

The agricultural development policy and WTO accession of Lao PDR

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Key to symbols used in tables

- n.a. not applicable
- .. not available
- zero
- . insignificant

Abbreviations

- AFTA ASEAN Free Trade Area
- ASEAN Association of Southeast Asian Nations
- GDP gross domestic product
- GSP General System of Preferences
- LDC least developed country
- MFN most favoured nation
- NPAAP National Poverty Alleviating Strategy
- NSEDS National Socio-Economic Development Strategy
- ODA overseas development assistance
- PDR People’s Democratic Republic

Lao PDR and its rural sector

The Lao People's Democratic Republic (PDR) is a small country with a total land area of about 236,800 square kilometre and a population of about 5.2 million people, giving an overall population density of 20 per square kilometre. The country's economy is predominantly rural, with about 83 per cent of the population living in rural areas and 66 per cent practising subsistence agriculture.

The Lao PDR is one of the world's poorest countries and one of the 49 countries classified by the United Nations as least developed countries (LDCs). The population growth rate is high at 2.8 per cent and the average family size is about 6.5 persons. Nearly half of the population are illiterate and about one-third of Lao families live in poverty. Poverty in the Lao PDR is widespread, with the incidence of poverty (measured as a percentage of total population) highest in rural areas and varying among regions as follows: central region (33.6 per cent), northern region (26.5 per cent), and southern region (16.2 per cent). In absolute terms, about 2.05 million Laotians are poor.

Much of the Lao PDR is mountainous, making access, communication and the development of modern irrigation systems difficult in many parts of the country. Many villages are inaccessible during the rainy season. The non-existence or poor condition of access roads in rural areas restricts the use of motor vehicles and non-motorised means of transport. Less than 50 per cent of the population have access to safe drinking water, and many people must travel some way from their villages to obtain water.

The Lao PDR possesses an abundance of forest and water resources with potential for development. Natural resources include timber, hydropower, gypsum, tin, gold and gemstones. Forests (47 per cent) and woodland (7 per cent) cover much of the country's total land area. At present, almost 3 per cent of the land is cropped (700,000 hectares) and another 3 per cent is grassland or permanent pasture (710,000 hectares). Thus, on average there is 1.1 ha of cropped land and 1.1 hectare of grassland for livestock production per family.

Much of the Lao PDR is subject to droughts, while lowland areas can suffer serious flooding from the Mekong and other rivers. Climate negatively affects agricultural production and food security in one part of the country or another every year. The country depends heavily on its agricultural land and forests, and hence on the farming and forestry systems applied in their management.

Agricultural production in upland areas is still dominated by subsistence crop cultivation and a shifting or swidden (slash-and-burn) farming system. Shifting cultivators in the upland areas can only produce rice sufficient for seven to nine months of their annual consumption and are classified as extremely poor. Poverty in the uplands is directly linked to land degradation resulting from the dominant farming systems. Nonetheless, the challenges of stabilising shifting cultivation and protecting the environment in upland areas cannot be met unless the issues of poverty reduction, alternative sources of livelihood, food security, and security of land tenure are addressed first. Most upland farmers derive

their income from the sale of livestock, small quantities of cash crops and non-timber forest products. Non-farm and off-farm activities are undertaken in order to finance the purchase of additional rice and the fulfilment of other basic needs.

Government development policy

Lao PDR development policy has gone through several phases since 1975, when the Government's main tasks were to repair physical infrastructure and the social fabric. After some experimentation in policy initiatives and development, in 1986 the government implemented a new policy called the 'New Economic Mechanism', according to which state-owned enterprises would be privatised, the market economy stimulated and the national economy integrated with the global economy. The Lao PDR joined ASEAN in mid 1997, and its development policies were largely successful and the economy developed steadily, until the recent East Asian financial crisis.

