

7th Meeting of the International Policy Advisory Group

ASIA'S GROWTH AND DEVELOPMENT CHALLENGES
AFTER THE GLOBAL FINANCIAL CRISIS

**Financing Infrastructure for Inclusive Growth
- View and Experience from Lao PDR-**

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ASEAN Economic Community (AEC)

Pillar 1	Pillar 2	Pillar 3	Pillar 4
Single Market & Production Base	Competitive Economic Region	Equitable Economic Development	Integration into the Global Economy
<ul style="list-style-type: none"> • Free flow of services • Free flow of investment • Freer flow of capital • Free flow of skilled labor • Priority Integration Sectors (tourism) • Food, agriculture and forestry 	<ul style="list-style-type: none"> • Competition policy • Consumer protection • Intellectual property rights • Infrastructure development • Taxation • E-Commerce 	<ul style="list-style-type: none"> • SME development • Initiative for ASEAN Integration 	<ul style="list-style-type: none"> • Coherent approach towards external economic relations • Enhanced participation in global supply networks

ASEAN Ranking in Global Competitiveness

	GCI Rank	Basic Requirements				Efficiency Enhancers						Innovation	
		Institution	Infrastructure	Macroeconomic environment	Health and primary education	Higher education training	Goods market efficiency	Labor market efficiency	Financial market development	Technical readiness	Market size	Business sophistication	Innovation
Singapore	2	3	2	18	2	2	1	1	1	7	34	17	9
Malaysia	24	29	29	38	33	4	10	25	25	51	26	20	25
Brunei	26	25	58	1	23	55	42	10	10	71	131	56	59
Thailand	37	78	47	31	81	66	34	62	62	78	22	40	66
Indonesia	38	67	61	26	72	64	50	3	103	75	15	37	33
Phillipines	59	79	96	40	96	67	82	100	100	77	33	49	69
Vietnam	70	98	82	87	67	95	74	56	56	102	36	98	76
Laos	81	63	84	93	80	111	54	44	44	113	122	78	68
Cambodia	88	91	101	83	99	116	55	27	27	97	92	86	91
Myanmar	139	141	141	125	111	139	139	98	98	148	79	146	143

Sources: World Economic Forum, *The Global Competitiveness Report 2013-2014*

Lao Economy

- Population: 6.8 9 million (2014)
- GDP: \$11.77 billion (2014)
- Land-locked country: sharing border with five countries (China, Myanmar, Thailand, Cambodia and Vietnam)



Lao Economy

Macroeconomic Indicator	2011-2013	2006-2010	2001-2005	1996-2000	1990-1995
Population growth (%)	2.04	2.16	1.58	2.07	2.71
GDP growth (%)	7.98	7.98	6.24	6.17	6.28
GDP per capita (constant 2000 US\$)	1329	841	371	302	243
GDP per capita growth (%)	6.10	5.90	4.58	4.00	3.44
Money supply growth (%)	31.90	38.34	20.18	66.04	30.92
Inflation, CPI (%)	5.92	4.98	10.31	57.00	15.27
Trade balance /GDP (%)	-0.30	-0.59	-10.43	-17.03	-13.02
External debt stock (% of GDP)	76.50	101.10	129.86	152.99	160.25
Budget deficit/GDP (%)-including grants	-2.85	-2.53	-4.13	-4.87	-7.95
Budget deficit/GDP (%)-excluding grants	-9.26	-6.05	-6.04	-8.88	-11.52
Exchange rate (kip per US\$)	8018	9056	10164	4094	727

Sources: World Bank online database 'World Development Indicators. Asian Development Bank (ADB).

Lao Economy

Trend of poverty

	LECS 1	LECS 2	LECS 3	LECS 4	LECS 5
	1992/93	1997/98	2002/03	2007/8	2012/13
Laos	64	39.1	33.5	28	23.2
Urban	27	22	20	17	10
Rural					
With road	43	32	31	30	28.6
Without road	61	51	46	43	
Lowland			28	20.5	
Midland			36.5	29	
Upland			34	33	

Source: World Bank and DOS(2009); LSB (Lao Statistics Bureau) (2014).

Note: LECS (Lao Expenditure and Consumption Census).

