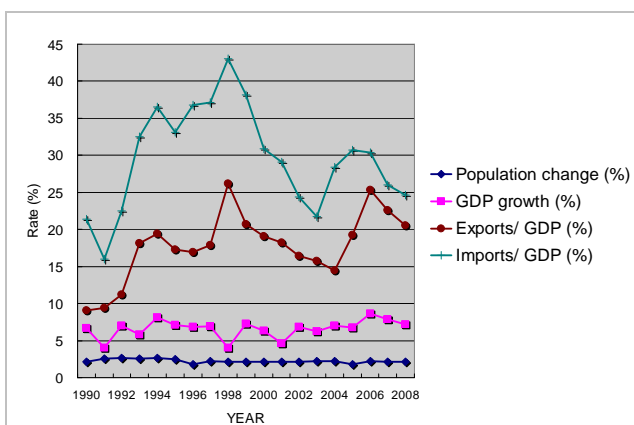
Given the development goal and strategies of Lao PDR above, a) the development process of Lao is reviewed in terms that how economic growth has been achieved, and how the benefits of economic growth have been shared. Then, b) analysis for development direction is made taking account of the viewpoint of sustainability.

a) Economic Growth of Lao PDR after New Economic Mechanism

After introduction of New Economic Mechanism in 1980s, Lao PDR experienced high rate of economic growth at 6% a year exceeding the population increase rate since 1990s. The national economy has been integrated in the international economy. The export to GDP rate reached around 20% in recent year (See Figure 5.5).

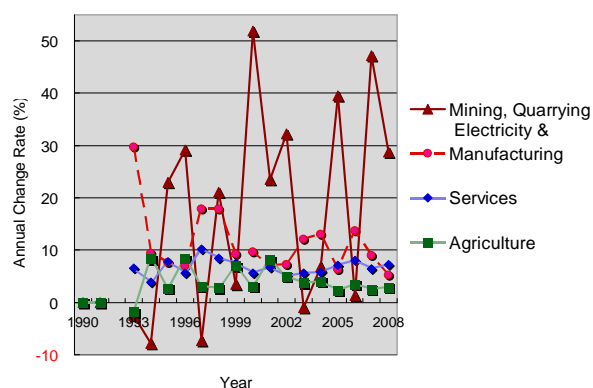
Source of Economic Growth

In the early stage of economic growth, the agriculture and manufacturing sectors are the major sources of growth. After the end of 1990s, the natural resource exploiting industries such as mining and hydropower have been the major source of the economic growth (See Figure 5.5).



Source: ADB

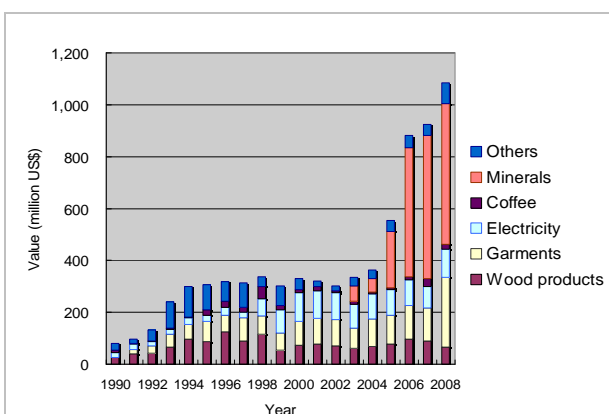
Figure 5.5 Change in Population, GDP, Export and Import in the National Economy



Source: Department of Statistics, Lao PDR

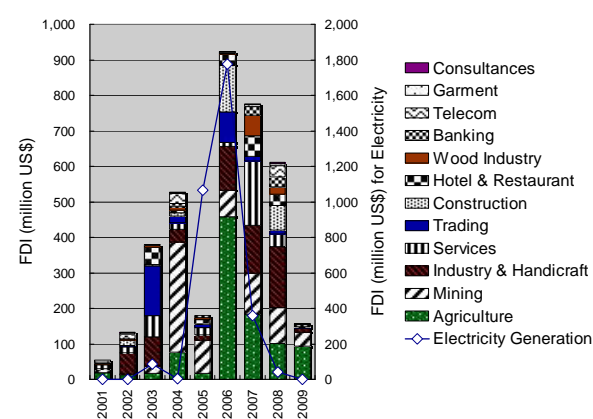
Figure 5.6 Growth Rate by Sector

The early expansion in export has been lead by wood products, garments and coffee. Since the middle of the 2000s, much of expansion in exports has been in activities that directly exploit the country’s natural resource endowment such as hydro-electricity and mining (See Figure 5.6). Especially, exports of copper and gold have been expanded. The natural resources exploiting industries showed an outstanding performance in the economic growth and export (See Figure 5.6 and Figure 5.7). The amount of foreign direct investment to Lao PDR has been increased after 2003, which has accelerated by the growth of the natural resource exploitation industries (See Figure 5.8).