The government's socio-economic development strategy was involved eight National Priority Programs, encompassing food security, increased commercialisation oriented production, stabilisation of shifting cultivation, infrastructure development, improved socio-economic management and foreign economic relations, rural development, human resources development, and services development.

Agriculture and forestry are recognised as the country's leading economic sectors and the engines to foster socioeconomic development up until 2020, when a shift to the industrial sector (that is, a move to processing in the agriculture sector) will be made.

General economic environment in the 1990s

The East Asian financial crisis had a negative impact on all Southeast Asian countries, not excluding the Lao PDR, which suffered rocketing inflation—up to 150 per cent in January 1999, when the exchange rate reached 9,700 kip to the US dollar). Financial hardship hit all sectors of society but especially people in urban areas whose incomes derived from import-related activities, and most major infrastructure development projects were slowed or halted. Various government countermeasures helped the country come through the crisis, and overall economic conditions stabilised in mid 2000, when inflation fell to 6.6 per cent in August. The country maintained an average growth rate of 6.1 per cent during the decade.

The rural development strategy: area-based development

Rural development has long been recognised as one of the keys to poverty eradication and is the goal of one of the government's eight National Priority Programs. Agriculture and forestry are considered the pivots of rural development, and other sectors are geared largely to providing support interventions such as roads, social services and so on so as to create an environment conducive to agricultural and forestry production. Unfortunately, early development efforts were not well coordinated and so many targets were not reached.

The government has recognised that agricultural and forestry development requires different policies, strategies and practices depending on whether it is taking place in the lowlands or in the uplands. This recognition is reflected in a number of governmental directives, laws (for example, the Land/Forest and Water Resources Laws) and decrees

supporting an area-based approach to rural development. This approach takes account of the complexity and specificity of the country's various resources and socio-cultural situations, and aims to ensure that development is more balanced between urban and rural areas.

With increased physical accessibility, improved infrastructure, better access to improved technologies and newly emerging marketing opportunities, the lowland areas have become increasingly attractive to the private sector. This is why their development is geared towards commercialisation of the agricultural and forestry sectors. Export potential and diversification in both farm and non-farm sectors in the lowlands have increased greatly in recent years. In the lowlands, production methods have been improved in order to increase food security and commodity production. Among other things, the improvement involves the development of large, medium and small (including community-managed) irrigation schemes, and the formation of Water User Groups responsible for the operation and maintenance of irrigation systems. Production of non-rice crops for export, such as organic coffee, is part of the goal of commodity production.

About 85 per cent of the country's total area is uplands, characterised by hills and high mountains up to 2,800 metres. Because of the remoteness and inaccessibility of the mountainous areas, the people that live here make up the poorest and most marginalised segment of the population, and this is therefore where rural development most sorely needs to take place. Government development policies in the uplands are largely based on the goal of stabilising shifting cultivation, although the great diversity of upland livelihood systems and the complex and varied needs of uplands people are always taken into account as well. Policy implementation, however, is constrained by many factors, including the remoteness of most upland areas, lack of roads, the uplands' great diversity of livelihood and socio-cultural systems, a predominantly barter economy, difficulties in supplying and distributing credit and unexploded ordnance left from past military activities.

Major development initiatives and achievements

Bearing in mind the necessity of striking a balance between economic development and conservation of the environment, the Government of the Lao PDR has implemented various policies and made various interventions in efforts to sustain socio-economic growth at the 1990s average rate (6.1 per cent).

Policy initiatives

Decentralisation

The decentralisation policy initiated ten years ago shifts responsibility for planning and implementing policy to local administration and communities. At the heart of decentralisation is the process of transforming provinces into strategic units, districts into planning and budgeting units and villages into implementing units, a process that grants local authorities and communities the power to manage natural resources.

Focal site (area-based) development approach

The area-based approach to integrated rural development is geared towards promoting locally owned 'centres for change and learning', with an emphasis on decentralised natural resource management and the self-help principle. Goals include the increase of food and commodity production, creation of employment opportunities, and improvement of living conditions. To be successful the approach requires the empowerment of district and local institutions, the development of human resources, and capacity building for public management and participatory community development.

