This Country Note is an extract from the Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap, http://dx.doi.org/10.1787/saeo-2014-en.
LAO People’s Democratic Republic

A. Medium-term economic outlook (Forecast, 2014-18 average)
- GDP growth (percentage change): 7.7
- Current account balance (% of GDP): -19.1

B. Medium-term plan
- Period: 2011-15
- Theme: Socio-economic development, industrialisation and modernisation by the year 2020

C. Basic data (in 2012)
- Total population: 6.4 million*
- Population of Vientiane: 0.7 million (2005)
- GDP per capita at PPP: 3,011 (current USD)**

Note: * Total population data for 2012 are estimates.
** IMF estimate
Sources: OECD Development Centre, national sources and IMF.

Lao PDR’s resource-based economy – driven by forestry, agriculture, hydropower and minerals – is on a robust, impressive growth path. However, development is uneven and poverty consequently remains widespread. The government should adopt a sustainable, inclusive growth model so as to reduce poverty and implement sound, suitable strategies for natural resource management to ensure that the country’s economic growth is environmentally sustainable.

Infrastructure development, too, will need to keep pace with the country’s fast economic growth and rapid urbanisation to ensure sustainable growth and improve the welfare of the people.
LAO PDR’s medium-term policy challenges and responses

- Reduce poverty through inclusive growth
- Improve national resource management, in particular mining, to ensure environmental sustainability
- Develop transport infrastructure to speed up rural development

POLICY FOCUS
Reduce poverty through inclusive growth

The Lao People’s Democratic Republic (Lao PDR) continues to develop at a commendable pace. On the back of such growth, it graduated to the rank of lower-middle-income country in 2006. It is now enjoying the fruits of its investment in infrastructure, economic and social development, as well as regional co-operation and integration. Robust growth has helped alleviate poverty, but more needs to be done to ensure that such growth is sustainable and inclusive. In other words, Lao PDR is now at the crossroads of development: the economy needs to balance economic growth with equity and sustainability to ensure that current and future generations can participate in and benefit from economic growth.

Despite rapid economic growth, poverty remains widespread

Although Lao PDR’s economic growth has been impressive, poverty and disparities remain widespread. In fact, measured in income per capita, the gap between Lao PDR and the ASEAN-6 widened in 2011.

The poverty head count ratio in Lao PDR in 2008 was 33.9, an improvement over 1992 when it was 55.7 (Table 2.4.1). The improvement is in line with the trend in Southeast Asia. According to the Asian Development Bank’s Asia and Pacific Key Indicators (2012), there has been a decline in the percentage of people in Southeast Asia living under the poverty line of USD 1.25 per day.

Table 2.4.1. Poverty reduction in Lao PDR and other Southeast Asian countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Poverty headcount ratio at USD 1.25 a day (PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Earliest</td>
</tr>
<tr>
<td>Cambodia</td>
<td>44.5 (1994)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>54.3 (1990)</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>55.7 (1992)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.6 (1992)</td>
</tr>
<tr>
<td>Thailand</td>
<td>11.6 (1980)</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>63.7 (1993)</td>
</tr>
</tbody>
</table>

Note: Poverty headcount ratio at USD 1.25 a day (PPP) refers to the percentage of the population living on less than USD 1.25 a day at 2005 international prices.

Source: ADB (2012a), Key Indicators for Asia and Pacific 2012, ADB, Manila.
The poverty gap in Lao PDR has narrowed – a positive development in that the narrower the gap, the easier it is to bring people living below the poverty line above it. However, the concern is how to eradicate poverty completely, not just to lift people out of it. After all, even while they are moving out of it, they still remain poor.

The government generally concentrates its efforts on the extremely poor, directing social payment and poverty reduction measures there, rather than on the moderately poor, i.e. people living on between USD 1.25 and USD 2 a day. This throws up another challenge to government efforts to alleviate poverty. The percentage of employed people living on less than USD 1.25 a day, the “working poverty rate”, is 20% in Lao PDR. The inference is that the quality of employment is very low and that there is not much decent work available in the country. The economy needs to create more quality jobs if the issue of poverty is to be adequately addressed.