Source: ADB

Figure 5.7 Value of Export by Commodities



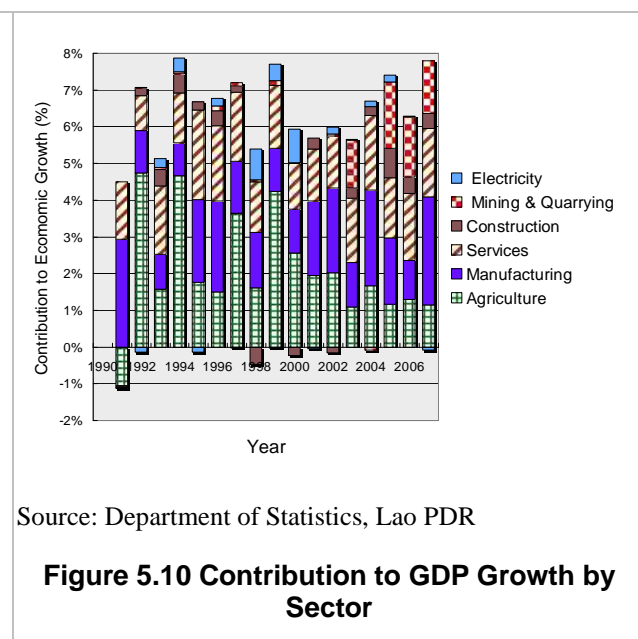
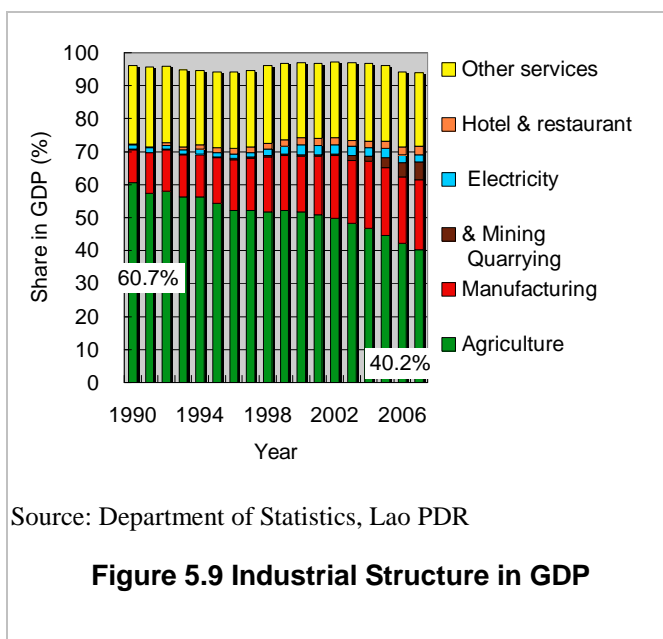
Source: Department of Statistics, Lao PDR

Figure 5.8 Amount of FDI to Laos by Sector

Benefits of Economic Growth Shared

Contribution to the national economy and economic growth by selected sectors are shown in

Figure 5.9. The contributions of the national resources exploitation industries to the national economy as well as economic growth are not so large since its share in the national economy is limited. The share of natural resources exploitation industries of GDP is 7.6% in 2008 (See Figure 5.9). The contribution of those industries to GDP growth is around 1.4% in 2008 (See Figure 5.10).



It is reported that these industries have limited linkages with the rest of the economy, tend to have very localized impacts²¹ and create few jobs²².

Meanwhile, it is noted that the importance of agriculture in the national economy is reconfirmed in its share in the national economy and its contribution to the economic growth (See Figure 5.9 and Figure 5.10). The agriculture sector also gives 78 % of the employment in the country as mentioned in Chapter 1. The benefit of the growth of the agriculture sector has been broadly shared in people.

In sum, the economic development of Lao has been led by the agriculture and manufacturing in the early stage and eventually led by the natural resources exploitation industries such as mining and hydropower in the course of the global integration of the Lao economy. However, the agricultural sector plays an important role in the national economy and employment. There is a rising tendency to rely on the natural resources exploitation industries.

