

Lessons to Be Learnt from the Study on Laos, a Small Country in Southeast Asia

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Since April 2000, I have been involved in a research project aimed at identifying the policies appropriate for the purpose of transition into a market economy in the land locked Southeast Asian country, Lao People's Democratic Republic. Transition in this small country faces problems almost similar to those faced by other transitional economies. The main issues include establishing the legal right of property, introducing the laws and systems compatible with the market economy, and privatizing state-owned enterprises. Although the centrally planned system was short-lived, the challenge of transition from the old system poses various pressing issues.

Laos also faces other impending challenges such as economic integration into regional and global markets. The important policy decisions in this field pertain to the content, speed, and order or sequence of participation in free trade, invitation of foreign direct investment, and opening of foreign finance, in order to effect powerful external stimulations toward internal reform and growth.

Besides these two challenges, economic development itself is the biggest challenge for the Lao economy. Development is a time-consuming and historical process of transformation from a traditional agricultural society to a modern society based on industrial might. At present, the Lao domestic economy is topographically segmented, and many regions still fall into the subsistence category, being inadequately incorporated into the market economy. Its domestic commerce and market networks have not yet been adequately established, and the economic institutions are insufficient for the unification of segmented domestic markets. The most fundamental challenge of the Lao economy does not lie in the transition from a socialistic system to a market economy or in economic integration at regional and global levels. Laos is at a transitional stage in the process of becoming a market economy but its actual status is merely that of a developing country with an underdeveloped market economy. Unless the prerequisites for development are available, transition and economic integration will be greatly distorted or even impossible.

It is evident that the above three processes of transition, integration, and development are intricately interconnected. The objective of the research project that I have been involved in is to provide the Lao government with policy packages appropriate for encountering these three challenges. In other words, the identification of the government's role in these diverse issues is the main task of our research project.

First, the government's major role is to promote institutional reforms in fiscal and financial sectors with a view towards transition into a market economy and to simultaneously administer market-friendly macro-economic policies aiming at maintaining the Lao economy in sound and stable conditions. As a prerequisite to successful transition, it is necessary to establish fiscal institutions that increase the efficiency of tax collections in order to curb the widening of budget deficits, together with the reform of state-owned enterprises. Also in the financial sector, it is essential to build a strong autonomy of both the central and commercial banks. It is particularly urgent to strengthen the financial intermediary functions of state-owned commercial banks. In the near future, it will be necessary to develop the market of government bonds so that the central bank can effectively enforce financial policies such as open market operations.

Second, for regional and global economic integration, institutional reform is essential to create healthy conditions for private foreign investors through a realistic understanding of the strengths and weaknesses of the Lao economy in the Asian regional and global context. Laos faces powerful competition, and its participation in the ASEAN Free Trade Area has greatly reduced the preparation time prior to its complete integration with the Southeast Asian regional market. Laos faces extremely difficult constraints in developing industries that can face international and regional competition by 2008 due to the agreements of AFTA, which mandate that its tariffs for all imported commodities be lowered to the range 0-5%. The role of the government in establishing and implementing realistic industrial plans and policies for development of industries with potential comparative advantage is indispensable to economic integration.

Third, the target of development necessitates that the government design a long-term plan concerning public investment. Moreover, the government should design institutional reforms compatible with the development of the market economic system itself. Further, in promoting the development of Laos, it is essential to improve physical infrastructure such as the transportation system in order to connect the dispersed local populations. It is also imperative to enhance the quality of human resources by expanding primary education and strengthening the health and medical system. This market-enhancing role that focuses on the development of a market economy itself is the government's most basic role.

In Laos, designs of policies and institutions appropriate for development might differ from those for transition or economic integration in terms of scope, sequence, and speed of reforms. Making these different elements of the three reforms consistent with each other is the most difficult task of our research in the Lao PDR.

Based on this research experience in the Lao PDR, I would like to emphasize the necessity of comparative studies regarding the mutual relations between the three challenges, namely, transition, integration, and development among the several transitional economies of East Asia and East Europe. I believe that nearly all transitional economies may be encountering the same problems. However, the process of transition, integration, and development might be unique to each country, being based

mainly upon the previous type of economic planning, the economic conditions of neighbouring countries, and the stage of development of the market economy. Identification of the similarities and differences among diverse regions in the world will provide us with wisdom indispensable for understanding the process of economic transition beyond the competitive market paradigm, implied in the so-called Washington Consensus.