



## The Current Situation and Outlook of the Lao Economy

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### Summary

- The real GDP growth rate of Laos had transited around 7-8% since 2006 but in 2016 drop by 0.5 points from the previous year to 6.9% and went below 7% for the first time since 2005. According to the statistics of the International Monetary Fund (IMF) the Nominal GDP of Laos in 2016 was US\$13.8 bn. (Ranked 121<sup>st</sup> amongst 190 countries), the Nominal GDP per capita was US\$1,925. (Ranked 140<sup>th</sup> amongst 189 countries), a level that does not even reach 15% of the world's average. The United Nations (UN) classified Laos as a Least Developed Country (LDC).
- Laos is an inland nation situated at almost at the middle of the Indochina Peninsula, 70% of country is made up of highlands and mountainous areas with the Mekong river running across north to south of the country. Laos, taking advantage of its geography, produces electricity by hydro-electric generation which they export to Thailand and also exports copper. In spite of this, up to 2013 their trade balance recorded a one digit percent deficient, against the GDP.
- Lately, because of the increase in imports of materials and machinery for the construction of hydro-electric dams, in 2015 the trade deficient had increased to 20% of the GDP. In the same year the current balance, mainly because of the trade deficient, became -17% of the GDP. Even the fiscal balance, for a long time was transited between -2% to -4% of the GDP, but because the governmental revenue system is not well established, the deficient has increased to -6% of the GDP in 2016. Decreasing these deficient is the one of main tasks of Laos.

- Laos, as one of the closely related socialist country to China within the Indochina Peninsula, has received many kinds of political and economic support from China. With that in mind there are opinions saying that if the Chinese economy decelerates it would have some effects towards Laos. In fact, the share of exports towards China, which is 33.7%, is second to Thailand therefore effects up to a certain degree maybe unavoidable. But the China-Laos Railway, which construction started at the end of last year, is a very important national project for China. Because of this, the possibility of support and investments from China decreasing can be considered small.
  
- Under the leadership of the new president and prime minister, who were appointed in April of last year, Laos has set the target to graduate from the status of LDC by 2020. After their inauguration the government had announced all kinds of economic reforms to improve the current and fiscal balance. Reforms such as, the establishment of a sound governmental revenue system, the revision of investment laws to lure investments from aboard and the increase of hydro-electric dams to increase foreign currency revenue. But the results from these reforms will only be realized in two or three years from now and also the problem of the removal of Unexploded Ordnances, which scale may take years to comprehend, will surely have effects on most of the development projects. In terms of current and fiscal deficient, if the construction of the dams does not go as planned and the exports of electricity are delayed, the possibility of the situation becoming critically may not be small.

## 1. Overview of Laos

Laos is the only inland nation amongst the ASEAN countries, situated at almost at the middle of the Indochina Peninsula and is bordered by the five countries of, China, Vietnam, Myanmar, Thailand and Cambodia.

Post Second World War, in 1953 with the end of French colonization the Kingdom of Laos was established. Then after several civil wars, large scale bombings by U.S. forces during the Vietnam War and border disputes with Thailand, in December of 1975 the People's Republic of Laos was born.



Source: Google

### General Facts

Area	23.7 sq. km (63% the size of Japan)
Population	6.49 million (as of 2015)
Capital	Vientiane (Population 700 thou.)
Language	Laos (Official Language)
Religion	Buddhism 60%, Others (Animism) 40%
Currency	Kip (LAK)
Government	One-Party (Lao People's Revolutionary Party) Socialist Republic
Head of State	President Bounnhang Vorachith
Legislature	Single Chamber system
Education	Adult Literacy Rate: 80% (Reported by UNICEF 2015) School Attendance: 94.1% (Reported by Laos' Ministry of Sports and Education 2010-2011)

## 2. Overview of the Economy

Amongst the countries of the Indochina Peninsula, Laos is the smallest in, population, economy and other general statistics (Table 1). The Nominal GDP of Laos in 2016 was US\$13.8 bn., and the Nominal GDP per capita was US\$1,925., a level that does not even reach 15% of the world's average and is categorized by the UN as a Least Developed Country (LDC).