²¹ The World Bank, *Building Export Competitiveness in Laos Summary Report*, November 2006, p2.

²² UNDP, National Human Development Report, International Trade and Human Development, Lao PDR 2006, p133.

b) Analysis for Development Potential towards ASEAN Integration

Given the analysis of the development process of the Lao PDR above, a strategic development direction of Lao PDR in perspective of ASEAN integration is discussed below taking sustainability into account.

ASEAN integration accelerates the Lao economy's integration to the region and the world. ASEAN integration would give Lao PDR **opportunities and/or threats**. Laos has to seize the opportunities of ASEAN integration with its strengths. At the same time, Lao PDR has to avoid the threats arising from a freer economy combined with Lao weaknesses.

Weakness and Threats

The most serious **weakness of Lao PDR is limited human resource capacities**. The **indicator** of education of Lao PDR is ranked at the lowest in ASEAN Member States. ASEC also identifies limited capacities of human resources as the most important challenge facing Lao PDR.

One threat is that a freer economy combined with Lao weak development management capacities might bring about **uncontrolled development and environmental degradation**. One shows grave concerns for further resource depletion and environmental degradation with accelerated investments possibly caused by the regional integration.

There is a tendency to accelerate Lao economy's reliance on the natural resources exploiting industries. Export earnings from these industries will raise national income and fiscal revenues. It would allow the country to increase investment in the social sectors, i.e., education and health. However, *excessive reliance on the natural resources exploitation industries* would confront Laos with the following threats.

- 1) One of these risks is limited impact of the natural resource exploitation industries on the society such as limited employment generation. This would be a **social risk of a threat to inclusive development**.
- 2) The others are **risks of sustainability**. The risk of sustainability lies in the environmental aspect and the economic aspect. The risk of **environmental sustainability** is that exploitation of natural resources combined with limited human resource capacities would bring about unwise utilization of natural resources, which would exploit the natural resource in unsustainable manner. This would also weaken the strengths of Laos as the sources of competitiveness.

The risk of **economic sustainability** is that excessive country's reliance on natural

resource exploiting industries would weaken the competitiveness of the country, that is, so-called “Dutch disease”²³. The exploitation of natural resources increases revenues. This will raise the exchange rate, which makes the other industries less competitive. Continuous excessive reliance on natural resource exploitation would also create moral fallout. This would make limited capacities of human resource weaker, which aggravate the weakness of the country.

Another threat is widening disparities with other ASEAN countries because most parts of Lao PDR might be left behind of the economic development, in combined with the weaknesses of rural poverty incidence and weak domestic infrastructure network.

Strength and Opportunities

Lao **strength lies in her natural resources and environment**. The natural resources and the environment support most of people to live on agriculture. **Opportunities** lie in creating value added targeting the freer markets with efficient utilization of natural resources. Laos has to differentiate herself with her strengths from other countries, and strive for unique development path with creating brand image of Laos.

Strategic Direction of Development

As discussed in Chapter 2, development issues of Lao PDR are identified as 1) balance of environment and development, 2) job creation and distribution of economic benefit, and 3) capacity development. Considering these issues as well as discussions above, **strategic direction of development** of Laos is summarized as *Inclusive and Sustainable Development*. Strategic pillars of development are as follows:

1) Balancing environment and development with efficient utilization of natural resources.

The natural resources are base for development potential of natural resources-based industries such as agriculture and forestry, power generation, and mining industry. Beautiful environment constitutes a development potential for tourism utilizing strategic location connecting the growth poles in Greater Mekong Region. Future direction of development of Lao PDR lies in a way that beautiful and rich natural and environmental resources, as a basis of building the nation, should be maintained and utilized efficiently as assets of the people as well for sustainable development. Even for the resources exploitation industries such as mining, Laos has to utilize efficiently natural resources and maintain the

²³ Dutch disease is an economic concept that tries to explain the apparent relationship between the exploitation of natural resources and a decline in the manufacturing sector combined with moral fallout. Wikipedia.

environment in a sustainable way.

A key factor to sustainable development and poverty reduction is maintaining the natural resources and environment as a basis for natural resources-based industries where Laos has a comparative advantage. Lao PDR has to manage the development toward balancing between environment and economy, utilizing the opportunities given by ASEAN integration and related initiatives. Laos has to achieve economic growth to reduce poverty incidence. But, Laos has to keep her uniqueness and strengths not being spoiled by development. The uniqueness and the strength of Laos lie in her rich natural resources and untouched nature those are the source of further and sustained growth.

