

## A Look Beyond Land-Linked Lao PDR

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### Abstract

Lao PDR has shown significant economic progress since the recovery of the 1997 Asian Financial Crisis. Especially during the past five years, the period of the 6<sup>th</sup> National and Social Economic Development Plan (NSED), Lao PDR recorded a high average economic growth rate of 7.9% in real terms. The country's per capita GNI exceeded US\$ 1,000 in 2010, followed by Viet Nam.

However, behind this good performance of Lao PDR, there are some vulnerabilities. One issue is the over-dependency of the country's economy on its resources sector, represented by mining and hydropower generation. Since 2004, mining has emerged as a driving force of the country's economy, leading it to economic growth. Further, the country's industrial production, trade, and government revenue rely heavily on its resources sector. Although Lao PDR is said to be a resource-rich country, it seems that its future economic growth is not sustainable in the long run. The second issue relates to the country's financial system, which is still dominated by state-owned commercial banks (SOCBs), both in deposits and loans. Financial intermediary functions seem to be a state monopoly, which may be a constraint for private sector development.

The aim of this report is to discuss the above vulnerabilities that Lao PDR faces and to recommend steps to promote private sector-oriented economic development in order to deal with those vulnerabilities.

### 1. Economic Promotion through Regional Cooperation for Greater Mekong Subregion

The Regional Cooperation Strategy and Program (RCSP) for the Greater Mekong Subregion (GMS) aims to help achieve the vision of a prosperous, integrated, and harmonious subregion through the pursuit of four strategic initiatives: (1) strengthening the country's connectivity and facilitating cross-border movement and tourism; (2) promoting economic efficiency and private sector development and integrating regional market; (3) addressing health and other social, economic, and capacity-building issues associated with subregional linkages; and (4) managing the environment and shared natural resources to help ensure sustainable development and conservation of natural resources<sup>1)</sup>. Since August 2005, progress has been made in implementing the above four

strategic RCSP initiatives, which form the backbone of ADB's move toward enhancing connectivity, improving competitiveness, and engendering a greater sense of community in the GMS. RCSP is a results-based framework developed to monitor and evaluate the output and outcome of ongoing and future assistance programs <sup>2)</sup>.

Together with the Millennium Development Goals (MDGs), the commitment of the world community is to halve the global poverty level by 2015 from the 2000 poverty standards; GMS countries have also targeted to achieve RCSP with strong support from ADB and Japan. Lao PDR is not an exception to achieving these goals, and it strives toward graduating from its Least Developing Country status by 2020, with the government slogan of moving from a landlocked country to a land-linked country by developing a network infrastructure within GMS. As Table 1 shows, the selected GMS countries indicate good economic performance since the recovery of the 1997 Asian Financial Crisis and are now in the process of transition toward a market-based economy.

**Table 1. Real GDP Growth Rates (%)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Lao PDR	4.6	6.9	6.2	7.0	6.8	8.6	7.8	7.8	7.5	8.1
Cambodia	7.7	7.0	8.5	10.3	13.3	10.8	10.2	6.7	0.1	5.9
Viet Nam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.3	5.3	6.8

*Sources: ADB Key Indicators for Asia and the Pacific, 2011*

Both Viet Nam and Cambodia have been successful in attracting FDI by projecting their infrastructure development, low worker wages, and economic incentives through their Special Economic Zones set by the government. As for Lao PDR, its gross national income (GNI) per capita (see Table 2) exceeded that of Cambodia owing to high economic growth, and the country was categorized as a lower middle income country by The World Bank definition <sup>3)</sup>. And Lao PDR has gradually improved poverty condition shown Table 3, Human Development Index (HDI) set by UNDP. However, mining and hydropower generation were the main sectors in Lao PDR that led to its high economic growth since the latter half of the 2000s. The economic structure of Lao PDR, over-dependency to resources sector, seems to be too fragile for long-term sustainable development; we will discuss this in the latter part of this report.