(Table 1) Comparison of the Five Indochina Peninsula Countries (as of 2015)

	<b>Laos</b>	Cambodia	Myanmar	Vietnam	Thai
Population (mil.)	<b>6.5</b>	15.1	51.5	91.7	68.8
Area (km <sup>2</sup> )	<b>236,800</b>	181,035	676,578	346,410	513,115
Nominal GDP (US\$ bn.)*	<b>13.8</b>	19.4	66.3	201.3	40.7
World Ranking (out of 190 countries)	<b>121</b>	111	72	48	26
GDP per Capita (US\$)*	<b>1,925</b>	1,230	1,269	2,173	5,899
World Ranking (out of 189 countries)	<b>140</b>	156	153	135	88
Export (mil.)	<b>4,374</b>	10,738	11,432	162,112	214,375
Import (mil.)	<b>7,533</b>	17,506	16,844	165,649	202,654
Foreign Reserve (mil.)	<b>1,043</b>	5,626	3,804	28,250	129,408
Joined ASEAN	<b>1997</b>	1999	1997	1995	1967
Joined WTO	<b>2013</b>	2004	1995	2007	1995

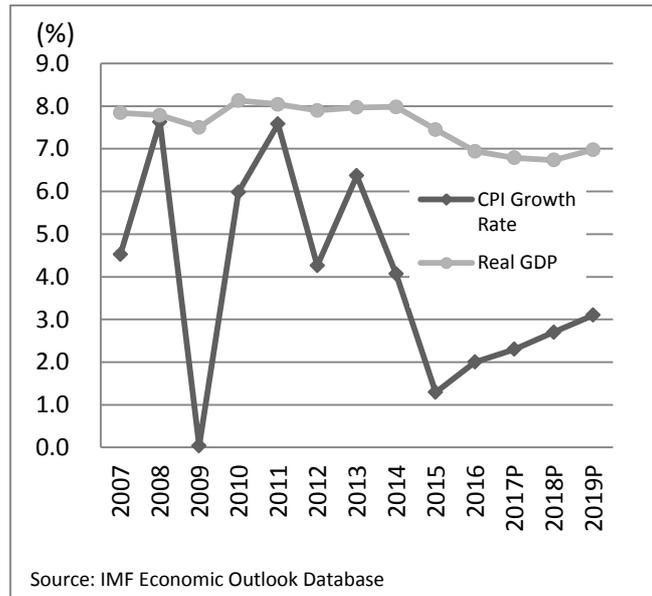
Source: Prepared from data of JETRO \*2016 statistics

### 1) Growth and Inflation Rate

The growth rate of the Lao economy was 6.9% in 2016, a 0.5 point drop from the previous year and the second straight year that the growth rate had declined (Chart 1). Decrease in revenues from the mining industry and decline in public investments were some of the major reasons. Looking forward, according to February 2017 IMF's "2017 Article IV Consultation" (the "IMF Report"), IMF predicts that for the next two to three years it will maintain this level.

It further explains that, negative factors such as, copper, one of the main export products of Laos, because of the recent decline in mineral prices, is not expected to increase in revenues and public investments will not increase because of the policies to decrease public debt. These negative factors are off-set by the increase in exports of electricity and this situation will continue for a while.

Chart 1: Real GDP and CPI Growth Rate



In regards to the consumer price inflation growth rate, until 2014 when the GDP growth rate was around 8%, the inflation rate was 4 to 6% (Chart 1), but not only the decline in growth rate, the price of fossil fuel and commodities had declined also and in 2015 the inflation rate drop to 1.3%. In 2016 it recovered slightly to 2.0% and the IMF predicts it would steadily rise to 3.0%.

## 2) Current and Fiscal Balance

Laos' external (current + trade) balance and fiscal balance are both in the red. The trade deficit up till 2013 maintained a single digit percent but from 2014 because of infrastructure construction, such as hydro-electric dams, a lot of materials and machinery had been imported<sup>1</sup>. The deficit had increased and in 2015 increasing to US\$2.5 billion or -20% of the GDP (Chart 2). Also the current deficit, mainly because of the increase in trade deficit had widened to -17% of the GDP in 2015 (Chart 3 and 4).

<sup>1</sup> As mentioned later, electricity is Lao's main export product and to achieve their target of becoming the "Battery of Southeast Asia", many number of dam construction projects are underway. These projects will bring about an increase in exports of electricity in the future.