According to the latest Integrated Household Living Conditions Survey (IHLCS) conducted by the United Nations Development Programme, Lao PDR’s poverty incidence (poverty head count index) was high – 27%. It was above that of Myanmar, where is was approximately 25% in 2011, with a significant urban-rural differential. It was lower than Cambodia (32%), but far above Viet Nam (13%).

Poverty restricts access to basic facilities – housing, electricity, water, sanitation, etc. From 2005 to 2010, access to safe drinking water increased modestly, from 63% to 69%, across Southeast Asia. The percentage of the population with access to safe drinking water was 67%. As for access to electricity (Figure 2.4.1), Lao PDR’s population fares better than those of Cambodia and Myanmar, even though the country remained part of ASEAN’s low-access group in 2011.

Figure 2.4.1. Access to electricity in Lao PDR and other Southeast Asian countries, 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>90</td>
</tr>
<tr>
<td>Thailand</td>
<td>95</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>95</td>
</tr>
<tr>
<td>Indonesia</td>
<td>70</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>40</td>
</tr>
<tr>
<td>Cambodia</td>
<td>30</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10</td>
</tr>
</tbody>
</table>

StatLink © 12 http://dx.doi.org/10.1787/888932938061

Similarly, cell phone density and Internet access in Lao PDR are low compared to the more advanced ASEAN member countries (Figure 2.4.2): 65% of Laotians have a cell phone but only 7% have Internet access. Nevertheless, Lao PDR’s communication index in 2010 was higher than Cambodia’s or Myanmar’s.
Poverty reduction has been accompanied by rising inequality

In the recent years, income disparities have widened in Lao PDR. The reason for income disparities among the 83% of the population who depend on agriculture for their livelihoods is the lack of opportunity in specific localities because rapid growth is concentrated elsewhere in the economy and region. Rural livelihoods are also under threat as the conversion of agricultural lands to cater to the needs of foreign direct investment (FDI) leads to the displacement of populations away from their traditional sources of income.

Lao PDR’s Gini coefficient was 36.7 in the 2000s. Although that rating was comparatively low by ASEAN standards, it was an increase from 30 in the 1990s. The increase may have come about as a result of closer linkages to global markets, as well as to market-oriented reforms in the economy.

Besides hampering poverty reduction efforts, inequality can also lead to the misallocation of human capital. Those with little wealth or low incomes are unable to invest in their human capital or wealth- and income-enhancing activities and remain caught in the vicious cycle of poverty. At the same time, inequality restricts the access of the poor to basic infrastructure services, utilities and sanitation, which in turn affects their health and well-being.
Lao PDR has made great headway towards the Millennium Development Goals

Lao PDR posted an impressive economic growth rate of 8% in 2012 and 7% for the whole of the past decade – among the highest in the region. The government has put considerable effort into reducing poverty in the economy. As a result, poverty incidence has declined remarkably on the back of solid economic growth, successive five-year plans focused on poverty reduction, and aid support for remote communities.

The country has also made significant progress towards achieving the Millennium Development Goals (MDGs). The poverty headcount dropped from 46% in 1992-93 to 28% in 2007-08 and is expected to achieve the related MDG target of 25% by 2015. A reflection of their strong commitment to tackling poverty issues, the authorities have adopted poverty eradication as one of their main strategic orientations. They have also placed strong emphasis on macroeconomic stability and on fostering inclusive, sustainable, private-sector-led growth and regional integration. The goal is to attain a gross domestic product (GDP) growth rate of at least 8% annually in order to reach GDP per capita level of at least USD 1,700 by 2015.