Harmonisation of rural development planning and programming

Rural development is regarded as the pivot around which all other national development activities must revolve. The Leading National Committee for Rural Development was set up to coordinate rural development planning, programming and implementation. The committee is seated in the Prime Minister's Office and has well-staffed offices in all provinces. In addition, a number of coordinating offices whose task is to harmonise planning, development aid and extension activities have been established in the Ministry of Agriculture and Forestry. One of the key activities of these offices is the development of a conceptual framework for an 'area-based livelihood systems approach' to upland development. Another is the forging of closer links both among the concerned technical departments ('breaking walls' among departments) and between central departments and provincial/district agricultural and forestry offices. Such activities should result in the integration of strategic plans and programs at central and provincial levels and the consequent convergence of sub-sectoral activities tailored to specific recommendation domains at the micro level. This approach could make government-supported programs and projects (including international assistance) more effective and viable instruments for rural development.

Land and forest allocation

The aims of the Land and Forest Allocation scheme, introduced in 1996, include addressing land tenure conflicts, stabilising shifting cultivation, promoting investment in agricultural and forest land for commodity production, and encouraging productive use of available land. Implementation on the ground follows that of the focal site approach so as to ensure well coordinated, integrated development.

Implementation of pilot rural development studies

The government has begun numerous pilot projects, mainly in upland areas, in order to draw lessons on how to raise the living standards of rural communities. Over the last five years, both government-funded projects and cooperative projects funded by various international organisations have been successfully implemented in different parts of the country, and the lessons drawn from these pilot activities have been applied in other areas as well as incorporated into the policy development mechanism.

Initial achievements

Through the effective mobilisation of internal resources combined with external assistance, the government has made the following achievements in rural development:

Rice self-sufficiency in 2000

This achievement, an historical event, can be attributed mainly to the expansion of production infrastructure, for example irrigation facilities. The area of irrigated paddy fields has increased by almost 400 per cent over the last four years (from 25,000 hectares in 1997 to 89,000 hectares in 2000). Other agricultural production has also increased remarkably, thus more and more agricultural commodities—including rice, maize, coffee, beans, cattle and planted non-timber forest products—are available for export.

Reduction of the number of shifting cultivator families

The number of shifting cultivator families dropped from 150,000 in 1996 to 75,000 in 2000, and former shifting cultivators are now either practising stable farming in the same localities or engaged in other economic activities (cottage industry) in resettled areas.

Poverty reduction

The incidence of poverty dropped from 46.1 per cent in 1993 to 39.6 per cent in 2000.

Other socio-economic indicators

Other socio-economic indicators—such as life expectancy (54 years), infant mortality (82/1,000), maternal mortality, (530/100,000), fertility rate (4.5), access to clean water (56 per cent of the population), investment value (US\$6,954 million in 1998), GDP (US\$400 per capita per annum in 1997)—have improved and point to a good pace of development.

Major Constraints

As in all the least developed countries, Lao PDR, though richly endowed with natural resources, experiences many problems that constrain its development. The major constraints are: lack of adequate infrastructure; lack of skilled workers; inefficient institutions; insufficient financial capability; and difficult topography.

Major constraints to the development of agricultural production differ according to agro-geographic zone, with flat land along the Mekong River corridor and sloping land in hilly and mountainous areas. In the flat lands, the major constraints to agricultural development are: insufficient market information and linkages; lack of commodity grades and standards; lack of commercial credit facilities in many rural areas; and insufficient flow of productivity-increasing cash-crop technologies in the more isolated rural areas.

In the sloping lands, the major constraints are: inadequate markets and market information flows; poor access to transport and road links; low incidence of rural saving and investment; absence of productivity-improving technology flows; slow implementation of formal land tenure arrangements; and lack of the community-based infrastructure needed to optimise water-resource productivity within the agricultural sector.