Chart 2: Trade Balance

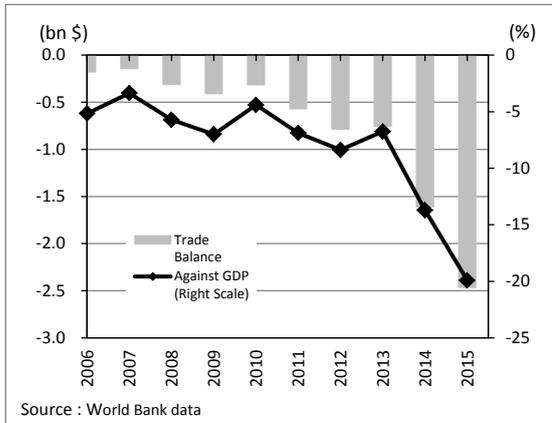
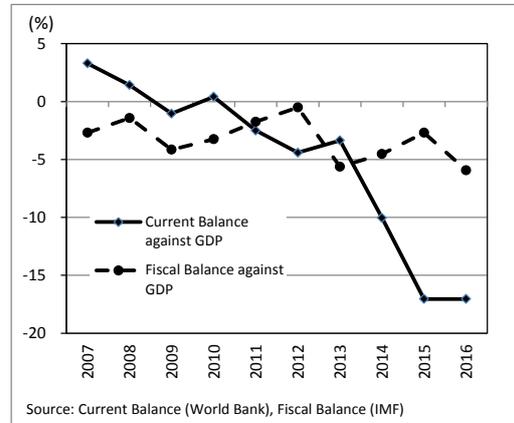
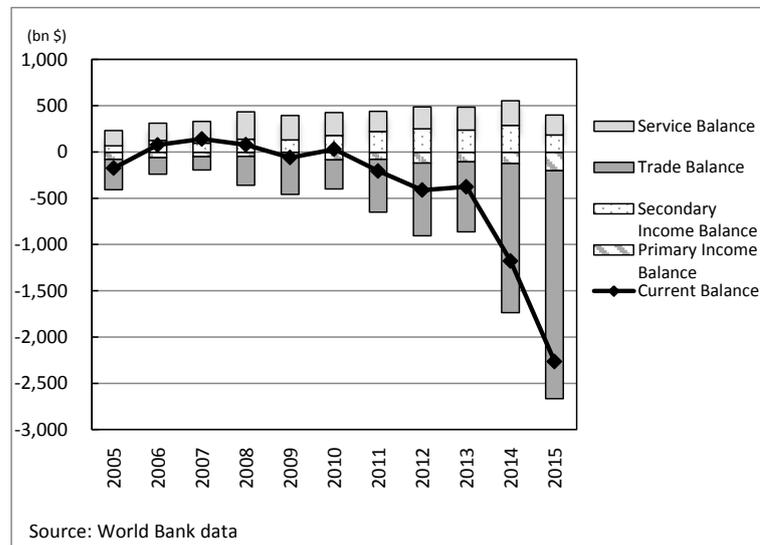


Chart 3: Current & Fiscal Balance against GDP



Even the fiscal balance, because the government revenue system is not well established, continue to be in a deficit. In 2016 the deficit became -5.9% against GDP, an increase from 2015's -2.7% (Chart 3). Also because of the drop in the price of copper, another main export products, sales of companies related to copper exports decreased and which led to a decrease in tax revenues from these companies. The decline in oil prices decreased import custom tax revenues as well.

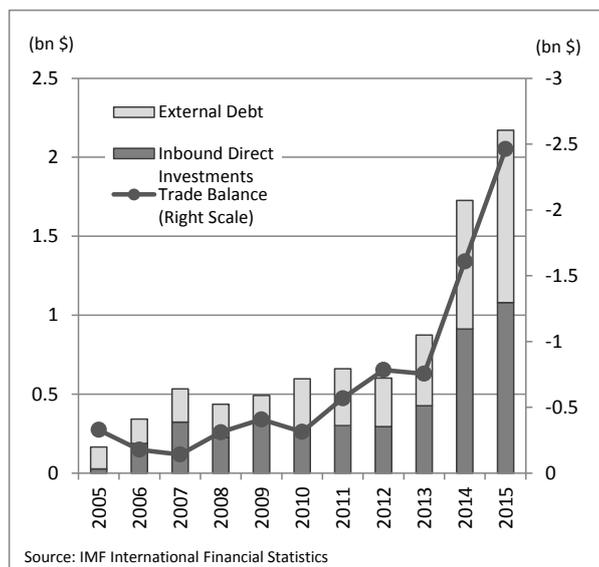
Chart 4: Current Balance



70% of Laos' landscape is made up of highlands and mountainous areas and from these areas there are many rivers that feed into the Mekong River which runs across the country. Hydro-electricity generate from these rivers and the Mekong, 80% are exported to neighboring Thailand. These make up almost 30% of Laos' exports and are an important source for foreign currency. Because of this, these past few years, the construction of hydro-electric dams have increased rapidly; the number of dams was 10 in 2010 but has increased to 34 at the end 2015.

Laos' external balance deficit is mainly brought about by the construction of infrastructure such as hydro-electric dams and as seen in the Chart 5, it can be presumed that the deficit is supplemented by the funds from infrastructure related<sup>2</sup> investments and borrowings from abroad.

Chart 5: External Debt and Inbound Direct Investments



### 3) Laos' Exports

The main export products of Laos are minerals, mainly copper, and electricity. Copper, due to recent drop in prices, export amounts have turned into a decreasing trend. Lumber and related products, which are the second most products, have been increasing up till 2014 but in 2015, for the purpose of preservation of resources, the government export regulations were strengthened and the amount decreased by 47.6% from the year before (Table 2).