In addition to the above-mentioned good economic performance in GMS countries, it is noteworthy that political stability in these countries could sustain their economic growth as a fundamental factor for business activities such as trade and investment. Now we expect a change in Myanmar's political system due to a strong movement toward democratization, and soon the country may have a progressive business environment. Myanmar will be benefitted by GMS development and involved in the regional market integration.

**Table 2. Gross National Income Per Capita, Atlas Method (Current US\$)**

	2001	2005	2006	2007	2008	2009	2010	2011
Lao PDR	310	460	510	620	760	900	1010	1130
Cambodia	310	460	520	590	670	700	750	830
Viet Nam	410	630	700	790	920	1030	1160	1260

Source: ADB Key Indicators for Asia and the Pacific, 2011

**Table 3. Human Development Index (UNDP)**

	1995	2000	2005	2010	Rank in 2010
Lao PDR	0.388	0.425	0.460	0.497	122
Cambodia	0.385	0.412	0.466	0.494	124
Viet Nam	0.457	0.505	0.540	0.572	113

Source: ADB Key Indicators for Asia and the Pacific, 2011; original data from UNDP.

## 2. Economic Performance in Lao PDR

The economy of Lao PDR has shown remarkable progress, as stated by the governor of the Bank of Lao PDR (BOL): “In Lao PDR, Fiscal Year 2010–2011 marks the beginning of the 7<sup>th</sup> five-year National Social and Economic Development Plan 2011–2015 (NSED), which continues to further the outcomes of the 6<sup>th</sup> five-year NSED 2006–2010. During the previous five-year plan, the Lao economy has shown an average growth rate of 7.9%. The overall macroeconomic situation has remained robust and stable. The year-to-year inflation has increased but remains in single digits (5.76% as of December 2010). The balance of payments has improved as foreign direct investment has continued to expand. . . . Despite uncertainty of the external environment, the economy is expected to continue to grow over the 7<sup>th</sup> five-year NSED, with real GDP growth targeted at 8%. To achieve the socio-economic development targets and Millennium Development Goals by 2015, the Government will continue its reform agendas, by focusing on improving business environment, enhancing investment efficiency, strengthening public financial management, particularly, centralizing revenue administration and treasury as well as redesigning the inter-government fiscal relationship, accelerating the banking sector reform . . . Lao PDR aims to lift the country out of the ranks of least developed countries by 2020. To achieve this, the economy needs to grow by 8% annually over the next decade. This is an ambitious undertaking, and we are committed to achieving it by further reforming our policies and institutions to strengthen governance, expanding the private sector’s role in the economy, improving people’s social welfare by better targeting programs in education, health, and poverty reduction, protecting the environment. . . .<sup>4)</sup>”

Industrialization has progressed well in Lao PDR during the past decade. The service sector, especially transportation and trade, also showed steady increase in line with the progress in industrialization (see Table 4). Thus, the industrial structure of Lao PDR has changed, as shown below:

- Agriculture share to GDP: from 45.8% in 2000 to 28.9% in 2010
- Industry share to GDP: from 17.9% in 2000 to 25.6% in 2010

-Service and others share to GDP: from 36.3% in 2000 to 45.5% in 2010

High economic growth in Lao PDR led to an increased per capita income and the improvement of its Human Development Index, as shown in Table 2 and 3. However, as already mentioned, Lao PDR's economic growth basically depended on its mining, hydropower, and trade sectors. These sectors also contributed to the government's income through taxes, royalties, and dividend payments.

Table 4 indicates how much Lao's economy depended on its mining and hydropower sectors since 2005. Both these sectors have shown significant growth since 2005, with a total production share of around 11%. Growth in these sectors has led to significant increases in trade and is expected to affect the finance and construction sectors as well.