As ASEAN countries have been industrialized; a larger number of people reside in the urban areas. Many of residents in urban areas have been already at the middle-income class. There is an increasing demand for clean environment, safe and good foods, and rich nature. If Laos differentiate herself from other countries, she can provide value added products and services such as organic foods, beautiful tourist destination, and services with hospitality.

Through these efforts, Laos can create brand image for clean environment and green development as well as her quality products and services.

2) Diversifying industries with labor-intensive for inclusive development.

Second Strategic pillar development is relating to how to share the benefits of economic growth among the broader people.

Lao PDR has to diversify the economic base other than the natural resource exploitation industries. For distributing the benefit of the development broadly, labor-intensive industries are to be promoted.

National Human Development Report 2006 identifies the exports with high potential for human development as: manufactured exports especially garments, wood products and processed foods; handicraft; international tourism; agriculture; and labor exports. The report also identifies the exports with lower potential for human development as: mining and mineral; timber; electricity exports; and transit trade and over flights.

World Bank report mentions *“Lao’s natural resource endowment will continue to provide opportunities for expansion of mineral and hydro-electricity exports; but there is also considerable potential to expand exports of tourism services, light*

*manufacturing including garments, and agriculture*²⁴.

Agriculture employs 78% of labor in the country. If these people are directly involved in diversified industries, benefits of the growth will be distributed broadly, which will strengthen human resource capacities since people can invest in education of children. Thus, agriculture related industries such as value added agriculture and agriculture processing as well as widely benefited industries such as eco-/ community- tourism could be potential industries for diversification.

The industries with broader people's involvement require capacity development of people broadly. Potential industries could be agriculture, agro-processing, eco-/community-tourism, and light manufacturing.

3) Strengthen capacities of human resources.

Limited capacity is the most serious weakness and important challenge for Lao PDR. Especially, human resources capacities are to be strengthened for addressing the challenges: balancing environment and development; and diversification of industries with labor-intensive.

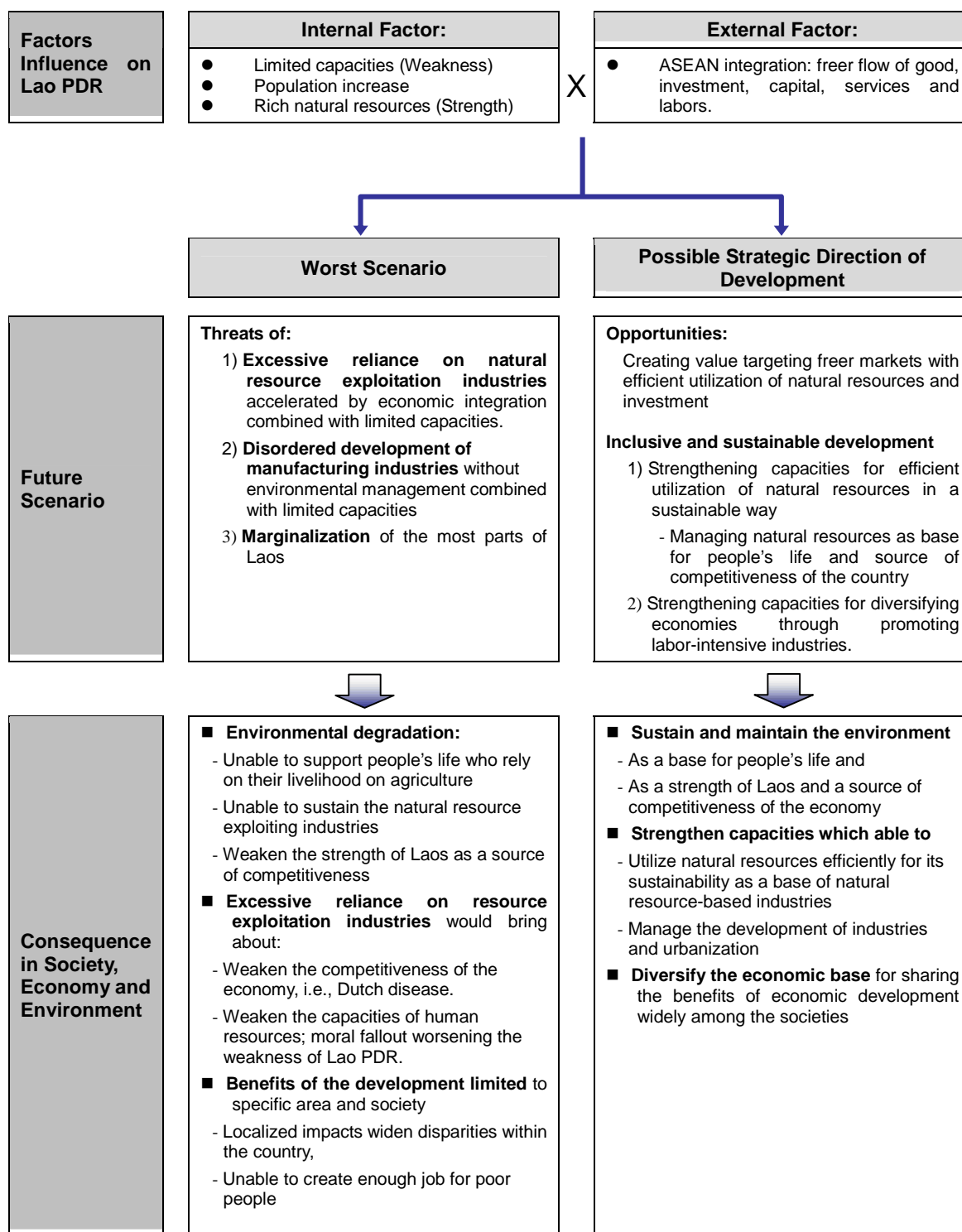
Capacities are the base for future development. Capacity development is what public sector has to address. For efficient utilization of natural resources in a sustainable manner in the natural resource-based industries, it requires strengthening the capacities of human resources. Diversifying the economic base other than the natural resource exploitation industries also needs strengthening human resources capacities ready for the market economy.