The seventh National Socio-Economic Development Plan (NSEDP) 2011-2015 is geared to achieving the MDGs and the government is pursuing its commitment to addressing social welfare issues. It has made considerable progress towards poverty reduction – the first of the MDGs. In 2010, it completed a framework and financing plan for accelerating achievement of the MDGs by setting six specific targets: access to enabling infrastructure; sustainable practices for improved food security and environmental sustainability; universal access to basic education and gender equity; women’s equal participation and empowerment; improved maternal and child health; safe water supplies and improved sanitation for all rural areas and remote communities.

Encourage broad-based, sustainable and inclusive growth for poverty alleviation

Lao PDR’s long-term development agenda is based on its gradual transformation from a closed and centrally planned economy to an open, private sector-led economy. The current development strategy aims to support sustainable economic growth and reduce poverty and inequality. However, there are obstacles to inclusive growth that the government needs to bear in mind. Lao PDR has to contend with six.

1. An increasing lack of educated and skilled human resources that hinder private-sector growth and economic diversification.
2. An inefficient, underdeveloped financial sector that slows domestic private-sector growth.
3. Inadequate connectivity between rural and urban areas that restricts the access of families and firms in outlying areas to opportunities in hubs of business, economic, social and cultural activity.
4. Poor nutrition and food insecurity that lead to low worker productivity.
5. Weak governance arising from weak institutions that slows economic growth.
6. Declining competitiveness in the non-resource sector that could affect the economy’s potential for achieving inclusive growth.
The current development strategies under the Seventh NSEDP are designed to support sustainable economic growth and reduce poverty and inequality. The strategies involve diversifying and deepening economic activities, significantly scaling up human capital, improving labour productivity, and promoting the inclusion of women, ethnic groups and those living in remote areas. The most important of all is to ensure the quality of growth by achieving the MDGs, protecting the environment, ensuring political stability and peace, working towards regional integration and strengthening linkages with the global economy.

The Seventh NSEDP contains five major thrusts: i) national economic development; ii) rural development and poverty eradication; iii) the promotion of livelihoods; iv) improved public administration; and v) competitiveness. Towards those five goals, efforts to ensure inclusive growth will focus on rural areas where the majority of the poor live. There will be policy efforts to develop road and energy infrastructure, enhance value chains, improve access to markets and social services, and forge stronger rural-urban linkages. Infrastructure development and natural resource management, which are key to achieving inclusive growth, will be discussed below in the relevant subsections.

Active participation from stakeholders (e.g. businesses, trade unions, non-governmental organisations, indigenous peoples) should be an inherent part of the development and implementation of national strategies for sustainable development. Box 2.4.1 gives examples of good practices in stakeholder participation from selected OECD countries.

Box 2.4.1. Good practices in stakeholder participation: Examples from OECD countries

Sustainable development involves trade-offs between economic, social and environmental objectives which cannot be determined by the government alone. These value judgments require participatory approaches to sustainable development that engage the public through effective communication. However, the extent to which stakeholders are involved in policy processes reflects national institutional settings and preferences. Structures vary widely across OECD countries in terms of the status, timing and breadth of involvement of stakeholders.

Czech Republic – The Government Council for Sustainable Development includes government, businesses, academics, NGOs and other stakeholders and serves as the umbrella group for developing, implementing and revising the national sustainable development strategy.

Portugal – One of the four principles of the national strategy (Estrategia Nacional de Desenvolvimento Sustentavel) is to progress towards a society of solidarity and knowledge through interventions to strengthen the citizen components of education and greater access to information and participation in decision making, which is exemplified in the Council for the Environment and Sustainable Development.

Slovak Republic – The Slovak Republic consulted widely with stakeholders in the development of its national strategy, bringing main business and non-governmental groups into the Slovakian Commission for Sustainable Development to oversee implementation.