**Table 4. Lao PDR: Nominal GDP by Sector Origin (Unit: billion Kips, Calendar year)**

	2000	2005		2006	2007	2008	2009	2010		2010/ 2005
Agriculture	5,920	9,953	34.4	10,915	12,195	13,572	14,355	15,670	28.9	1.57
Mining	26	1,675	5.8	4,544	4,320	4,508	3,616	4,027	7.4	2.40
Manufacturing	1,084	2,341	8.1	2,784	3,246	3,849	4,625	5,132	9.5	1.58
Electricity, Utility	565	1,027	3.5	1,091	1,059	1,142	1,254	2,000	3.7	1.95
Construction	650	1,335	4.6	1,620	1,928	2,148	2,246	2,751	5.1	2.06
Trade	1,792	5,528	19.1	6,299	7,238	8,436	9,185	10,947	20.2	1.98
Transport and communication	509	1,450	5.0	1,625	1,699	2,021	2,262	2,713	5.0	1.87
Finance	183	423	1.4	1,023	1,100	1,394	1,586	1,935	3.5	4.57
Public services	382	1,325	4.6	1,421	1,563	1,995	2,160	2,438	4.5	1.84
GDP (current price)	12,918	28,948	100.0	35,981	39,346	44,778	47,225	54,283	100.0	1.88

Source: ADP Key Indicators for Asia and the Pacific, 2011

Note: The 2005 and 2010 data includes the shares (%) of each sector.

**Table 5. Trade Structure in Lao PDR (Export and Import, Unit: in million US\$, %)**

	2003		2004		2005		2006		2007		2008	
Exports	471.9	100.0	535.4	100.0	696.6	100.0	1,132.6	100.0	1,320.7	100.0	1,638.6	100.0
Gold	60.1	12.7	57.8	10.8	90.7	13.0	117.9	10.4	93.2	7.1	118.9	7.3
Copper	0	24.3	22.9	4.3	112.1	16.1	409.3	36.1	446.0	33.8	620.3	37.9
Electricity	114.5	24.3	117.1	21.9	125.0	17.9	122.6	10.8	114.1	8.6	138.3	7.2
Timber	128.2	27.2	144.9	27.1	156.2	22.4	195.6	17.3	179.0	13.5	131.4	8.0
Garments	129.9	27.5	154.7	28.9	114.9	16.5	151.2	13.3	152.8	11.6	189.7	11.6
Coffee	11.2	2.4	14.4	2.7	7.5	10.8	9.8	0.8	28.9	2.2	18.5	1.1
Others	28.1	6.0	23.7	4.4	90.3	11.1	306.8	23.2	306.8	23.2	441.5	26.9
Imports	786.1	100.0	1,055.8	100.0	1,270.2	100.0	1,589.3	100.0	2,156.1	100.0	2,816.1	100.0
Petroleum	89.6	11.4	116.9	11.1	159.5	12.6	208.7	13.1	311.0	14.4	421.8	15.0
Capital Goods	258.3	32.8	463.7	43.9	506.4	39.9	728.1	45.8	1,084.8	50.3	1,171.8	41.6
Garments Materials	86.6	11.0	115.5	10.9	69.9	5.5	98.7	6.2	80.3	3.7	143.7	5.1
Others	351.5	44.7	359.7	34.1	534.3	42.1	553.8	34.8	680.1	31.5	1,078.8	38.3

Source: Statistical Appendix Lao PDR, IMF; June 24, 2009

As regards the trade structure of Lao PDR, as shown above in Table 5, the expansion of exports since 2005 was mainly due to copper mining; 38% of the total exports in 2010 came from copper. Mining and electricity exports together contributed to more than 50% of Lao PDR's total export value. These sectors seem to have affected the country's capital goods imports for investments in the same period. Lao PDR's growth sustainability in mining needs particular attention due to its limits of mineral deposits and the risk of international price fluctuations in the future. Meanwhile, hydropower development in Lao PDR still holds many potential sites for development. However, it will be expected to face such constraints for development as degradation of biodiversity and community destruction from the aspect of sustainable water resource management of The Mekong River.