(Table 2) Laos' Major Export/Import products

	Exports (CIF)					Imports (FOB)			
	2014		2015			2014		2015	
	Amount	Amount	Share	Increase		Amount	Amount	Share	Increase
Minerals, Electricity	1,828	1,724	44.8	-5.7	Machinery & Parts	2,121	1,368	21.2	-35.5
Lumber & Products	1,797	941	24.4	-47.6	Vehicles & Parts	1,053	1,127	17.4	7
Agricultural Products	379	344	8.9	-9.2	Fossil Fuel & Electricity	1,117	969	15	-13.2
Sewn Products	274	258	6.7	-6.1	Agricultural Products	751	833	12.9	10.9
Others	352	584	15.2	65.9	Steel	641	654	10.1	1.9
					Others	1,403	1,511	23.4	7.7
<b>Total</b>	<b>4,630</b>	<b>3,851</b>	<b>100</b>	<b>-16.8</b>	<b>Total</b>	<b>7,087</b>	<b>6,462</b>	<b>100</b>	<b>-8.8</b>

\* Comprised from Trading Statistics of countries trading with Laos, which are EU28, U.S., Australia, China, Hong Kong, South Korea, Taiwan, Japan, Singapore, Malaysia, Indonesia, Philippine, Cambodia, Thailand and Vietnam. Cambodia are only 2014 statistics. Vietnam's 2015 statistics are from data of Vietnam's Custom.

Source: JETRO's Global Trade Atlas data

<sup>2</sup> In the Lao government's "8<sup>th</sup> Five-year National Socio-Economic Development Plan", announced in June of 2016, it mentions that necessary legislation and tax benefits will be implemented to increase inbound direct investment for dam constructions.

The government is trying to do the same with copper mining as well by setting up limits to new developments. To be more specific the government concerned about effects towards the environment, after 2016 has not approved a single project related to mineral mining and have announced that they are strengthening monitoring for those that are already running. Also in Lao government's "8<sup>th</sup> Five-year National Socio-Economic Development Plan" mentions about plans to start research for new mines but at the same time it mentions about the goal to withdrawn from a natural resource relying economy.

In agricultural, due to the large scale bombing by the U.S. during the Vietnam War, there are many unexploded ordnances left in mountainous areas which are preventing the clearing of forests for the expansion of cultivation land (Further details to follow), export products such as coffee beans and rubber are being effect by this.

In regards to imports, the imports of machinery, vehicles, parts and steel materials for the construction of hydro-electric dams make up almost half of the imports. Third amongst imports is electricity which is imported from Thailand because the hot season in Laos, usually between March and June, is also the dry season and the hydro-electric dams cannot generate sufficient electricity.

The countries that Laos exports to are, ranked first is Thailand with a share of 38.0%, second is China with a share of 33.7% and third is Vietnam with 15.3%. For imports, as the same with exports, Thailand is ranked first with a share of 64.5%, second is China with a share of 18.3% and Vietnam is third with a share of 8.3% (Table 3).

(Table 3) Laos' major trading Countries and Regions

(Unit: mil.\$, %)

	Exports (CIF)				Imports (FOB)			
	2014	2015			2014	2015		
	Amount	Amount	Share	Increase	Amount	Amount	Share	Increase
Asia/Pacific								
Japan	116	97	2.5	-16.2	138	105	1.6	-24.3
China	1,772	1,298	33.7	-26.7	1,843	1,182	18.3	-35.9
Hong Kong	80	30	0.8	-62.1	42	23	0.4	-45.2
Taiwan	16	14	0.4	-10.5	3	3	0	-10.8
South Korea	18	28	0.7	57.6	156	170	2.6	9.2
ASEAN								
Thailand	1,412	1,465	38.0	3.7	3,973	4,168	64.5	4.9
Vietnam	802	589	15.3	-26.6	484	535	8.3	10.5
Indonesia	51	1	0	-98.4	5	8	0.1	70.4
Singapore	15	13	0.3	-13.6	119	59	0.9	-50.5
Cambodia	13	n.a.	n.a.	n.a.	0.1	n.a.	n.a.	n.a.
Malaysia	1	3	0.1	130.1	25	15	0.2	-40.2
Philippine	0	0	0	-64.8	0.1	16	0.2	14,117
Australia	2	3	0.1	28.6	32	20	0.3	-38.2
EU28	298	264	6.8	-11.4	238	135	2.1	-43.5
U.S.	33	45	1.2	37.1	28	25	0.4	-13.7
Total	4,630	3,851	100	-16.8	7,087	6,462	100	-8.8

\* Comprised from Trading Statistics of countries trading with Laos, which are EU28, U.S., Australia, China, Hong Kong, South Korea, Taiwan, Japan, Singapore, Malaysia, Indonesia, Philippine, Cambodia, Thailand and Vietnam. Cambodia are only 2014 statistics. Vietnam's 2015 statistics are from data of Vietnam's Custom.