POLICY FOCUS

Improve national resource management, in particular mining, to ensure environmental sustainability

Natural resource wealth, if managed properly, can greatly benefit Lao PDR’s economy as it can raise average income. Indeed, from the 1990s to 2011, per capita income more than doubled to reach USD 1,281. However, as already emphasised, Lao PDR must develop a capacity for robust natural resource management if it is to move toward sustainable, inclusive growth.

The natural resource sector, particularly mining and hydropower, contributed 3.7% to Lao PDR’s output growth in 2010. Projections point to average growth of 3% between 2011 and 2015 and 3.5% between 2016 and 2020 (World Bank, 2010b). Mining, a crucial economic sector, contributed approximately 9% to GDP during the 2006-11 period when it grew at an average annual growth rate of 19.9%.

Lao PDR’s natural resource wealth has, in recent years, been transformed into other forms of capital, mainly through sharp increases in mineral extraction and hydropower generation. The average share of mineral exploration in the industry’s value added was 35.4% between 2006 and 2011. Lao PDR has continued to legalise mining and processing activities along with the capitalisation of assets in the mineral sector.

The volume of hydropower generated is close to the international average. Hydroelectricity is set to contribute over three times to GDP growth between 2014 and 2020. In addition, on the fiscal side, the combined contribution from mining and hydropower to total government revenues is expected to grow more than 20% between 2000 and 2020, reducing Lao PDR’s reliance on international grants. In fact, mining and hydropower revenues are projected to account for more than 5% of GDP per annum by 2020.

Natural resource management and environmental sustainability are on the development agenda

Although Lao PDR is a landlocked country, it boasts a diverse wealth of natural resources. It is crucial that the government should ensure their sustainable management so that there is sustainable economic growth and poverty alleviation. The four areas of national resource management that should be of concern are forests, land management, mining management and hydropower production.

Prevent deforestation, regenerate forests, encourage commercial development

Lao PDR continues to rely heavily on its forests to support national development. However, an estimated 91,200 hectares of forest have been lost every year since the early 1990s. To make up for their loss, the government is regenerating and reforesting with the aim of ensuring 65% forest coverage between 2011 and 2015. The aim is to make Lao PDR a greener country and, by 2015, to classify 60% of the country’s forests by type, certify 10% of total forest product, strengthen forest management, and support action to mitigate climate change.
The government is also actively encouraging people to get involved in reforestation and tree-planting activities. The private sector has steadily shifted its activities toward wood-processing and is planting commercial trees such as eucalyptus, teak, agar wood and rubber. As a result, deforestation and illegal logging activities have decreased, supported by the laws and regulations that the government has introduced to prevent deforestation. To maximise the effect of its policies, it continuously monitors the progress and evaluates the impact of its law enforcement efforts.

It has also drawn up a classified land management plan at macro level (country, province and district) and micro level (village and kumban, or cluster of villages). The purpose is to maximise the benefits of land usage in the country, improve farmers’ livelihoods, and sustain natural resources. There are also plans to hand over land management responsibility to organisations and individuals. At the same time, Lao PDR is seeking to increase land revenues collected from tax, rent, transactions and ownership transfer fees so that they account for 15% of national income per year.

Sustainable mine management is profitable mine management

While Lao PDR is one of the most biodiverse countries in the region, mining development pose threats to environmental and human health. As the sector continues to grow and investment proliferates, the current project-by-project approach to governance will become inefficient and inadequate. To date Lao PDR has never tried a systematic macro-governance regime for natural resource management. The authorities need to carefully decide how many projects and of what sort they will allow to go forward and in what sequence. The process of natural resource management must be transparent and the effective implementation of overarching policies and sector strategies must be feasible.

As mining is one of the most important sectors in the economy, proper management will deliver sustainable, inclusive growth in the future. To that end, the government is working to optimise the mining of the country’s mineral resources both quantitatively and qualitatively through the geological approach. The prime purpose of geological and mineralogical surveys is to better map and explore mineral lands for purposes of mining development. The goal of exploration is to manage the excavation of important mineral ores and process them into finished or semi-finished product before marketing them. At the same time, mineral exploration will improve the industry’s output and productivity.