**Table 6. General Government Revenue in Lao PDR (in billions of kip, Share %)**

Revenue Items	2004/05	Share	2005/06	Share	2006/07	Share	2007/08	share	2008/09	Share
Revenue	3,387	100.0	4,266	100.0	5,460	100.0	6,436	100.0	7,313	100.0
Tax	2,803	82.8	3,641	85.3	4,711	86.3	5,624	87.3	6,338	86.7
Direct tax	522	15.4	693	16.2	1,170	21.4	1,655	25.7	1,804	24.7
Profit tax	307	9.1	459	10.7	919	16.8	1,322	20.5	1,440	19.7
Mining sector	0	0	74	1.7	477	8.7	805	12.5	1,020	13.9
Hydropower	45	1.3	42	1.0	39	0.7	65	1.0	75	1.0
Others	263	7.8	343	8.0	403	7.4	451	7.0	345	4.7
Income tax	215	6.3	234	5.5	252	4.6	333	5.2	364	5.0
Indirect tax	2,281	67.3	2,948	69.1	3,540	64.8	3,970	61.7	4,534	62.0
Turnover tax	673	19.9	887	20.8	1,046	19.2	1,229	19.1	1,347	18.4
Excise tax	523	15.4	800	18.8	999	18.3	1,191	18.5	1,434	19.6
Import duties	429	16.7	515	12.1	573	10.5	674	10.5	834	11.4
Royalties	341	10.1	447	10.5	534	9.8	474	7.4	473	6.5
Natural resource	95	2.8	218	5.1	274	5.0	308	4.8	312	4.3
Hydropower	57	1.7	57	1.3	48	0.9	56	0.8	61	0.8
Timber	189	5.6	172	4.0	212	3.9	110	1.7	100	1.4
Others	315	9.3	299	7.0	389	7.1	401	6.2	449	6.1
Nontax	584	17.2	625	14.6	749	13.7	811	12.6	975	13.3
Dividends	178	5.3	175	4.1	157	2.9	293	4.5	482	6.4
Mining and Hydropower	42	1.2	289	6.8	211	3.8	243	3.8	234	3.2
Over flight	222	6.6	229	5.4	231	4.2	235	3.6	225	3.1
Others	185	5.5	222	5.2	361	6.6	283	4.4	268	3.7

Source: IMF Lao PDR Statistical Appendix, June 24, 2009

As shown in Table 6, the Lao PDR government's tax income also depends on its mining and hydropower sectors. Both these sectors have contributed a lot through profit taxes (around 15% of the total government revenue in 2008/09), royalties (5% in 2008/09), and dividend (3%), as state-shared enterprises. It means that almost one-fourth of the government's revenue came from mining and hydropower generation. Since we can expect a future reduction of import duties to fulfill the requirement set by CEPT<sup>5)</sup> in ASEAN and the volatility of tax income from mining, the government should explore alternative tax income sources to supplement its budget income. The introduction of value added tax (VAT) in January 2010<sup>6)</sup>, which seemed a modification of the former turnover tax, could be one

step toward stabilizing the country's fiscal balance.

Foreign investors are showing interest in exploring and investing in the country's potential mining sites due to its rich deposits. The Lao PDR government attracts foreign investors to develop the potential sites by giving them several concessions. However, the government should be cautious, because natural resources are limited and cannot contribute to the national economy eternally. For example, the mining site XEPON, initially developed by an Australian developer and then taken over by Chinese investors, has contributed much to the Lao national economy, but its maximum life time of gold deposit will be up to 2012 and copper deposit up to 2020 <sup>7)</sup>. Both productions are going to peak out soon or later. This is one risk factor for fiscal revenue in Lao PDR in the future.

As above described, the Lao's economy is now increasing dependency to such resources sector as mining and hydropower generation in domestic production (11%), international trade (50%) and fiscal revenue (23%). Over-dependency of national economy to certain sector is a risk for sustainable development in a nation. This is a vulnerable factor hidden behind the bright side of the Lao's economy.