Source: JETRO's Global Trade Atlas data

#### 4) The Financial Situation

##### ➤ Non-Performing Loans of Financial Institution

Concerning the non-performing loans of Lao's financial institution, the IMF Report mentions that "While the overall banking system is well capitalized, state-owned bank balance sheets show signs of weakness". There are four state-owned banks<sup>3</sup> in Laos and as of 2014, have a relatively high non-performing loan ratio of 8% according to the IMF Report (Table 4). The Lao monetary authorities have announced restructuring plans for two of the state-owned banks. Other banks have relative low non-performing loan ratio but IMF points out the accounting standards of Laos does not meet the international standards hence mentions that there is a possibility that the ratio maybe worse than the disclosed numbers.

Chart 4: Lao Financial Institution's Non-performing Loan Ratio (%)

	2009	2010	2011	2012	2013	2014	2015
State Owned	1.3	1.5	N.A.	1.9	2.7	8.2	N.A.
Joint Ventures	1.3	1.6	N.A.	1.3	1.9	4.0	N.A.
Foreign	10.5	10.8	N.A.	3.9	3.8	4.2	N.A.
Private	1.9	1.2	N.A.	0.1	0.1	0.2	N.A.
Total	3.8	3.8	2.2	1.8	2.1	4.2	3.2

Source: Bank of Lao PDR data

Under these situations the Lao government has strengthened its bank supervision to prevent the increase of non-performing loans and for those banks with not enough capital are ask to present specific capital increasing plans. Furthermore in trying to stimulate the economy it is promoting the increase of bank loans. The central bank of Lao, the Bank of the Lao P.D.R, had at the beginning of 2015 lowered their interest rate, which had remained at 5.0% since 2010, to 4.5% and to 4.25% at the end of 2016. Also, banks were allowed to give out foreign currency loans to import company as well.

##### ➤ Dollarization

The dollarization situation or the circulation of U.S. dollars, in Laos, according to the IMF Report, 45% of bank deposits and 48% of loans provided by non-financial institution (Micro Finance) are denominated in foreign currency. Also 40% of the money supple is said to be in foreign currency as well and showing that dollarization had progressed.

But these statistics are of 2015 and afterwards, with the assistance from the IMF, the government has announced countermeasures for de-dollarization such as, taking away the limit on local currency, the Kip, deposits, setting up deposit insurance for Kip deposits, ordering

<sup>3</sup> The four state-owned banks are, Banque pour le Commerce Extrieur Lao, Lao Development Bank, Agricultural Promotion Bank and Nayoby Bank. There are a total of 40 banks in Laos.

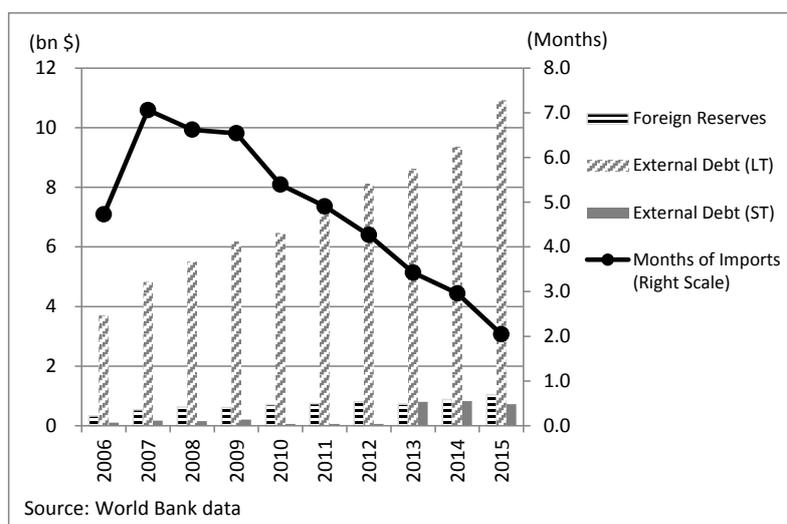
stores to show only the price tags in Kip, and more. After the release of the IMF Report, the government announced that, although not backed up with statistics, “dollarization has continued its downward path” and it seems it has not reached a critical stage.

### 5) Foreign Reserves and External Debt

Laos, as seen in Chart 6, its low level of foreign reserves and large external debt is a concern. The foreign reserve in months of imports of Laos has gone below the appropriate level of five to six months in 2011 and has become about two months in 2015.

But if one looks at the content of the external debts most of them are long term debts which are thought to be either, concessional loans from international aid organizations such as JICA of Japan and infrastructure related finance from Thailand, Vietnam and China. As mentioned in the IMF Report, it is the view of Lao government that most of these loans are project base and that there is no problem in their repayment ability. If one excludes these loans from the external debt, foreign reserves in months of imports will be around the appropriate level of five months. The IMF has not made any specific comments about this explanation but has mentioned that Laos continues to make efforts to increase their foreign reserves.