With the geological approach, the government aims to generate income and accumulate capital and resources that it will then channel into the country’s socio-economic development to raise living standards and make Lao PDR a vital member of ASEAN. It will also target the effective use of natural resources, which will include water and minerals, and the conservation and protection of the environment. By mineral survey mapping and exploration, it will assess investment needs, funding availability from international agencies, and mineral milling facilities. The ultimate goal is to produce finished and semi-finished products while phasing out the export of raw minerals with no added value.

In 2015, the government aims to plot a geological and mineral map on a scale of 1:200 000 and to map 75% of the country’s area on at least a 1:50 000 scale. Currently, there is a 1:1000 000 scale mineral mining map for every province, a 1:200 000 map of 54.86% of Lao PDR and 1:50 000 maps of some areas, including Sepon, Sanakharm and a stretch of the Mekong River bank in the northern provinces. The aim of these survey maps is an annual discovery targets of 86 000 tonnes of flat copper, 298 000 tonnes of
copper dust, 6 tonnes of gold bar, 728,000 tonnes of coal, and 600,000 tonnes of granite. When the mining gets underway, it will be supported by environmental conservation measures to secure more than 65% of the protected mineral areas by 2015.

Harness hydropower for renewable nationwide electricity and fiscal policy to safeguard biodiversity and create revenue for poverty reduction

Lying along the bank of the Mekong River, Lao PDR has benefitted enormously from this abundant water resource. Hydropower production has made a large contribution to national output. With the sheer strength of the river’s water flow, Lao PDR’s hydropower output in 2012 increased by 29% to 13.8 billion kilowatt hours. It meets domestic demand (30% of total output) as well as demand from its neighbours, Thailand, Viet Nam and China (70%). Because it is important to the economy, water management and hydropower production has been included in the Seventh NSEDP.

Currently, there are 29 dams producing hydroelectricity through the country. A number of hydropower plants are under construction. There is also interest in developing small hydropower dams that could create economic value and efficiency. Such projects are considered part of the overall effort to help the country achieve its targets of supplying electricity to 90% of the population by 2020 and generating power from renewable energy sources.

The expansion of hydropower development projects is changing water management in Lao PDR. The country plays a pivotal role in preserving sustainable water supplies, especially when they are related to the Mekong River. Although a very long stretch of the Mekong and its tributaries run through Lao PDR, the river also flows through other countries in the Greater Mekong Subregion. Any changes to the Mekong River’s biodiverse balance will affect the environment and peoples’ livelihoods throughout the region. Cognisant of the situation, the Lao PDR government has undertaken numerous policy initiatives and programmes to minimise, mitigate or compensate the environmental and social cost of hydropower production.

Fundamentally, fiscal policy is the main instrument for mitigating the negative effects of natural resource extractions. In the short run, fiscal policy can curb the spread of volatility from commodity prices to the real economy while, in the medium term, it can help policy makers set growth-enhancing public expenditure priorities. The key factor is to ensure transparency during the fiscal term and establish a monitoring mechanism through targeted capacity building and communication with private sector.

For the fiscal regime in the hydropower sector, there is no clear methodology as the approach there is case-by-case. It is important, therefore, to apply a more transparent, less discretionary regime that is internationally competitive. The tax regime, by contrast, should have a standard method for determining the fiscal benefits of all hydropower projects. At the same time, exemptions should be eliminated from primary taxes when the government sets the key taxes and imposes a resource rent tax system.

