A COUNTRY REPORT

THE IMPACT OF AFTA ON LAOS ECONOMY AND SMALL SCALE PRODUCERS

SUSTAINABLE AGRICULTURE FORUM (SAF)

Published By:

SOUTHEAST ASIAN COUNCIL FOR FOOD SECURITY AND FAIR TRADE

SEACON

THE IMPACT OF AFTA ON LAOS ECONOMY AND SMALL SCALE PRODUCERS

Table of Contents

Executive Summary 2

Chapter 1: Introduction

1.1 Rationale for the study / statement of the problem 5

1.2 Objective 6

1.3 Limitation of the Study 6

1.4 Brief information of country 6

Chapter 2: Literature Review - Agriculture, Trade & Investment

2.1 Micro-Economic Performance 7

2.2 Agriculture Situation 19

2.3 Trade and Investment 40

Bibliography

- Reference 62
- Appendix 63
- Interview with Government Staff 64

Edited by:

Mr Keo Vongxay
Director of Regional Economic Integration
attached to the Lao Ministry of Foreign Affairs

Executive Summary

Lao People's Democratic Republic (Lao PDR) is small landlocked country in South East Asia with population of over 5.6 million in 2003 and an annual growth rate of 2.8 percent and land area of 236,800 square kilometers and the population density is average 23 persons per square kilometer.

After the establishment of the Lao people's Democratic Republic (Lao PDR) in 1975, its government adopted socialist system of economic management. Like other developing countries, the Lao PDR's objective was to speed up the process of economic development; especially after 10 years of implementing economic renovation, agricultural production in general and food production in particular have been recorded with rapid development and have been relatively sustainable. In recent years, food security also attained great successes, especially accelerating food output, but such were initial successes and not yet consolidated. Food production was subject largely to natural conditions, the living standard of a majority of the inhabitants was low, especially in mountainous, remote areas where food production is still difficult, and therefore when calamity occurred or food production changed may people were soon subject to poverty. At present, there are 1.9 million persons (accounting for 37% of total population) lying in area with unacceptable lower of food security.

Beginning in 1986 the Lao government has taken the initiative to move from a centrally planned to market-oriented economy. This reform measure, the New Economic Mechanism, was necessitated by the fact that the central planning system had created deficiencies in the functioning of the country's administration and in the performance of its economy. The overall performance of the economy has remained strong, as reflected in the annual average rate of growth of GDP of 6.3 percent during the past 11 years (1992-2003). The industry and service sectors, in particular, has been growing. The agriculture sector, an important sector for employment opportunities has maintained steady growth in recent years, bolstered by an extensive irrigation investment programme launched by the Government just prior to the Asian crisis. In 2003, industry accounts for about 24 percent of GDP, increase from 16.7 percent in 2002. The service sector share edged up to around 26 percent, while agriculture's share fell from 58 percent to 50 percent.

The net result of these developments was that the 2000 target for GDP per capita could not be achieved. Instead of increasing over the 1996 level, GDP per capita actually fell by almost one-fifth to U$33 1 (capita income of US$ 320 in 2003), Lao PDR is one of the poorest countries in the East Asia region. The UN as a Least Developed Country (LDC) classifies it. Nearly 77 percent of its population live on less than US$2 a day, and 29 percent below the national poverty line of US$ 1.5 a day (in 2002/03-down from 39 percent in 1997/98) and the income from stands for about 50 percent of agriculture production.

The high inflation contributed to a steep decline in the exchange value of the national currency (kip), from 716 kip (1992) to the US dollars just before the crisis to about 10,417 kip (2003) to the dollar currency increased about 1,354 percent. Especially the inflation crisis in 1998 to 1999 increased about 464 percent.

The land is well distributed in Laos. Almost 90% of the households own land. Under the National Law, women and men are now equally entitled to hold property, and the Family Law specifies that any property purchased during marriage is regarded as joint property. Women work more per day than their male peers. Working on income generating activities plus household work occupies women 7 hours per day compared to 5.8 hours for men.

More than 85% of total populations are engaged in agricultural activities and most of them are small farmers, In Laos there are not bigger farms and the biggest farms are about 1-2 ha per household. The generals of Lao custom, the people have the habit to use glutinous rice about 90% and less than 10% ordinary rice. Majority of plant have been used by the local strains about 71% of paddy variety (especially rainy season) and the irrigation plant have been used by hybridization seed 100%. Concerning fertilizer, most of the farmers use bio-natural fertilizer such as compost and animal dung about 72% of total farmers. The actual estimation on chemical fertilizer quantity has applied for wet paddy cultivation is about 20-30 kg per ha. Pesticide and insecticide application in average for wet rice is only 0.1-0.2 kg/ha.

In 1990-2002, rice output seemed unchanged due to unusual weather. Average rice (particularly paddy) increased from 310 kg/person /year in 1990 to 413kg/person/year in 1999 and to 437 kg per person/year in 2002. From the data of the rice consumption per capita per day the average is 582g or 2 12.80kg of the milled rice/person/year. Cost of rice production in pilot delta was higher, rendering 10-25 US$/ton compared to small one in Northern mountainous regions especially summer season. In surplus rice producing areas, from 1995-2002, paddy price of market farmers increased from 143-1,057 k/kg, account 637.21 % and average 79.65 % per year. Usually the Lao culture, farmers were preserving for consumption amount of paddy of the household is quite large average 4-5 tons per year.