Future action program

Development vision

The Lao PDR has already formulated a National Socio-Economic Development Strategy (NSEDs), as adopted by the National Assembly in 1996, geared towards ridding the country of its status as an LDC by the year 2020. All of the eight priority programs have the common objective of fighting poverty, both directly and indirectly. Priority programs expected to address poverty immediately, however, form the foundation of the National Poverty Alleviating Strategy (NPAAP), which is planned to be carried out in two stages, the first during the period 2001–10 and the second during the period 2011–20. Details of the two stages follow.

Stage 1, 2001–10

Coinciding with two (Fifth and Sixth) National Socio-Economic Development Plans, Stage 1 is conceived as a period of establishment and improvement of the economic base in order to ensure sustained GDP growth at an average rate of 7 per cent per annum. A number of interim targets have been set for this stage, as follows

2001–05

- to stabilise most shifting cultivation
- to eradicate poppy cultivation
- to reduce by one-half the current poverty incidence of 39 per cent

2006–10

- to terminate shifting cultivation.

Stage 2, 2011–20

Stage 2 is conceived as a period of economic and social development that will finally rid the country of its LDC status. The major interim target of this stage is to eradicate poverty in the country.

Guidelines for socioeconomic development

In order to achieve these development aspirations, in addition to institutionalising development-conducive policy measures, the government has laid down governing guidelines for the following thematic areas:

Sectoral development planning approach

The essential elements of the government's approach to achieving sustained equitable economic growth are agriculture and forestry, education, health, and road infrastructure programs. Because these four sectors can play such an important role in poverty alleviation, the government plans to devote most of its resources and effort to them, while at the same time working to develop the industry and service sectors. Each of these sectors of the economy must develop its own strategic vision, on the basis of which the priority programs are to be developed.

Regional economic development planning approach

The sector development planning approach must take into account the natural development potentials of the various regions with the view to making the most of these potentials, as well as labour force and other potentials, and also efficiently and effectively allocate resources to appropriate development activities.

Improvement of macroeconomic management

On the one hand, the market economic mechanism must operate smoothly on a legal basis, facilitate the free movement of goods and services, and create the conditions necessary for the integration of domestic markets into regional and global markets. On the other hand, the Government must improve its legal system and macroeconomic policies to be used as efficient instruments for social management.

Rural development and poverty eradication

An integrated well coordinated development approach must involve the concerted effort of all sectors of the government and society, while the focal site (area based) development principle should be strictly observed during planning, programming and implementation.

Human resources development

Increased attention must be paid to human resources development at all levels in order for sociocultural development to correspond to economic development as closely as possible. Emphasis must be placed on the development of a good education system capable of producing skilled human resources in both the short and long term.

Investments and resource mobilisation

With a view to facilitating the implementation of the above-mentioned strategies, effort must be made to mobilise funds equal to 25–30 per cent of GDP from various sources. Approximately half of these funds (or 12–14 per cent of GDP) should come from the national budget and represent public investment. The remainder can be solicited from the international community in the form of overseas development assistance grants and loans.

Implementation guiding principles

In order to implement its development plan, the government has given 91 concerned government agencies at all levels an outline of basic principles relating to effective coordinating mechanisms, clearly defined roles and responsibilities, the importance of the focal site development approach and the overarching decentralisation policy.

Economic integration of Lao PDR

Current integration situation

On the basis of an open-door policy, the Lao PDR has joined and is preparing to join many regional and international economic groupings. In 1997, the country gave up its observer status and became a full member of ASEAN, and in 1998 it joined the ASEAN Free Trade Area (AFTA), with an adaptation period lasting until 2008. In 1997, Lao PDR applied for World Trade Organization (WTO) membership, and in 1998 it obtained observer status. In the process of applying to accede to the WTO, in March 2001, Lao PDR submitted a

Memorandum on the Foreign Trade Regime to the WTO Secretariat in Geneva. At the time of writing, the government had received 263 questions on the Memorandum from WTO members such as Australia, the United States of America and the European Union. These questions relate mainly to the subject of market access, and they are currently being considered for response by the National Secretariat for the Preparation of the Lao PDR for accession to the WTO.