As for the mining sector, its long and costly exploration times call for a different tax regime. To maintain international competitiveness and attract responsible investors, the government should introduce a clear, more predictable investment regime, together with the greater security of tenure associated with a mining title. Moreover, it should also be easier for investors to approve finder rights and improve their access to essential inputs – geological data, skilled labour, equipment, financing and services.
Compensation for environmental and social costs should be made through government revenue distribution and management. Most important is that revenues should be allocated to poverty reduction and public investment as part of the NSEDP development programme. For example, spending on public investment will stimulate future growth provided that a sound public investment programme (PIP) is in place. An effective PIP should come complete with a comprehensive monitoring and evaluation system to ensure that the projects are effective and free from the risks of capacity constraints, corruption and low absorptive capacity.

A fiscal rule should be in place to help the government manage revenues and ensure macroeconomic stability. In the long run, however, a shift in reliance to the non-resource sector should be considered. A country that is overly dependent on resource-driven growth will be vulnerable to shocks in the mineral commodities market. As a result, it is important for Lao PDR to create conditions conducive to the development of the non-resource sector. These include a favourable investment climate, improved trade facilitation and the development of human capital.

At the sub-regional level, the Great Mekong Subregion (GMS) already has the GMS Environment Operations Centre (EOC) running the Core Environment Program and Biodiversity Conservation Corridors Initiative (CEP-BCI). Since 2006, GMS OEC has been administered by the Asian Development Bank (ADB). The CEP-BCI is a response to rapid economic development across the GMS. The core environmental programmes cover planning, piloting innovation, monitoring and assessment.

Co-ordinated by the GMS EOC, the CEP-BCI’s goal is to achieve an environmentally friendly and climate-resilient GMS programme. Additionally, to solve the problem of monopsony in the hydropower market within the region, the memorandum of understanding that establishes the Regional Power Co-ordination Centre has been signed by the representatives of the countries that attended the 18th GMS Ministerial Conference.

**POLICY FOCUS**

Develop transport infrastructure to speed up rural development

Lao PDR’s strong economic growth has brought it face to face with the challenges of rapid urbanisation and inadequate infrastructure. Its weak infrastructure has impaired its manufacturing and industrial potential and does not make it easy to do business in Lao PDR. The transportation costs which weigh heavily on business profitability could be reduced if the government continued its infrastructure development programmes, which include building the roads that would improve national and regional connectivity and, by the same token, the efficiency of business activities.

**Lao PDR has put much effort into developing its physical infrastructure**

Being a land-locked country with poor infrastructure, Lao PDR must address obstacles to its socio-economic development. The government has introduced regional and sub-regional infrastructure development projects, especially under the ASEAN framework and in the Greater Mekong Subregion and Triangle Development Area.
At the ASEAN level, infrastructure development is essential for all the ASEAN member states. There is an abundance of regional projects, agreements, and studies to boost infrastructure development, which chiefly comprises transportation, energy, and information and communication technology (ICT), all of which have been incorporated into the Master Plan on ASEAN Connectivity (MPAC). Infrastructure is a strategic area which has multiplier effects across the economy.

Transport infrastructure a prime focus of development plans

During the 2006-10 development plan, infrastructure was built on a massive scale. The average annual growth rate of the sector was 11.3% and it contributed to 4.8% of GDP through trade and investments. The government has now implemented 25 projects as part of 11 priority programmes and 111 projects as part of the Eighth Master Plan on Communication and Transport. The emphasis on transport infrastructure is due its anticipated benefits for the tourism industry and the country’s logistics. There are two main thrusts to the infrastructure development effort: i) construct and improve communication, transport and networking between sub-regions and regions; ii) construct and improve communication, transport and networking within the country.

The government’s commitment to improving transport infrastructure is reflected in its Master Plan on Communication and Transport, which began in 2011. The objective is to develop road networks to 100% of the Road Plan by 2015 with the aim of improving sub-regional, urban, and rural links, and making selected areas accessible. At the same time, the country has also planned to build infrastructure for air transport and grow the sector by 8-10% annually.

