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LAO PEOPLE'S DEMOCRATIC REPUBLIC
PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

A paper on Agricultural Development Policy and WTO Accession of Lao PDR for
a Workshop on “ WTO: Issues for Developing Countries ”

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Abstract

The Lao People's Democratic Republic is a small and least developed country in South East Asia. The New Economic Mechanism was introduced since 1986 and the Lao Government has adopted market economy encouraged private sector and decentralized management authority. The agriculture and forestry sector is backbone of the Lao economy development. Lao PDR has an average of GDP growth rate of 8 % and an average economic growth rate of 7 %. The GoL is employing a two pronged socio-economic development approach, one for upland and other one for low land. With the former case the thrust is put for toward self-sufficiency in food emphasizing on agricultural diversification taking adequate conservation consideration into account, while for later case the focus is directed toward commercialized agriculture production using agricultural intensification to support the already existing market momentum as well as to trigger the industrial sector development particularly agro-industry. In realizing the development goal, the area-based approach strategy is employed. For the early stage of this millenium the GoL is committing itself to address the poverty issue so as to get the country rid of LDC status by the year 2020. Lao PDR has joined an Association of South East Asian Nations and has become an observer of WTO since 1997 and 1998 respectively. Nowadays, the country faces many problems and constraints during its economic transition in the areas of institution setting and legal framework, infrastructure, human resource development and financial capability.

**Three keywords: Decentralization, Poverty Reduction, Area-based development approach,
and Economic Integration.**

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1. General Background Information on Lao PDR and Its Rural Sector

The Lao People's Democratic Republic is a small country with a total land area of about 236,800 km² and a population of about 5.2 million people, giving an overall population density of 20 per km². The country remains a predominantly rural economy, with about 83% of the population living in the rural areas and some 66% relying on subsistence agriculture.

The Lao PDR is still considered one of the world's poorest countries with a high population growth rate of 2.8%. The average family size is about 6.5 persons and nearly half of the population is illiterate and about one-thirds of Lao families live in poverty. Poverty in the Lao PDR is, by internationally established indicators, widespread. The incidence of poverty (measured as % of total population) is greatest in the rural areas and varies between regions as follows: central region (33.6%), northern region (26.5%), and southern region (16.2%). In absolute terms, about 2.05 million of the Lao people are poor based on the poverty incidence measures.

Much of the land in the Lao PDR is mountainous, which restricts access, communications and the development of modern irrigation systems. Many of the villages are inaccessible during the rainy season. Non-existence or poor conditions of access roads in rural areas constrain the operation of motor vehicle services and of non-motorized means of transport. Less than 50% of the population have access to safe drinking water, which often forces people to get water from sources away from villages.

The Lao PDR still has an abundance of forest and water resources with potential for the country development. Natural resource includes timber, hydropower, gypsum, tin, gold and gemstones. Forests (47%) and woodland (7%) cover much of the area. At present, approximately 3% of the land is cropped (700,000 ha) and another 3% is grassland or permanent pasture (710,000 ha). Thus on average there is 1.1 ha of cropped land and 1.1 ha of grassland for livestock production per family.

The Lao PDR is subject to droughts, and the lowland areas may suffer serious flooding from the Mekong and other rivers. Climatic influences will affect both agricultural production and food security in some parts of the country every year. The country depends very much on its natural

resources of agricultural and forest land, and thus on the effectiveness of the farming and forestry systems used to manage them.

Agricultural production in upland areas is still dominated by subsistence crop cultivation under a shifting cultivation 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. Rural poverty in the uplands is directly linked to land degradation resulting from the management of the agricultural systems practiced. The challenge of stabilizing shifting cultivation and conservation of the environment in upland areas cannot be met unless the issues of poverty reduction, provision of alternative source of livelihood, food security, and security of land tenure are addressed simultaneously. Most farm incomes in the uplands are derived from sale of livestock, small amounts of other cash crops and non-timber forest products, non-farm and off-farm activities to finance the purchase of additional rice and other livelihood needs.

2. The Government of Lao PDR Overall Development Policy

The development of the Lao PDR, and with the agriculture and forestry as the key sector, has proceeded through several phases since 1975. The Government of the Lao PDR (GoL) was first faced with rehabilitating the physical infrastructure and social fabric. After some experimentation in policy initiatives and development, in 1986 the Government embarked on a new policy called the “New Economic Mechanism”. State Owned Enterprises have been progressively privatized, the market economy has been encouraged and many other approaches made towards integrating the Lao PDR with the global economy. The Lao PDR has joined ASEAN in mid-1997. These and other policies have been largely successful and the country has developed steadily, at least until the recent financial disruptions in Southeast Asian economies.