### **3. Needed Diversity in Private Sector**

As discussed in the previous section, Lao PDR could achieve a good economic performance because of its resources sectors such as mining and hydropower. At the same time, its development is not sustainable owing to over-dependency on its resources sector. Therefore, in order to be prepared for the future uncertainty of its resources sectors in industrial production as well as in government revenue, the Lao PDR government needs to diversify its economy. We believe that only an emerging private sector in terms of added value generation can substitute the resources sector in the future.

In the 1990s, during the early period of economic transition, the government of Lao PDR decided to privatize its state-owned enterprises (SOEs) to comply with certain conditionalities imposed by the IMF. However, the Lao PDR government maintained state ownership in strategically important sectors such as banking, hydropower generation, telecommunication, fuel, and monopolized beer brewery, etc. The government's fiscal budget deeply relied on these SOEs, receiving profit taxes, royalties, and dividends from equitized SOEs, also called commercialized SOEs, with business management under state ownership (Keola, 2012).

This management system may be justified during the transitional period to a market-based economy. However, too much government control in the management of SOEs, especially its dividend policy of exploiting profits rather than accumulating internal reserve for future investment, could prove negative in the international competition of SOEs. The motive of management discipline in the private sector is different from that in the public sector. Since profit maximization or corporate value expansion is the primary concern in the private sector and balancing the budget the primary target in the public sector, the government tends to exploit the in-between status of SOEs for its budget balancing purpose.

We consider it best to privatize profitable and viable SOEs and eliminate state

intervention as much as possible in order to strengthen the international competitiveness for viable and potential SOEs. The two independent public offering (IPO) listings of SOEs<sup>8)</sup> at the newly established Stock Exchange in 2010 is an important step to privatization, as witnessed in China and Viet Nam. If excellent private companies could emerge in Lao PDR, the potential for local small and medium enterprises (SMEs) will follow. Thus, a private sector-driven economic growth can emerge in Lao PDR, contributing to the government's fiscal revenue through taxes rather than dividends from SOEs. The private sector needs to have more freedom in a competitive market by eliminating government intervention properly.

#### 4. Banking Sector Reform for Private Sector Promotion

Financial deepening is correlated with the economic growth of a nation through sound and productive financial intermediary functions and mobilizing domestic savings for viable investments and business expansion. Strengthening and modernization of commercial banking sector is indispensable for promotion of private business activities as a loan provider to a variety of businesses. Business expansion is accompanied with strong demand for long-term investment funds as well as short-term working capital. These funds are properly mobilized by the commercial banks. In order to achieve best financial intermediary function, the prudential management of each bank and central bank's supervision over commercial banks are crucial for maintaining healthy banking operations.

A comparison of the financial deepening indicators of Lao PDR, Viet Nam, and Cambodia (see Table 7) shows a remarkable growth in the claims on private sector to GDP in Viet Nam since 2005, except 2008, which was affected by the US led Lehman shock. This indicator explains how much the banking sector is involved with the economy of a nation through mobilizing loans (claims) in the private sector. Both Lao PDR and Cambodia have largely lagged behind Viet Nam in terms of financial deepening.

Since state-owned commercial banks dominated the financial market in Lao PDR, loans to the private sector seemed limited. The country's lack of progress in financial deepening could be because the basic fund mobility was from state-owned commercial banks (SOCBs) to the public sector (includes SOEs), with weak quality of service. Access to bank loans in the private sector seems constrained due to the lack of collaterals or trustworthiness for SOCBs. Thus, domestic savings could not be properly utilized for productive investments and trading activities in the transitional period. Further, the recent active FDI in a few sectors may not use the domestic banking system, but bring foreign money directly.

However, we see a positive sign in financial deepening in Lao PDR since 2008. As shown in Table 7, there is a big change in terms of domestic credit, although the country's claims on the private sector still lagged behind Viet Nam and Cambodia. Table 8 indicates one reason why this change occurred in 2008. We assume that the government deregulated the registration of private banks with the National Bank of Lao PDR (NBL), the supervisory institution for formal banks in Lao PDR.