Chart 6: Foreign Reserves and External Debt



### 3. The Prospects of the Lao Economy

As seen from what has been mentioned, one cannot say that the economic situation of Laos is good, especially the problems of the current and fiscal deficient. To resolve this the Lao government has set up several countermeasures. Some of them are, improvement of the revenue collection mechanism, revision of investment laws and regulations to promote investments from abroad, plans to increase hydro-electric power, Lao’s main export product, to resolve the current

and trade deficient, and more.

Laos has close ties with China both politically and economically. That may raise the questions that the deceleration of the Chinese economy may have adverse effect towards Laos. Currently in Laos construction of the China-Laos Railway is underway and this project is not only Laos' but also China's project of national priority (details to be mentioned later). Hence this project would not be effect that much by the deceleration of China's economy.

#### 1) The Improvement of the Revenue Collection Mechanism

The improvement of the revenue collection mechanism is one of the priority items in the Laos government's "8<sup>th</sup> Five-year National Socio-Economic Development Plan" and the Lao government is trying to set up a sound tax collecting system. Specific examples are re-evaluation of corporate registration not only to collect the proper corporate taxes but to make sure they comply with the proper tax deduction and exemption. Also, exemption of custom taxes on imports of raw material and machinery for infrastructure project were abolished.

Furthermore, not only the revenue side, the improvement of the system to manage government expenditure was implemented in the plan as well. Expenditures were checked to see if they were done based upon government approved budget and if further expenditures were need strict evaluation were to be done.

#### 2) Revision of the Investment Incentive Law

The Lao government, at the National Assembly held in October 2016, approved the revision of the Investment Incentive Law ("IIL"). In this revised law, investments for the development of social and economic infrastructures can have corporate taxes exempted for a maximum 10 years and lease and concession fees exempted for 15 years. Also not only in legal matters but the "One Stop Service" implemented after the revision of the IIL, which process was said to be slow because of lack of cooperation between related ministries and governmental institution, was centralized to Minister of Planning and Investment to speed up the process.

#### 3) Construction of Hydro-electricity Dams

The Lao government considers important hydro-electric generation because it is a valuable source for foreign currency being one of the main export products. Laos has a potential hydro-electric generation ability that is technically possible of 18,000 Mega Watts (MW)<sup>4</sup>. In 2015 the power generated was only 2,900MW showing that there is still plenty of room for development.

The Lao government has set up the goal that they will become the "Battery of South East

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<sup>4</sup> This is approximately 40% of what Japan can generate, which is 46,000MW.

Asia” and is constructing 23 dams ranging from 5MW to 1,285MW<sup>5</sup> generation capability. Currently Laos is exporting electricity to Thailand and the government has announced plans to by 2020, export 7,000MW to Thailand, 5,000MW to Vietnam and 1,500MW to Cambodia. Hence the reason why many numbers of projects are funded by Thai and Vietnam companies. Also China and Japan are providing development aid and loans. There are a total of the 71 projects, of which 31 are still at a surveying stages, 21 are in preparation of the documentation and 19 are about to start construction.

But on the Mekong River, not only Laos but also China is operating or constructing a number of dams upstream and downstream in Cambodia and Vietnam there are concerns about the many kind of effects this may have on the environment. In response to these circumstances in 1995 between Vietnam, Thailand, Laos and Cambodia, the Mekong River Commission was established. Development along the Mekong River requires the approval of this commission, or in other words the four countries. Taken into fact that not only dam developments are being done in Laos but also in China, the effects downstream maybe unavoidable and may make the construction of new dams difficult.

#### 4) Effects of China’s Deceleration and the Construction of the China-Laos Railway

As mentioned before, Laos’ top three exporting countries are, first is Thailand (38.0% share), second is China (33.7% share) and third is Vietnam (15.3% share). Therefore if the Chinese economy decelerates, for Laos, effects from it are unavoidable.

But the possibility of financial support and investments from China decreasing may be small. Take for example the China-Laos Railway construction project. The project is to build approximately 400 kilometers of railways running from the China-Laos border town of Boten, in the northern part of Laos to Vientiane. Over 62.7% will be bridges and tunnels, 32 stations are planned and the designed speed is 160km/h. Construction period is for five years, total investment cost is approximately 6-7 billion US dollars, of which 70% will be provided by the Chinese and the remaining by Laos.

This railway, investment and construction is



Source: The Laotian Times

<sup>5</sup> For reference the output of Japan’s Kurobe dam is maximum 335MW.

mainly done by the Chinese and will be co-management by China and Laos. It is China's first overseas railway project which is directly linked to the Chinese railway system and will be using Chinese railway and equipment standards. Construction had begun in December of last year and completion is planned to be sometime between 2020-2021. Also the Lao government has several plans for establishment of economic specialize economic zones along the railway.