The GoL socio-economic development strategy take place within 8 National Priority Programs, outlined in the Socio-Economic Development Plan until year 2000. These National Programs encompass:

- Food Security,
- Increased Commercialization-oriented Production,

- Stabilization 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 recognized to remain the leading economic sector of the country and the engine to foster socio-economic development up to year 2020, gradually laying down the foundation for the shift to the industrial sector (that is the move into the processing industry for the agriculture sector).

3. General Economic Environment of the 1990's

During the second half of 1990's, the financial crisis in Asian exerted extensively negative impact in all South East Asian countries, with extended effect to the Far Eastern Asian country like the Republic of Korea, and ruthlessly playing havoc with the economy of these countries. Lao PDR was no exception and was quite severely suffered with rocketing inflation rate, up to 150% in January 1999 (exchange rate reaching 9,700 kip for 1 US dollar), causing financial hardship to all sectors of the society, specially in urban area where nearly all development and livelihood activities depends very much on import transaction, as prices were soaring up dramatically within such a short time. Whilst most of the major infrastructure development projects were however impaired across the country. That financial depression was effectively addressed and overcome by various Government counter measures and the overall economic condition became stabilized at mid 2000, successfully bringing the inflation down to 6.6% in August, and the country was able to maintain an average growth of 6.1% during that decade.

4. The rural Development Strategy: the Concept of an Area-Based Development Approach

Rural development has long been recognized as the key to eradication of mass poverty and sustainable improvements of the socio-economic well being of rural people and is one among the

eight national priority development programs of the GoL. Agriculture and forestry is considered the pivot of rural development, with other concerned sectors to provide the necessary pivoting support interventions (roads, social services, etc.) so as to ensure the required enabling environment to foster agricultural and forestry production. However, past development efforts were not well coordinated and therefore previous interventions in the rural areas did not achieved the expected results.

The GoL has further recognized that agricultural and forestry development, within the rural environment context, demands different policies, strategies and practices for the lowlands and the uplands. This recognition is reflected in a number of political directives, laws (e.g. Land/Forest and Water Resources Laws) and decrees that support an area-based approach to rural development so as to fully optimize the exploitation of its natural potentials, taking into consideration the complexities of the physical endowments of the country and local socio-cultural realities, and that aim to ensure that a more balanced development efforts is achieved between the urban and the rural areas.

With increased physical accessibility, improved infrastructure, better access to improved technologies and newly emerging marketing opportunities, the development of lower lands are attracting the increased involvement of the private sector and follow a different pace of development, geared towards a stronger emphasis on the commercialization of the agricultural and the forestry sector. A stronger promotion for developing export potential and diversification in farm and non-farm sectors is experienced nowadays in the lowland niches of the country. In the low lands, there is concentration on intensifying production methods to improve food security and commodity production. Among other inputs, this entails large, medium and small (including community-managed) irrigation schemes, and the need to form Water User Groups which are responsible for operations and maintenance. Production of non-rice crops for export, such as organic coffee, is a part of the commodity production goal.

About 85% of the country are uplands, characterized with hills and high mountains up to 2800 meters , where the poorest and the most marginalized segment of the population, due to remoteness and inaccessibility, are found, and this is where rural development needs to take place in the Lao context. In the uplands, Government policies for improved social and economic systems are largely based on efforts to stabilize shifting cultivation. Implementation of these

policies is constrained by many factors, including the remoteness of most upland areas, lack of roads, the great diversity in livelihood systems and socio-cultural systems, a predominant barter economy and difficulties in supplying and distributing credit and the continuing dangers of unexploded ordnance left from past military activities. Due to the great complexities and diversity of upland livelihood systems and the high incidence in deprived communities, the present rural development strategy and program focus, to a greater extent, to addressing the complex development needs of the uplands.

5. Major Developments Initiatives and Achievements

Given the above country overall realities under the emerging globalization process, bearing in mind the main policy guideline as to balance the economic development with conservation of the environment linked to the preservation of the country's fine tradition, the Government of the Lao PDR has put great effort to sustain the socio-economic growth in the country at an average rate as mentioned above through the adoption of various policy and implementing interventions.

5.2 Policy initiatives

◆ Decentralisation

The decentralization policy has been initiated by the Government a decade back, which devolves the planning and implementing responsibility to local administration and communities. The essence of the decentralization the “ process of building up the provinces to be the strategic units, the districts to be the planning and budgeting units and the villages to be the implementing units. This would give the local authorities and communities full right to manage natural resources within the area of their responsibility.

