

# Introduction

June 2016

**This chapter should be cited as**

ERIA Study Team (2016), 'Medium-and Long-Term Development Strategies', in Nishimura, H., F. Kimura, M. Ambashi, and S. Keola (eds.), *Lao PDR at the Crossroads: Industrial Development Strategies 2016-2030*. ERIA Research Project Report 2015-2, Jakarta: ERIA, pp.1-4.

## Introduction

Development is a continuous process that takes decades or more to progress. For the formulation of development strategies, medium- and long-term visions are essential.

Lao PDR has utilised the Annual Plan (1976–1977), the Three Year Plan (1978–1980), and a series of Five Year Plans (1981–2016) to set short-term goals and determine the speed and direction of development. The Five Year Plans can be considered mid-term plans within which annual or short-term plans are formulated. They have changed from setting detailed and strict goals to providing broader directions and targets along with the shift from a centrally planned economy to a market-oriented economy since the Third Five Year Plan (1991–1995).

Lao PDR's transition to a market economy – through opening up to foreign trade and investment, mainly from and via Thailand – brought about moderate growth in the mid-1990s. Growth was disrupted halfway through the Fourth Five Year Plan (1995–2000) by the Asian financial crisis that had originated in Thailand. Lao PDR regained growth momentum during the Fifth Five Year Plan (2001–2005) with strong policy measures that boosted trade and investment to the East (Viet Nam) and the North (China). However, Lao PDR's trade and investment relationships with Viet Nam and China are centred on primary industries and less related to international production networks. Growth accelerated again from the Sixth Five Year Plan (2006–2010) mainly through long-awaited, large-scale exports of mineral resources and energy. Average annual gross domestic product (GDP) growth was about 8 percent from 2006–2014.

Although growth of per capita income increased more than seven times over the last two-and-a-half decades, from US\$235 in 1991 to nearly US\$1,800 in 2014, Lao PDR

has encountered two major challenges. First, economic growth has been based on only a few sectors, mostly exhaustible mineral resources. Renewable energy such as hydroelectricity is non-exhaustible, but its significant and lasting negative impacts on the environment are well known. Moreover, the energy and resource sectors do not generate sufficient employment for inclusive growth. Second, despite rapid recent overall economic growth, disparities between and within Lao PDR's regions have widened.

The latest government's 10 Year Development Strategy (2016–2025) and Vision 2030 (2016–2030) were drafted to address these two challenges. This report provides input, from different perspectives, for these medium- and long-term development strategies. A unique feature of this report is that it highlights the 'geography' and 'connectivity' perspectives and reveals how these are closely related to industrialisation and sustainable economic development of Lao PDR. Both the 'connectivity' and 'geography' perspectives will be discussed and analysed within the framework of 'production networks', the 'second unbundling' (Ando and Kimura, 2005; Baldwin, 2006; 2011), and the 'new economic geography' (Fujita et al., 2001; Fujita and Thisse, 2002).

This report also makes concrete policy recommendations that are likely to contribute to the further development and growth of Lao PDR and that could complement recommendations made in other proposed strategies drawn up by donor countries and institutions, such as the Mekong Industrial Development Vision proposed by Japan.<sup>1</sup> More specifically, the ultimate objective of this study is to turn Lao PDR's weakness of being a landlocked country into a strength, i.e. turn it into a land-linked country. As the Lao PDR economy develops, the implementation of such policies is strongly required for it to stay on a sustainable growth path. 'Lao PDR at the

---

<sup>1</sup> The Mekong Industrial Development Vision was formally adopted in the Mekong–Japan Economic Ministers Meeting held on 24 August 2015. This vision indicates possible steps and policy directions that will realise industrial development in the Mekong region from 2016 to 2020, available at: <http://www.meti.go.jp/press/2015/08/20150824003/20150824003-2.pdf>

Crossroads', the research title, refers to Lao PDR having to make a significant decision regarding its future, and to its central location as a transport hub in the Mekong Region.

This report is structured as follows: Chapter 1 sets out the theoretical frameworks employed in the analysis carried out in this study. Chapter 2 gives an overview of Lao PDR's official development plans and assesses how connecting to production networks and forming agglomerations support the efforts of Lao PDR to achieve these plans. Chapter 3 explains why policies need to be well coordinated to generate the expected results. Chapter 4 examines what should be done in the immediate future. Chapter 5 discusses the potential of industrial estates that form the basis for industrialisation. Chapter 6 reviews in detail the current situation and potential of Lao PDR's major industries and provides possible scenarios for and future challenges regarding their further development. Chapter 7 makes use of the ERIA/IDE–Geographical Simulation Model (GSM) to simulate spatial aspects of major development scenarios. Finally, the concluding remarks summarise policy recommendations that point out the direction development strategies should take in the future.

## References

- Baldwin, R. (2006), 'Globalisation: The Great Unbundling(s)', *Economic Council of Finland*, 20(3), pp.5–47.
- Baldwin, R. (2011), 'Trade and Industrialisation after Globalisation's 2nd Unbundling: How Building and Joining a Supply Chain are Different and Why it Matters', *NBER Working Paper*, No. 17716, Cambridge, MA: National Bureau of Economic Research.
- Fujita, M., P.R. Krugman, and A. Venables (2001), *The Spatial Economy: Cities, Regions, and International Trade*. Cambridge, MA: The MIT Press.
- Fujita, M. and J.F. Thisse (2002), *Economics of Agglomeration: Cities, Industrial Location, and Regional Growth*. New York, NY: Cambridge University Press.
- Kimura, F. and M. Ando (2005), 'Two-dimensional Fragmentation in East Asia: Conceptual Framework and Empirics', *International Review of Economics & Finance*, 14(3), pp.317–48.