Table 8 includes the new private banks, foreign-affiliated banks, and foreign bank

**Table 7. Trends of Financial Deepening in Cambodia, Lao PDR, and Viet Nam**

	2000	2005	2006	2007	2008	2009	2010
<b>(Lao PDR)</b>							
Nominal GDP	12,918	28,948	35,981	39,346	44,778	47,225	54,283
Domestic Credits	1,439	2,689	2,528	2,932	5,201	10,461	15,850
Claims on private	1,253	2,144	2,061	2,654	4,554	8,565	12,315
Credits/GDP %	11.1	9.3	7.0	7.4	11.8	22.2	29.2
Private/GDP %	9.7	7.4	5.7	6.7	10.2	18.1	22.7
<b>(Cambodia)</b>							
Nominal GDP	14,089	25,754	29,849	35,042	41,968	43,065	45,943
Domestic Credits	904	1,973	2,677	4,570	6,907	8,280	11,206
Claims on private	899	2,394	3,628	6,385	9,894	10,532	13,331
Credits/GDP %	6.4	7.7	8.9	13.0	16.5	19.2	24.4
Private/GDP %	6.4	9.3	12.1	18.2	23.5	24.5	29.0
<b>(Viet Nam)</b>							
Nominal GDP	441,646	839,211	974,264	1,143,715	1,485,038	1,658,389	1,980,914
Domestic Credits	155,236	585,559	730,330	1,096,780	1,400,693	2,039,687	2,689,525
Claims on private	155,720	553,098	693,834	1,067,729	1,339,263	1,869,255	2,476,535
Credits/GDP %	35.1	67.8	75.0	95.9	94.3	123.0	135.8
Private/GDP %	35.3	65.9	71.2	93.4	90.2	112.7	125.0

Source: The author's calculations based on data from ADB Key Indicators for Asia and the Pacific, 2011

Note: The unit figures are Lao PDR Kip in billions; Cambodia Riel in billions; and Viet Nam Dong in billions.

branch establishments. In 2007, the private-run Phongsavanh Bank was newly established, to be followed by three private banks, three affiliated banks, and five foreign banks (branch function) in a short span of time. The government allowed private banks and foreign-affiliated banks (e.g., ANZV Bank seems to be a foreign joint venture between Australia and Viet Nam) to have ATMs in the city for the convenience of depositors. The total number of bank branches increased from 52 in 2004 to 83 in 2010. The number of ATMs has also increased to 346. We feel that the government's deregulation policies were aimed to improve the access of banking to both depositors and borrowers by upgrading the quality of banking services. Further, there could have been a strong demand from foreign banks, which looked for new business opportunities in Lao PDR, and FDI by investor clients. Recent banking sector development in Lao PDR proves its correlation with high economic growth. Increasing number of ATM and branch offices in large cities like Vientiane contributes better banking access for citizens and tells us the progress and modernization of banking system in Lao PDR.

Thus, due to the government's policy toward competition, the market share of private banks in Lao PDR gradually increased from its earlier level of 30% to around 40%. However, SOCBs still occupy a dominant position, like BCEL and the Lao Development Bank, with a 67% share in deposits and 61% in credits. Private banks usually pay more attention to private businesses. Especially, foreign-affiliated banks are competitive in terms of risk management capacity, with advanced technology and banking services. This could be a threat to existing SOCBs and force them to be more competitive. Lao government seems to be cautious to allow foreign banks participation to the domestic



financial market until competitiveness of SOCBs will be strengthened in terms of quality of service and capital accumulation. The financial system in Lao PDR is now in the process of liberalization. Domestic banks must compete with foreign banks with large capital. We believe this competition may create a better business environment for private businesses and promote emerging entrepreneurs in Lao PDR. It is noteworthy of future business expansion of ACLEDA bank, an affiliated bank, established in 2008. ACLEDA bank was originally established in Cambodia with the World Bank Group (IFC) support. One of the missions of this bank is to encourage local SMEs with modern banking risk management. We expect it will expand banking business for SMEs to local cities in Lao PDR and contribute to promote private sector businesses.