Currently, Lao PDR’s transport infrastructure consists of:

Roads for motor vehicles. Road transport accounts for 80% of all goods and passenger transport. The road network serves all parts of the country, but is densest in the central and southern regions. Although Lao PDR’s road density is still low compared to other countries in the region (Table 2.4.2), there is ongoing work to develop and expand it.

<table>
<thead>
<tr>
<th>Table 2.4.2. Road infrastructure indicators in Lao PDR and other Southeast Asian countries</th>
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<tbody>
<tr>
<td><strong>Total road network</strong></td>
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<tr>
<td>(thousand kilometres)</td>
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</tbody>
</table>

Source: ADB, Key Indicators for Asia and Pacific 2012.
Between 2006 and 2009, the total length of the road network increased 17% from 33,803 kilometres to 39,568 kilometres. The projects completed include:

- the Thai-Lao Friendship Bridge across the Mekong River from Savannakhet in Lao PDR to Mukdahan Province in Thailand;
- B Road No. 1 in Vientiane Capital;
- Road No. R3 (from Bortan to Husay);
- improvements to Road No. 9 (from Secannakat to Seno);
- Road No. 12 (from Thukack to Gnommalard);
- bridge across the Mekong River (Thakack to Nakonpranom);
- Road No. 2E (Meungkoua to Taijiang).1

Despite the steady road development, the demand for road transport infrastructure remains high, since just 13.7% of the total road network was paved in 2009 and the paved stretches serve only urban areas. Most of the roads in provincial districts and rural areas are made from natural rocks and earth. This affects linkages between the domestic and regional road transport systems. In general, the length and quality of the road infrastructure remain inadequate.

**Waterways.** Waterways account for 18% of the total transport network. Most are inland and serve domestic destinations. The exception is the Mekong River which continues to be used for international transport to neighbouring countries. Waterways are particularly widely used in Lao PDR’s northern provinces. They are not only an important commercial link with China, they also carry tourists, many of whom prefer to travel by boat from Thailand to Lao PDR or along the Mekong River in the north of the country.

**Airports.** Lao PDR’s two national airlines – state-owned Lao Airlines and joint public-private Lao Air – serve domestic routes, while airlines from neighbouring countries, together with Lao Airlines, offer international flights. There are two Thai Airways departures daily from Bangkok and Vientiane, Chiang Mai, and Luang Prabang. Viet Nam Airlines flies a route that takes in Hanoi, Vientiane, Phnom Penh and Ho Chi Minh City, while China Airlines serves the Vientiane-Kunming-Vientiane route. International flights land at two airports, Vientiane International and Luang Prabang Airport. There are also flights between Vientiane and the northern provinces Luang Prabang, Xayabury, Xamneu, Phongsaly, Lungnamtha, and Xiengkhuang. In total, there are 10 small approved airports in the provincial capitals and 39 others with unpaved runways. The air transport sector has undergone significant reform – particularly with the privatisation of airports and airline operation – and has developed significantly.

**Progress in telecommunications connectivity**

The progress that Lao PDR has made in developing its telecommunication infrastructure is evidenced chiefly in the 3.6 million connections made. Land lines account for 149,300, mobile phones 3.39 million and wireless landlines 50,000.

Telecommunication capacity has also been expanded in rural areas in furtherance of the aim of 80% coverage. An extra 13,200 kilometers of optical fibre lines have been laid, spanning 90% of all provinces and 80% of all districts. What's more, a new base transceiver station (BTS) for mobile phone communication has led to the installation of 2,000 receiver stations.
Connectivity between countries in the Greater Mekong Subregion substantially strengthened

An infrastructure feat that is nearing completion concerns the three GMS Economic Corridors – the East-West, North-South, and Southern Corridors. Roads and railways are being built to strengthen connectivity along the three trading corridors and facilitate the through transport of goods and services.

There are 12 flagship infrastructure projects along the East-West Corridor, 6 of which concern transport and 6 other infrastructure development projects (Table 2.4.3).