After completion the railway would largely contribute to the domestic and cross-border distribution network of Laos. Currently in Laos there is only 3.5km of railway running from the outskirts of Vientiane to the Thai-Laos border, which then connects to the Thai railway network south of the border and on to Bangkok. So with this the distribution network between Thai and the northern part of Laos, which includes Laos' largest city of Vientiane, would largely improve.

Also, north of the China-Laos border a new railway connecting to Kunming is under construction and planned to be completed at same time as the China-Laos Railway, which will then improve the distribution network between China and Laos as well.

This railway will be the starting portion of the China-Malay Peninsula Railway, which is one of key projects within China's "Belt and Road" plan and is said to be one of the upmost project for China. Because of this, it is likely that it would not be affected so much by the deceleration of the Chinese economy. The continuing investments and construction for four to five years until completion and improvement in the distribution network after the completion will contribute positively to the Lao economy.

##### 5) The Removal of Unexploded Ordnances and the Capabilities of the New President and Prime Minister

As mentioned for the Lao economy there are positive outlooks but one needs to be aware that results of investments from abroad and the export of electricity from the expansion of hydro-electric generation, need two to three years to be realized. Plus there are negative factors as well.

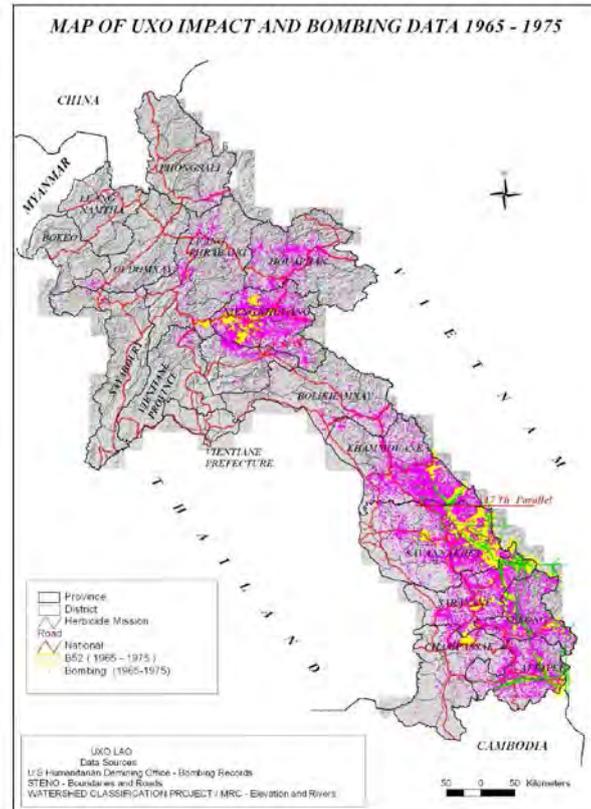
##### ➤ Unexploded Ordnance from U.S. Bombings during the Vietnam War

Between 1964 and 1973 during the Vietnam War, the then North Vietnamese were transporting military supplies to southern Vietnam through the neighboring country of Laos. The U.S. forces bombarded this route, the Ho Chi Min trail, and its surrounding areas by air for nine years. The total amount of bombs dropped during this time was approximately two million tons, this is more than two times the total dropped at Germany and Japan combined during the Second World War and the amount of bombs dropped per capita is the highest in the world.

The exact number of unexploded ordnances (UXO) is still not know but based upon past statistics they say that 30% of the bombs become UXO, it is presumed that there are at least

approximately 80 million cluster bombs<sup>6</sup> left. Cambodia was known to have had four to six million land mines left which shows the large scale of UXO in Laos.

Presumed UXO contaminated areas



Source: UXO LAO

It is presumed that one third of Laos' land is contaminated with UXO (The purple and yellow area of map<sup>7</sup>). Comprehending the exact scale of the problem has just begun and it has been planned to start in 2017 a five year baseline survey of the whole country to comprehend the number of UXO and evaluate the cost need to search and remove the UXO. Some say that only one percent has been removed and last year when the then U.S. President Obama visited Laos promised US\$ 90 million in aid for three years but some say it would take 50 years or more to remove all the UXO. Lately because of infrastructure construction such as roads and the development of industrial areas, removal in the lower flat lands is progressing but most of the highlands and mountainous areas are not even surveyed yet.

<sup>6</sup> Cluster bombs used in the Vietnam War were specifically designed to kill or wound personnel and destroy vehicles. Each bomb contained about 300 baseball sized bomblets and when dropped by airplanes explode in mid-air scattering the bomblets in a wide area. Afterwards each bomblet exploded releasing over 600 small metal balls. Since they are shaped like baseballs children mistake them for toys and become victims when they accidentally exploded. In Laos around 50 people either are killed or would annually and 40% of them are children.