In sum, the followings are highlighted for addressing strategies for development:

- Strengthening the capacities of human resources for efficient utilization of natural resources in a sustainable manner for the natural resource-based industries.
- Diversifying the economic base other than the natural resource exploitation industries through strengthening human resources capacities for the market economy.

The analysis above is conceptualized in the following figure.

²⁴ The World Bank, Building Export Competitiveness in Laos Summary Report, November 2006, p ii.



Source: JICA Study Team

Figure 5.11 Analysis and Possible Development Direction

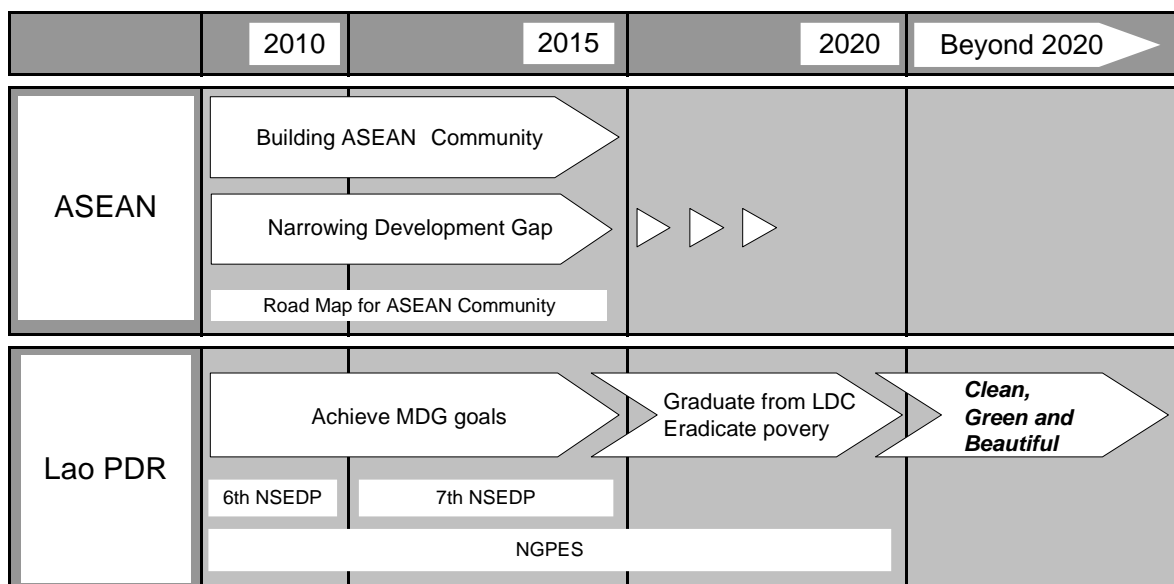
(3) Basic Concept in Lao Context

Based on the review of development strategies and the analysis of development potential of Laos, Basic Concept of Pilot Program in the context of Lao PDR are proposed as follows:

Strategic Vision is proposed as making a “*Clean, Green and Beautiful Laos*”. This is the future image of the country beyond the current development goal, that is, a sustained goal after achieving poverty reduction and graduation from LDC in 2020. The strategic vision is an indicative vision to guide the development of Laos on track toward sustainable development in the context of ASEAN integration.