Table 2.4.3. Infrastructure projects in Lao PDR and other Southeast Asian countries

<table>
<thead>
<tr>
<th>Transport infrastructure projects</th>
<th>Other infrastructure projects</th>
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</thead>
<tbody>
<tr>
<td>East-West Transport Corridor</td>
<td>Development of electric power grid</td>
</tr>
<tr>
<td>Waterway development</td>
<td>Regional energy co-operation arrangements</td>
</tr>
<tr>
<td>Railway development</td>
<td>Telecommunications backbone development</td>
</tr>
<tr>
<td>Airport development</td>
<td>Tourism development</td>
</tr>
<tr>
<td>Facilitation of cross-border movement of people and goods</td>
<td>Economic corridor initiatives</td>
</tr>
<tr>
<td>Human resource development for the transport sector.</td>
<td>Assorted initiatives from ASEAN ministries of economy, trade and industry (ASEAN–METI), Economic and Industrial Co-operation Committee (AMEICCC), and Working Groups on West–East Corridor Development.</td>
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</table>

Source: OECD Development Centre’s compilation based on national sources.

As for economic integration through the North-South Economic Corridor (NSEC), there are also projects underway to improve infrastructure and facilities. They include projects to develop land, water and air connectivity along the three NSEC routes, as well as telecommunication backbones, border checkpoints facilities and cross-border transport facilitation.

Along the Southern Economic Corridor (SEC) projects are being undertaken to develop the physical infrastructure. A particularly important one is for the build of three power transmission lines from Kampot to Sihanoukville; Tay Ninh in Viet Nam to Kampong Cham and Kratie in Cambodia; and Hat in Lao PDR to Stung Treng in Cambodia.

Lao PDR must build on its infrastructure development achievements to meet its targets

The government should continue its efforts to develop infrastructure, with a special focus on road transport, inland waterways, airports and railways. It must extensively improve the transport network to support sub-regional linkages between north, south, east and west and ensure that roads in urban areas are maintained and upgraded.

The authorities should also continue to improve and renovate all municipalities through proper urban planning and water and wastewater management. Road safety, too, deserves serious attention in order to reduce the number of accidents, while the telecommunication infrastructure must also be further developed in all parts of the country with the use of up-to-date technology.
Lao PDR’s Seventh NSEDP sets targets for domestic infrastructure development from 2011 to 2015. One is to develop machine- and electricity-based agro-irrigation that covers 60% to 70% of cultivated flat and mountainous land or 50% of rice and livestock land and industrial plantation areas.

A second target is to build eight hydroelectricity plants with a combined installed capacity of 2,862 MW by 2015. Electricity infrastructure development also includes extending medium-voltage (22 kV) power transmission lines and providing off-grid electricity supplies in rural and remote areas so as to bring electricity to 80% of all households in the country by 2015, as mentioned in NESDP.

As for transport, the NSEDP calls for the construction and/or expansion of road networks linking sub-regions, towns and cities, and rural areas and villages. It also sets the goal of growing its air transport sector by 8%-10% per annum.

The fourth and fifth targets are to pipe drinking water to approx 60% of the urban population and to expand the telecommunication service network to cover 90% of villages nationwide. Optical fibre networks 17,192 kilometres long will be built and telephone connectivity will be expanded through cell phones and land lines to reach 80% of the population.

In all its efforts to provide all kinds of infrastructure the government should bear in mind a critically important consideration: it is crucial not only to provide infrastructure but to build the capacity to manage and operate it.

In sum, Lao PDR has moved forward in its efforts to develop its infrastructure. There is still much room for improvement, however. But with support from international organisations and neighbouring countries, improved infrastructure can help further stimulate the country’s economic development, deepen regional co-operation, and boost regional economic growth.

**Note**

1. Road No. 14A is a currently ongoing project. Another completed project is the Dongphousy-Thanalang stretch of railway line, which is three kilometres long.
References