◆ Focal Site (area-based) development approach

The Lao Government has devised a “Focal Site” approach to rural development. By focal sites, we understand an area-based livelihood systems approach to integrated rural development. Such an area-based approach is geared towards promoting locally owned “centers for change and learning”, with the emphasis of decentralized natural resource management and self-help principle. The essence of focal sites is to increase food and

commodity production, to create employment opportunities, and the conditions for improved living standards. The accompanying conditions, the enabling environment for this to take place are reliant on the way the district and local institutions are empowered, human resources developed, and capacity building undertaken for public management and participatory community development.

◆ Harmonisation of rural development planning and programming

Rural development is regarded as the pivot area for national socio-economic development planning and programming, around which all other development activities are to be turning. The Leading National Committee for Rural Development was established seated at the Prime Minister's Office, with its well represented offices instituted in all provinces, to coordinate rural development planning, programming and implementation.

A number of lead coordinating offices for harmonizing planning, development aid and extension activities have been established in the Ministry of Agriculture and Forestry, for which one of their major roles is to develop the conceptual framework for an 'area-based livelihood systems approach' to upland development and the responsibility to forge closer links among the concerned technical departments (that is "breaking walls" among departments) as well as between the central departments and the provincial/district agricultural and forestry offices. This would bring about the possibility to integrate strategic plans and programs at central and provincial levels and, consequently, facilitate the convergence of sub-sectoral activities at micro-level tailored to specific recommendation domains. This approach to development planning would greatly help to make concerned government-supported programs and projects (including international assistance) a more effective and viable instrument for rural development and ensure the ultimate objective is to make this instrument as effective, reliable and compatible with local people's aspirations as possible.

◆ Land and Forest Allocation

The government of Lao PDR has introduced Land and Forest Allocation Scheme since 1996 with the aim to addressing, inter alia, land tenure conflicts and stabilize shifting cultivation, promote investment on agricultural and forest land for commodity production and encourage productive use of land available. The implementation of the scheme on the ground follows the classification of the focal site approach prioritization so as to ensure well coordinated integrated development programming and implementation.

◆ Implementation of Pilot Rural Development activities

The Government has embarked numerous pilot projects and programmes mainly in upland areas with the view to drawing lessons and experiences for uplifting the life quality of rural communities, to be adopted and expanded nationwide. For the last five years, many government funded and cooperative projects funded by many international organizations which have been implemented in various eco-geographical conditions across the country and have produced outstanding results. The outputs from these pilot activities are now fully extended in other areas as well as incorporated into the policy development mechanism for further improvement.

5.2 Initial achievements

Implementing these above mentioned policy initiatives and other important policy measures through the effective mobilization of internal resources combined with the external assistance, the Lao PDR has scored major rural development related achievements as follows:

- ◆ Rice self-sufficiency in the year 2000 marked a historical event in socio-economic development of the Lao PDR. This achievement is attributable to mainly the expansion of production infrastructure such as irrigation facilities. The irrigated paddy field has increased nearly four folds for the last four years (from 25,000 ha in 1997 to 89,000ha in 2000). Other agricultural production has also increased remarkably, thus more agricultural commodities including rice, maize, coffee, beans, cattle and planted non timber forest products.., are available for export.

- ◆ The number of shifting cultivator families have been reduced from 150,000 in 1996 to 75,000 in 2000. These farmers who stopped practicing shifting cultivation are now occupied with stable farming system either in the same (mostly) localities or in resettled areas, engaged in other non-farm economic activities (cottage industry).
- ◆ The poverty incidence has gone down to 38,6% in the year 2000 compared with 46,1% in 1993.
- ◆ Other socio-economic indicators (Life expectancy, 54; Infant mortality, 82/1000; Maternal mortality, 530/100,000; fertility rate,4.5; access to clean water,56%; Investment value, US\$ 6,954 million in 1998; GDP, US \$ 400.00 per capita income per annum in 1997) have shown better status which illustrates well a promising and reasonable pace of development.

6. Major Constraints

As with the case of all countries which are classified as the least developed countries, although endowed rich natural resources, these countries are facing with many problems and constraints which hinder the socio-economic developments. The major ones, among others, the followings:

- Lack of adequate infrastructural facilities,
- Insufficient skilled man power,
- Inefficient institutional setting,
- Insufficient financial capability,
- Difficult topography

Major constraints to agricultural production development are different due to agro-geographic zone classifying flat land along Mekong River corridor and slopping land in hilly and mountainous areas.