**Table 8. Expansion of Commercial Banks in Lao PDR from 2004 to 2010**

(unit: in billions of kip)

Name	Establish	Branches	Service	Money	ATM	Deposits	Credits	Deposits	Credits	Credits
	(2004 →)	Units	Units	Changer		(2004)	(2004)	(2010)	(2010)	Share
<b>State-owned CB.</b>										
1. BCEL	Nov. 89	7- 18	21	11	140					
2. Lao Development B	Dec. 02	18- 18	43	19	63					
3. Agriculture.Promotion B.	Jun. 93	17- 17	58	1	0					
<b>Sub-total</b>		<b>53</b>	<b>122</b>	<b>31</b>	<b>203</b>	<b>3,839</b>	<b>1,204</b>	<b>11,654</b>	<b>7,719</b>	<b>60.5%</b>
<b>Specialized B.</b>										
4. Nayoby B	Sep. 06	6	46	6	0					
<b>Joint Venture B.</b>										
5. Lao-Viet B.	Mar. 00	2- 4	1	0	10					
6. Banque Franco-Lao	Jul. 10	0	0	0	0					
<b>Sub-total</b>		<b>4</b>	<b>1</b>	<b>0</b>	<b>10</b>					
<b>Private B.</b>										
7. Joint Development B.	Jul. 89	1-0	2	0	27					
8. Phongsavanh B.	Feb. 07	4	11	0	45					
9. ST B.	May 09	2	9	0	19					
10. Indochina B.	Nov. 08	0	1	0	12					
11. Booyong Lao B.	Sep. 09	0	0	0	0					
<b>Sub-total</b>		<b>6</b>	<b>23</b>	<b>0</b>	<b>103</b>	<b>697</b>	<b>401</b>	<b>4,566</b>	<b>3,336</b>	<b>26.1%</b>
<b>Affiliated B.</b>										
12. ANZV Bank	Aug. 08	2	0	0	13					
13. Aceda B.	Jul.08	4	10	0	14					
14. International Commercial B	Oct. 08	1	0	0	0					
<b>Sub-total</b>		<b>7</b>	<b>0</b>	<b>0</b>	<b>27</b>					
<b>Foreign B.</b>										
15. Siam Commercial B.	Nov. 92	1-0	0	0	0					
16. Thai Military B	Feb. 92	1-0	0	0	0					
17. Bangkok B.	Sep. 92	1-0	0	0	0					
18. Krungthai B	Feb. 93	1-0	1	1	0					
19. Ayudhya B.	Feb. 93	1-1	0	0	0					
20. Ayudhya B. Savanakhet Branch	Jun. 09	1	0	0	0					
21. Public B.	Apr. 95	1-1	0	0	1					
22. Public B. Sikhai Branch	Feb. 08	1	0	0	1					
23. Public B. Savanakhet Branch	Feb. 08	1	0	0	1					
24. Sacom B.	Dec. 08	1	0	0	0					
25. Military Commercial Joint Stock B Lao Br.	Dec. 10	1	0	0	0					
<b>Sub-total</b>		<b>7</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>530</b>	<b>346</b>	<b>1,065</b>	<b>1,714</b>	<b>13.4%</b>
<b>Representative Office</b>										
26. Standard Chartered B.	Jul. 97	0	0	0	0					
<b>Total 14 (2001) → 26 (2010)</b>		<b>52-83</b>	<b>203</b>	<b>38</b>	<b>346</b>	<b>5,066</b>	<b>1,952</b>	<b>17,287</b>	<b>12,769</b>	<b>100.0%</b>

Source: Lao Monetary Statistics; Q3-4/2010, Bank of Lao PDR

Note: Deposits and credits data are for Q4/2004 and Q4/2010.

SOCB includes Specialized Bank; Private B. includes Joint Venture B.; and Foreign B. includes Affiliated B.