Lao Economy

Ease of Doing Business Ranking

	Laos	Cambodia	Singapore	Thailand	Taiwan	Vietnam
Ease of Doing Business Rank	148	135	1	26	19	78
Starting a Business	154	184	6	75	15	125
Dealing with Construction Permits	107	183	2	6	11	22
Getting Electricity	128	139	11	12	2	135
Registering Property	77	100	24	28	40	33
Getting Credit	116	12	17	89	52	36
Protecting Investors	178	92	3	25	30	117
Paying Taxes	113	90	5	62	37	173
Trading Across Borders	156	124	1	36	32	75
Enforcing Contracts	99	178	1	25	93	47
Resolving Insolvency	189	84	19	45	18	104
Source: World Bank (2014).						

Lao Economy

Ease of Doing Business Ranking

Country	Documents to export (number)	Time to export (days)	Cost to Export (US\$ per Container)	Documents to import (number)	Time to import (days)	Cost to Import (US\$ per container)
Laos	10	23	1950	10	26	1910
Cambodia	8	22	795	9	24	930
China	8	21	1071	5	24	1026
Singapore	3	6	460	3	4	440
Thailand	5	14	495	5	13	760
Vietnam	5	21	610	8	21	600
Source: World Bank (2014).						

Infrastructure and Growth and Poverty

- Improvement of infrastructure is a priority policy to promote growth and reduce poverty in Laos(7th NSEP)
- Laos aims to be land-linked country
- Empirical studies confirmed that access to the road network reduce poverty in Laos (Warr, 2008; 2010; Kyophilavong et al, 2014)
- Empirical studies confirmed that improvement of trade facilitation could lead to trade, investment and growth in GMS countries (Stone and Srutt, 2010; Itakura,2014)

Infrastructure Development

Length of the roads for whole country (unit: Km)

Items	2006	2007	2008	2009	2010	2011	2012	Share
Total Length of the roads	35,260	36,831	37,194	39,569	41,492	41,949	44,005	100
Growth (%)		4.5	1.0	6.4	4.9	1.1	4.9	
Concrete roads	N/A	N/A	N/A	34	83	97	141	0.32
Asphalt concrete roads	N/A	N/A	N/A	496	614	684	725	1.65
Tarred roads	4,548	4,811	4,739	4,882	5,324	6,603	6,896	15.67
Gravelled roads	11,981	12,572	13,128	13,864	14,556	14,142	15,324	34.82
Earthen roads	18,731	19,448	19,327	20,293	20,915	20,423	20,919	47.54

Source: Ministry of Communication, Transport, and Construction.

Infrastructure Development

Infrastructure investment needs as a % of GDP (2010-2020)

Country	Investment as % of Estimated GDP				
	Transport	Electricity	ITC	Water & Sanitation	Total
Cambodia	4.43	0.95	2.97	0.36	8.71
PRC	1.39	3.42	0.44	0.13	5.39
Indonesia	3.88	0.98	0.97	0.35	6.18
Lao PDR	10.62	0.00	2.40	0.60	13.61
Malaysia	1.94	4.42	0.27	0.04	6.68
Mongolia	12.04	0.00	1.21	0.21	13.45
Myanmar	2.70	0.00	1.46	1.88	6.04
Philippines	2.30	1.87	1.22	0.65	6.04
Thailand	0.58	3.69	0.45	0.19	4.91
Viet Nam	2.07	3.12	2.38	0.54	8.12
Total	1.61	3.22	0.53	0.17	5.54

Source: Bhattacharyay, B. (2010), and Centennial (2009).

Challenge for Infrastructure Investment

- There are high demands for infrastructure in Laos but the supply side (financing) is limited and faced by issues and challenges (Kyophilavong et al, 2014)

(1) Government lacked funding for infrastructure development, leading it to resort to external sources for loans and grants

(2) Based on its large budget deficits and external debts, it seems that government has over-financed infrastructure such that it led to macroeconomic instability

(3) As the State-Owned Commercial Bank (SOCB) financed most pre-investment projects for road construction, ineffective infrastructure financing mechanisms can lead to more non-performing loans and higher costs for projects

Challenge for Infrastructure Investment

(4) Inappropriate infrastructure financing can lessen the creditor's credibility in the eyes of international bank and international donors. As a consequence, Laos may have difficulty getting loans from international agencies for future projects

(5) Coordination-costs and benefit sharing between neighboring countries are also main challenges (North-south rail link project; East-West Economic Corridor (EWEC))

(6) Not only improvement of hard infrastructure but soft infrastructure (institution and system) are also very important (GMS Cross-Border Transport Facilitation Agreement (CBTA); ASEAN Framework Agreement on the Facilitation of Goods in Transit)

Thank you very much!