In the flat land , the major constraint to agriculture growth development are as follows:

- Insufficient market information and linkages
- Lack of commodity grades and standards

- Insufficient of commercial credit facilities in many rural area and
- Insufficient flow of productivity increasing cash crop technologies in more isolated rural.

In slopping land, there are more major type of constraints than in flat low land areas presented below:

- Lack of market and market information flows
- Inadequate 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
- Insufficient of community based infrastructure needed to optimize water resources productivity within the agricultural sector

7. Future Action Program

7.1 Development vision

The Lao PDR has formulated its National Socio-Economic Development Strategy (NSEDS) to the year 2020, as adopted by the National Assembly in 1996, which is geared toward getting the country out of the status of “ least developed Country” in the year 2020.

All of the 8 priority programmes have the common objective of fighting poverty directly and indirectly. However, priority programmes which are expected to address poverty immediately and, thus, still constitute the main vector of the National Poverty Alleviating Strategy (NPAAP) would evolve around the strategic activity areas to be implemented mainly in rural areas.

The NSEDS is phased out into two stages with the first stage falling within the period of 2001-2010 and the second stage in 2011-2020, and a number of milestones have been targeted for each of these as follows:

- ◆ Stage 1, 2001-2010, coinciding with two (**Fifth and Sixth**) **National socio-economic Development Plans**, is conceived as a period of the establishment and improvement of the economic base for ensuring a sustained GDP growth at the annum 7% average rate; during this stage a number of accomplishments are so targeted as:
 - from 2001 to 2005
 - to stabilize the major proportion of shifting cultivation,
 - to eradicate poppy cultivation,
 - to reduce by one half of the present poverty incidence of 39%,
 - from 2006 to 2010
 - to terminate shifting cultivation

- ◆ Stage 2, 2011-2020, is viewed as a period of economic and social development, which will enable the country to quit the status of a least developed country. The major targeted milestones for this period are to achieve the eradication of poverty from the country.

7.2 Guidelines for socio-economic development

In order to achieve these development aspirations, along with institutionalizing development conducive policy measures, the Government of the Lao PDR has laid down governing guidelines for the following thematic areas:

- ◆ **Sectoral Development Planning Approach,**

The essential skeleton elements of the Government approach to achieving sustained equitable economic growth, are the agriculture-forestry, education, health and road infrastructure programmes, since these four sectors are the most immediate priorities for poverty alleviation and the government will continue to commit most of its resources and effort in them, in conjunction with the development of the industry and service sectors. Each of these economic sector must work out their own strategic vision, based on which the sector priority programs are to be developed with the objectives to address poverty.

- ◆ **Regional Economic Development Planning Approach,**

The sector development planning approach needs to take into proper consideration of the natural development potentials region-wise with the view to best exploiting these potentials, labor force and other potentials, and efficiently and effectively allocate resources to development activities.

◆ Improvement of Macro-economic Management,

On the one hand, the market economic mechanism must operate smoothly on legal basis, congregating local market into a national market, facilitating free movement of goods and services, and creating the necessary condition the integration of domestic markets into regional markets and the rest of the world. On the other hand, the State must improve and complete its legal system and macro-economic policy to be used as efficient instruments for its management of the society.

◆ Rural Development and Poverty eradication,

The integrated well coordinated development approach is to be employed with concerted effort from all sectors of the government and the society. The focal site (area-based) development principle is to be strictly observed during the sector/region based planning, programming as well as the implementation.

◆ Human Resource Development,

Increased attention is to be paid on human resource development duties at all levels so that socio-cultural development goes concurrently with the economic development in a smooth manner. The focus must be placed on the development of such education system as to train human resource both qualitatively and quantitatively in short and long terms.

◆ Investments and Resource Mobilization,

In view to facilitating the implementation of the above-mentioned strategies and achieving targeted milestones, effort must be made to mobilize adequate funds about 25-30 percent of GDP from various sources, of which 12-14 percent of GDP, represent public investment to come from the national budget. The remaining needed fund is to be solicited from international community as Overseas Development of Assistance (ODA) in the form of grants and loans.

◆ Implementation Guiding Principles,

In order to fulfil the implementation of the development plan, the government has outlined basic principles and instructions for all concerned government agencies at all levels to fulfill their duties and obligations through effective coordination mechanism, clear division of well defined role and responsibility, bearing in mind the focal site development methodology, based on the decentralization overarching policy and following the sector/region wise planning and programming approach.