Most of ASEAN countries have developed through industrialization by utilizing plenty of labor force as a source of competitiveness. However, Lao’s source of competitiveness lies in not labor force but in rich and beautiful natural resources and environment. Laos can differentiate her development path from other ASEAN countries. This development path can be a unique one as Laos model.

By setting and pursuing the strategic vision, Laos can seize growth opportunities in the ASEAN region, can create brand image of country, and eventually can achieve Narrowing Development Gap.



Source: JICA Study Team

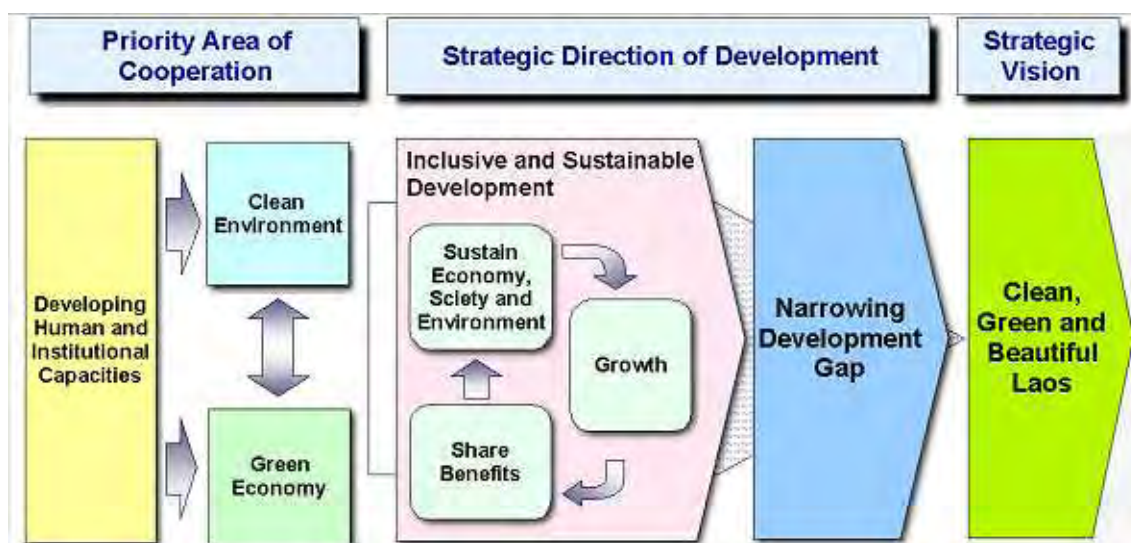
Figure 5.12 Strategic Vision “Clean, Green and Beautiful Laos”

Strategic Direction of Development toward the strategic vision is *Inclusive and sustainable development*. It will be directed by creating a balanced cycle among i) economic growth, ii) sharing the benefits of growth, and iii) sustaining economy, society and the environment. If

this cycle works well, poverty will be reduced and eventually the development gaps with ASEAN countries will be narrowed. To construct this balanced cycle, the three *strategic pillars for development* are proposed as i) balancing environment and development with efficient utilization of natural resources; ii) diversifying industries with labor-intensive for inclusive development; and iii) strengthening capacities of human resources.

Areas for Cooperation: What kind of areas to be addressed is a remained question. For achieving “Clean, Green and Beautiful Laos”, JICA Study Team proposes two priority areas. These are “*Green Economy*” and “*Clean Environment*”. These are indicative areas to concentrate the efforts of LPP. Clean Environment is area to address the challenge to “Balancing environment and development” proposed as the first strategic pillar. Green Economy is area to address the challenge to “Diversifying industries with labor-intensive for inclusive development” proposed as the second strategic pillar.

The Basic Concept, explained above, is summarized in the following figure.



Source: JICA Study Team

Figure 5.13 Basic Concept of LPP