## 5. Conclusion

Lao PDR is still in the process of transition to a market-based economy. The government has made efforts to further promote the country's domestic economy by encouraging SOEs and inviting FDI, and has been successful in achieving high economic growth after the financial crisis. The development of infrastructure such as transportation networking led by GMS initiatives contributed a lot to cross-border as well as local business activities by providing a more efficient distribution system for commodities. Lao PDR has become a land-linked country from a landlocked country, as the development slogan of the government states.

A look at the sustainable development of Lao PDR would show several risks, such as the dominance of state sectors and over-dependency of the national economy on the resources sector, mining and hydropower generation. However, we also observe some government efforts toward a more private-oriented economy in the banking sector. This is a good sign when we look beyond the land-linked country of Lao PDR. We feel that the private sector both within and outside Lao PDR will be a major driving force for the economic development of this land-linked country. It goes without saying that the emergence of local entrepreneurs will be indispensable for the further economic growth of Lao PDR. This is another constraining human resource development factor for Lao PDR.

It is indeed a difficult task to identify an ideal balance between the private sector and public sector in a national economy, because economic and social conditions vary from country to country. This can be determined only from the development status of these conditions. In sum, Lao PDR seems to be moving toward a private sector-oriented society. This trend must be accelerated by creating better business environment and educating human resources for private businesses.

### Notes

- 1) ADB, Aug. 2006, Regional Cooperation Strategy and Program Update.
- 2) Ibid.
- 3) The World Bank sets income categories (low, middle, high income) each year on the Bank's operational lending categories. According to 2011 GNI per capita by the WB atlas methods, the groups are: lower middle income, \$1,026-4,035; upper middle income, \$4,036-12,475.
- 4) Governor Statement No. 29, BOL Sep. 23, 2011.
- 5) CEPT: Common Effective Preferential Tariff, set by ASEAN members. Imports tariff reduction scheme toward zero tariff rate in 2015.
- 6) IMF/Lao PDR Staff Report for the 2011 Article IV Consultation, June 22, 2011.
- 7) IDE-JETRO Kenkyu Sousho No.595, P.220 by Souknilanh Keola.
- 8) BCEL(State-owned Commercial Bank) and EDL(Electric Power Company)

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## 内陸国の制約を越えて —— ラオスの持続可能な発展を考える ——

ラオス経済は、1997年のアジア金融危機を克服し、政府による第6次国家社会経済計画(2006 - 2011)期間中、実質経済成長率は平均7.9%を達成し、IMFの予測によれば、2011年度の一人当たり所得は、1,200ドルを超える見込みである。ラオス政府は、現在、2015年を目標年次とする国連のMDGs(ミレニアム開発目標)の達成、そして2020年に最貧国(LDC: Least Developing Country)から卒業することをスローガンとして掲げている。内陸国であり、社会主義市場経済移行国であるという、地理的、制度的制約を乗り越え、着実に豊かな国家になってきているように思える。

しかし、近年の経済発展の裏には、幾つかの脆弱性が観察される。即ち、経済の牽引役が金・銅の鉱山開発や水力発電開発に代表される特定資源セクターであり、それが付加価値生産、対外貿易、および財政面での歳入拡大に大きく寄与してきた。しかしこのような資源依存型の経済成長がどこまで持続可能であるか検証する必要がある。

二点目の課題は、金融制度面に関するものである。ラオスは、かつての社会主義計画経済体制から市場経済への移行途上にあり、依然、国有部門が経済活動の中核を担っている。銀行制度も政府信用の下、国有商業銀行が、預金と融資の所謂金融仲介機能において圧倒的な地位を占めているのが現状である。国有商業銀行は、歴史的に国有企業との取引に重きを置いており、民間セクターへの融資活動が制約されているのではないかという心配がある。

ラオスの中長期の持続可能な経済発展を考えたとき、資源セクターや国有部門に代わる多様な民間セクターの育成と発展が欠かせない。民間ビジネスを担う人材育成、そして、民間ビジネスを金融面で支える、民間商業銀行のサービスや機能強化など銀行制度改革の進展も望まれる。ラオス政府は、今こそ民間セクター主導の経済体制に移行するための環境整備を図る必要がある。

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