Opportunities and challenges

The economic integration process has brought about not only opportunities but also challenges. ASEAN and AFTA offer a number of opportunities to Lao PDR, most notably a huge market of over 500 million potential customers with greater purchasing power than the customers in domestic markets. Efficient implementation of the national priority of commodity production will improve Lao commodities' access to the large ASEAN market, which could lead to Lao and wider regional enrichment. In addition, active membership in ASEAN and AFTA will strengthen Lao PDR's role as a land-link at the centre of the Greater Mekong Sub-region, enabling the country to contribute significantly to an increasingly integrated economic region, while other ASEAN countries provide it with examples of successful development.

The challenges of joining ASEAN and AFTA, however, are great, especially because of the need to produce goods and services on a competitive basis, to encourage joint venture projects and to promote those economic sectors in which the Lao PDR has a strong comparative advantage.

Accession to the WTO is a logical continuation of the open-door policy reflected in Lao PDR's membership in ASEAN and AFTA. Although Lao PDR already benefits from the General System of Preferences (GSP) and the most favored nation (MFN) clause from some of its trading partners, the government recognises the further benefits of international economic integration. First, accession to the WTO is one way to expand the international market for Lao goods and increase exports, and subsequently improve economic mechanisms, develop comparative advantages and enhance the competitiveness of Lao goods and services. Second, accession to the WTO will provide Lao exporters with rights under international law to equal treatment with all other exporters. Third, it will encourage trade and investment, because the legislative framework of the country will necessarily be improved to bring it into line with WTO rules, and create a favourable business environment and thus attract more foreign investors. Fourth, Lao PDR will benefit from the use of the WTO's dispute settlement body for resolving transit disputes related to its land-locked geographic situation.

Besides the above opportunities, accession to the WTO will bring many challenges. First, the emerging market-oriented agricultural pattern must be strengthened and maintained, while the currency reserves necessary for the financing of essential imports must be found. Second, some of Lao PDR's laws and regulations on agriculture, trade and other economic activities are incompatible with WTO and other international rules and regulations. These laws and regulations need to be amended and redrafted. Third, the biggest

challenge for the government is the limitation of the country's human resources. Economic integration requires skilled and experienced staff and officials who understand the agreements, rules and regulations of the WTO and can communicate (using foreign languages fluently) and work well in international situations.

Conclusion

The New Economic Mechanism was introduced in 1986 and since then the Lao Government has geared the country towards a market economy, encouraged the development of the private sector and decentralised management. Taking into account the fact that agriculture and forestry form the back bone of the country's economy, the government has employed a two-pronged socioeconomic development approach, one for the uplands and the other for the lowlands. In the former case the focus is on self-sufficiency in food, agricultural diversification and conservation of natural resources, while in the latter case it is on commercialised agriculture production, using agricultural intensification to both maintain the already existing market momentum and trigger industrial sector development, particularly agro-industry. An area-based approach is adopted to facilitate this development. Also, the government has committed itself to eradicating poverty and ridding the country of its LDC status by the year 2020.

The government is committed to trade liberalisation as well as regional and international economic integration, in keeping with ASEAN, AFTA and WTO guidelines. In March 2001, the Lao PDR submitted a Memorandum on the Foreign Trade Regime to the WTO Secretariat in Geneva. The government is currently considering the 263 questions about the Memorandum that it has received from WTO members such as Australia, the United States of America and the European Union. Although Lao PDR has been self-sufficient in rice since 2000, it now faces many problems and constraints related to trade liberalisation and regional and global economic integration, for example the establishment of institutions and legal frameworks, infrastructure development, human resources development and financial capability development.

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