8. Economic Integration of Lao PDR

8.1 Current integration situation

Based on the open door policy of GoL, the country has joined and prepares to join many regional and international economic groupings. In 1997, Lao PDR left the observer status and became a full member of ASEAN and in 1998 joined ASEAN Free Trade Area (AFTA) with its adaptation period until 2008, regarding the liberalization of trade and harmonization of custom tariffs. In 1997, Lao PDR applied continuously for the WTO membership and obtained an observer status in 1998. In the process of accession to WTO membership, the preparation has come to a stage where Memorandum on Foreign Trade Regime has been submitted completely to WTO Secretariat in Geneva since March 2001. At the present time, the GoL has already received 263 questions on the Memorandum from WTO members including Australia, United State of America and European Union. The obtained questions relate mainly to the area of market access of the Agreement on Agriculture and they are under the process of the consideration of the National Secretariat for the preparation of the Lao PDR accession to WTO to seek and prepare their answers.

8.2 Opportunities and challenges

The economic integration process has brought about not only a number of opportunities but also challenges. ASEAN and AFTA offer a number of opportunities to Lao PDR notably in the form of a big market of over 500 millions of potential customers with a greater purchasing power. An efficient implementation of the national priority of commodity production will promote the access of the Lao commodities to the large ASEAN market, which could contribute to the regional and Lao enrichment. In addition, active membership in ASEAN and AFTA will assist Lao PDR to strengthen its role as a land-linked, at the center of the Greater Mekong Sub-region.

In this manner, the country will be able to contribute to an increasingly integrated area, with ASEAN countries providing it with examples of successful development.

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

Joining the WTO is a logical continuation of the open-door policy as reflected by the country cohesion to ASEAN and AFTA. Although Lao PDR benefits already from the General System Preference (GSP) and the Most Favored Nation (MFN) clause from some of its trading partners before joining WTO, the GoL has recognized the benefits from the international economic integration. Firstly, joining WTO is one way to expand market internationally for Lao goods and increase export and then promote economic mechanism, develop competitive advantage, and enhance competitiveness of the Lao goods and services. Secondly, the membership of WTO will provide Lao exporters rights under international law to equal treatment with all other exporters. Thirdly, it will encourage trade and investment because the legislative framework of the country will be improved and harmonized with WTO rules, and create a favorable business environment, thus, attract more foreign investors. Lastly, Lao PDR will benefit from the use of WTO dispute settlement body for resolving its transit disputes applied by neighboring countries due to its land-locked geographic situation.

Beside the above opportunities, there are many challenges of being a member of the WTO. firstly, the main challenge is to reinforce the emerging market-oriented agricultural pattern, while finding the necessary currency reserves to finance the needed imports. Secondly some laws and regulations on agriculture, trade and economic activities are incompatible with the international norms and some of them are not complied with the WTO rules distorting the international trade. Furthermore, these laws and regulations need to be amended and redrafted. Finally, the most important challenge for GoL is human resource limitation. The process of the integration requires skilled and experienced staffs and officials on agreements, rules and regulations of WTO, who can communicate and work well in the international fora using fluently foreign languages.

9. Conclusion

The Lao People's Democratic Republic is a small and least developed country in South East Asia. The New Economic Mechanism was introduced since 1986 and the Lao Government has adopted market economy encouraged private sector and decentralized management authority. The agriculture and forestry sector is backbone of the Lao economy development accounting for 52% of Gross Domestic Product (GDP) and provides about 85-90% of total employment. Lao PDR has an average of GDP growth rate of 8 % while agricultural GDP growth has averaged 5.4% and an average economic growth rate of 7 %.

The GoL is employing a two pronged socio-economic development approach, one for upland and other one for low land. With the former case the thrust is put for toward self-sufficiency in food emphasizing on agricultural diversification taking adequate conservation of natural resource consideration into account, while for later case the focus is directed toward commercialized agriculture production using agricultural intensification to support the already existing market momentum as well as to trigger the industrial sector development particularly agro-industry. In realizing the development goal, the area-based approach strategy is employed. For the early stage of this millenium the GoL is committing its self to address the poverty eradication so as to get the country quit of LDC status by the year 2020.

The GoL is committed to trade liberalization as well as regional and international economic integration along the guidelines of ASEAN, AFTA and WTO. Since 1997, the Lao PDR has joined an Association of South East Asian Nations and since 1998 it has become an observer of WTO. In March 2001, the Memorandum on Foreign Trade Regime of the country was submitted completely to WTO Secretariat in Geneva. At the present time, the GoL has already received 263 questions on the Memorandum from WTO members including Australia, United State of America and European Union.

Although Lao PDR has been self-sufficient in rice since the year 2000, nowadays the country faces many problems and constraints during its trade liberalization, and regional and global economic integration in the areas of institution setting and legal framework, infrastructure, human resource development and financial capability.

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