

"Global Financial Crisis, Export-Led Growth and Aid for Trade: Focus on the ASEAN Experience"

Session 2: The Way Forward and Messages for the Global Review

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In the last year, the world economy has been rocked by two major crises, the food crisis, and most recently the global financial crisis, which the key international institutions ADB, IMF and the World Bank have qualified as the most difficult economic challenges in recent times. The crisis is likely to worsen before getting better, and in the process knocking off tracks the major Poverty reduction progress which so many developing and least developing countries such as Laos have accomplished to date. The Government of Lao PDR has been able to weather both external shocks with minimum economic turmoil and disruption to civil order; however, the impact on the economy is likely to be felt in the months to come.

The impact of the global economic crisis on Lao P.D.R. has been limited so far because of little direct exposure to global financial markets and volatile external capital flows. However, the impact could be more significant going forward, especially if the global recession is deeper and more prolonged than forecast. Potential channels through which the global economic slowdown could feed through include businesses and households which are likely to feel the impact of lower world agricultural and mineral prices. Projected contractions in FDI, tourism and remittances will depress incomes and export earnings, and will most likely affect the most vulnerable segments of our society. The challenges that lay ahead will test our governments and the development partners' ability to respond effectively and rapidly to the changing economic environment and new business realities. Given the economic climate, we can expect that it will become more difficult to secure funding for projects from both international financial institutions and development partners. This would be a grave mistake as more than ever our developing and least developing countries will need stronger and more predictable funds, to keep the private sector and the economy at large a float.

Laos will need to push forward the key reforms needed in the field of (i) Education and Knowledge-based economy, (ii) Trade and (iii) Investment. These are the three pillars of our growth strategy. We needed to continue forging forward in developing our Human Capital - reforms in the area of education, vocational training, R&D are essential for us to build our people so that they are able to seize the opportunities which arises and rise to the challenges of globalization. In conjunction we need to continue our efforts to integrate the Global and regional markets and most importantly fully utilize the opportunity and position our good and services at the higher end of the value chain. Joining the WTO is more than ever a priority for our Land Lock LDC. Having a transparent and business friendly climate is critical in periods of downturn, where

the engine of growth, i.e. the private sector, is under assault. The GOL will more than ever be required to provide guidance and temporary buffers to cushion external shocks. However resource-constraint countries like Laos unfortunately cannot deploy massive stimulus plans and tax cuts. In such times of difficulty, access to development assistance and effective and judicious management of ODA by developing countries is a necessity and **we therefore urge our development partners to sustain and expand their assistance to the Developing and Least Developed Countries**. This is not the time to be timid – Government need to sustain their reforms, reverting to protectionist policies is not an option, and the Development Partners will need to support their partners in the arduous task of pushing through reforms in periods of uncertainty

To help sustain the growth projections laid out in our 6th NSEDP the MOIC needs Aid for Trade (Aft) to be channeled to the following areas:

1. Human Resource Development on high skill and quality labor,
2. Improve Market Access to neighboring countries of Lao agricultural products such as Maize and Rice,
3. Export promotion through improvement of infrastructure and modernized production process,
4. Improve production chain particularly the link between production to market base, including strengthening MOIC and MOAF on policy coordination and harmonization.
5. Improve business environment through setting up incentives to encourage more entrepreneurs in the country.
6. Setting up mechanism to attract more investors, MOIC is in the process of setting up Industrial Zone is a mean to attract more investors.
7. Preventive measure and solution to tackle on pollution,

Some of our **experiences on implementation issues** of the Trade Related Assistancess are:

1. Aid Absorption Capacity of government officials, the private sector and the country's institutional and infrastructure are limited.
2. Coordination and Harmonisation of AFT between Government, Private Sector and Development Partners are not well defined.
3. Human resource capacity and Skill levels including labor shortages and the quality and level of skills level are two key impediments to Laos's productivity capacity and competitiveness.
4. Access to Finance and Technology remains one of the main supply side constraints faced by the Lao private sector when trying to take advantage of market access and expand its export market share. Infusion of technology remains also quite low, which impedes the ability of firms to move into higher value added technology.