<sup>7</sup> This map was prepared by UXO LAO based upon bombing records of the U.S. military but many have been found outside of the colored area. Also during the Vietnam War in Laos ground fighting occurred and there have been cases where UXO have been found during construction in the cities as well.

The Lao government, with support from UN and UNICEF, set up the Lao National Unexploded Ordnance Program (UXO LAO) in 1996 to handle this problem. But this institution alone does not have the sufficient capabilities. Therefore in the construction of hydro-electric dams the construction companies hire by themselves private contractors to remove the UXO. The China-Laos Railway, since it is a national project, it is said that the military is doing the removal work.

Since the contaminated area is spread across the country, in the majority of the development projects, at the beginning search and removal of UXO have to be done. This means that projects in Laos, compared to a normal project, extra cost and time is required. This will surely have some sort of effect in, the development of hydro-electric generation and mining, clearing for agricultural land, road construction and others that the Lao government is trying to do.

➤ The Capabilities of the New President and Prime Minister

General Secretary and President Bounnhang Vorachith, who was inaugurated in April of last year, is of military background and has said to have moved up the government ranks with support of the military. He is known to have strong leadership and is taking a strong stance to the abolishment of corruption (Laos' corruption index is ranked 125<sup>th</sup> amongst 176 countries according to Transparency International).

Economic and foreign relation issues are mostly handled by Prime Minister Thongloun Sisoulith. Prime Minister Thongloun spent his under and post graduate years in the then Soviet Union and other than Lao speaks English, Russian and Vietnamese. In 1987 became Deputy Foreign Minister and afterwards became the Minister of Labor and Social Welfare, Deputy Prime Minister / Foreign Minister and became Prime Minister last year. Including his years as Foreign Minister he has visited Japan over 20 times.

One unique thing about Prime Minister Thongloun is that, he has limited the exporting of lumber, one of the main exports of Laos, to preserve the environment, has not been aggressive in the development of copper mining, another main export product, cause of its high contamination effect towards the environment and other than hydro-electric power is planning the development of solar and biogas energy. As seen he is taking a stance of putting priority towards the natural environment, a stance not taken by many development country leaders. This might have some negative effects in Laos' capability to increase foreign currency revenues.

Lao is the socialist country in the Indochina Peninsular that has close relationship with China and China regards Lao as an important country in their "Belt and Road" plan. But the top donor of grants and loans is Japan and the U.S. is trying to compete with its "rival" China. The interest of the top three economic countries of the world is crossing each other in Laos in many forms. It has been only a year and half since the new president and prime minister became leaders of Laos and although they were successful in hosting last year's ASEAN meeting, the first meeting

after the establishment of ASEAN Economic Community, how to successfully cope with the interests of the top three economic countries the capabilities of the two is still unknown.

#### **4. Conclusion**

Laos, although it is an inland country with a smaller population, economy, and other matters compared to the other countries of the Indochina Peninsula and ASEAN, it has economically prospered by making use of its geography of highlands and mountainous area, an area that covers 70% of the country, and produced hydro-electricity and mined for natural resources such as copper which are being exported. Laos is in a favorable position since neighboring countries such as Thailand cannot produce enough electricity by themselves and so in recent years Laos has been constructing many dams to put strength in the production of hydro-electric power, a vital source of precious foreign currency.

But for these dam construction the imports of machinery, vehicles, parts, steel and others have increased, thus since 2014 the trade deficit has become wider. Plus the necessary funds for construction and import come from, investments from Thailand, Vietnam and grant, loans from countries like China and Japan. This has increased the external debt of Laos. Even the fiscal balance is in a deficit since the governmental revenue system has not been well developed. The current and trade deficit is -17 to -20% against the GDP, the fiscal balance is -6% and the external debt ratio against the GDP is 94%. Laos has reached a point to be concerned to these regards.

Under these situations the Lao government, with guidance from IMF, has taken several countermeasures. Some of them are, the establishment of sound government revenue system, revision of investment laws to lure more investments from abroad and the expansion of hydro-electric power production for exporting. But the results of new investment from abroad and the expansion of hydro-electric production will normally take up to two to three years to become realized and on most of the development projects the not fully comprehended problem of the UXO will surely have some sort of effect. Under these circumstance whether the current and fiscal deficits are kept at a manageable level is a crucial issue. Say if the constructions of hydro-electric dams do not proceed as planned and the foreign currency revenue from electricity exports, the repayment sources for the majority the external debts, are delayed and if a different repayment sources is not found the possibilities of Laos falling into a critical situation is not small.

In these situations, President Bounnhang and Prime Minister Thongloun's capabilities are being tested and how they are able to steer the small country of Laos through the crossfire of interests of the top three economies of the world, U.S., China and Japan, is still unknown.

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