In 2003, the total amount of export products is 359 million USD worth, increased from 300 million USD in 2000. In the period of the year 1990-1995 the average export volumes is increasingly developed for 58%, but absolutely decreased in the period of 1995-2000, and 2000-2003 for 1.5% and 3% respectively. The main export productions are Electricity, wood sawn, timber, ply wood, coffee, gypsum and lead.

The amount of import has increased from 447 million USD in 2000 to 482 million USD in 2003 respectively. The main import productions are electricity, lorries and trucks, cars, buses, tractors, motorcycles, bicycles, fuel, cement, iron bar, paper, threads, clothing, medicines, sugar, milk, sewing machine and rice 78 percent of total import comes from Thailand and Vietnam.

Measuring actual foreign direct investment implemented is difficult because the government only releases data on the number and value of approvals. But by 1994, wholly foreign-owned investment accounted for about half of total investment approved. In 1992-2003, the approved investment such as: hydropower, telecom, hotel and restaurant, and service and so on. In the general, in Lao context, the foreign investors are mainly with Thailand, USA, France, Australia, Vietnam, Malaysia and China and so on. In 2003, the investment in mining is mainly about 33 percent of total. The FDI before AFTA is higher than after because in the year 1997 up to now the foreign investors worry on high inflation and sharp depreciation of the national currency.

Asian Free Trade Area (AFTA) has been establishing in ASEAN country for 10 years. It has been contributing a lot for trading activities and cooperation among A SEAN countries and international market. It encourages an open market at both regional and global scale. In recent years, developments of world trade, infrastructure upgrade with a focus on transportation, and boom of a boom in information technology have facilitated trade liberalization process and economic transition. Lao PDR is developing country with around 85% of farmers living on agricultural production sector. Lao PDR has been carrying out many programs with the efforts to renew and improve its economy. Laos has gained initial significant achievements, especially in poverty alleviation and rural development.

Laos officially was new joined with ASEAN on 23 July 1997. The CEPT commitment began implementing on 1 January 1998. In five equal installments due to the agreement of ASEAN beginning 1 January 2001 for a ten years period ending by 2008, with tariff rate of 0-5%.

The implementation of CEPT (Agreement on Common Effective Preferential Tariff) scheme for AFTA is based mainly on the implementation of the four Product Lists such as: the Inclusion List (IL), the Temporary Exclusion List (TEL), the Sensitive List (SL) and General Exception List (GEL). While the completion of the "Inclusion List" is main objective, the implementation of the IL requires the compliance with measures and conditions stipulated in the CEPT agreement.

The National AFTA Unit of the Lao PDR (NAUL) was established on 22 July 1997 at the Customs Department, Ministry of Finance as a focal point for accomplishing al AFTA activities. The NAUL is composed of 8 representatives from 6 government administrations namely: the Tax and the Custom Departments, Ministry of Finance; the Department of Economic Affairs, Ministry of Foreign Affairs; the Secretariat of the Prime Minister Office; the Industry Department, Ministry of Industry and Handicraft; the Cabinet of the Ministry of Agriculture-Forestry and the Cabinet of the State Planning Committee.

Under the CEPT Package of the year 2001, Laos had a total of 1,673 tariff lines (47% of her total tariff lines) in her Inclusion List (IL); 1,716 tariff lines (48% of total tariff lines) in the Temporary Exclusion List (TEL); 88 tariff lines (2.5% of total tariff lines) in the Sensitive List (SL), and 74 tariff lines (2% of total tariff lines) in the General Exception List. All products in the TEL must be transfered into the IL at annual installments beginning 2001. By 2008, all products in the Inclusion List (IL) must have undergone immediate liberalisation thourhg reduction of tariffs to 0-5%, removal of restrictions and other Non-tariff barrier (NTB).

The general impact on AFTA, this matter there will have the emulation between local and international business so the local business will be impacted because Laos has a weak economy, technology, quality of products, the business men did not have lessons and experiences. The income of the import tax is decreased. The general benefits such as: The situation of the politic is stronger, the membership countries have a strong support, the attraction of investment and the economy sectors that make more income for the country and people have alternative to select the qualified of goods with low price for better living and to make initiative of people in production to exchange the products in the country and for export.

Chapter 1. INTRODUCTION

1.1 Rational for the study/statement of problem

Lao PDR is small country in Southeast Asia. Whilst Lao PDR has no direct access to the sea, the Mekong River past from north to south.

Laos becomes a new member of the Association of Southeast Asia Nation (ASEAN) on 23 July 1997. Like other members of ASEAN; Laos signed the ASEAN Free Trade Area (AFTA) and agreed to undertake the Common Effective Preferential Tariff (CEPT) scheme. AFTA was established with the goals to increase ASEAN's competitive edge as a production base in the world market through the elimination, within ASEAN, of tariffs and non-tariff barriers; and to attract more foreign direct investment to ASEAN, while CEPT is the primary mechanism for achieving the goals. According to this mechanism, tariffs on goods traded within the ASEAN region, which meets a 40% ASEAN content requirement was supposed to be reduced to 0-5% by the year 2002 / 2003. For Laos, the deadline is 2008.

Lao has considerably eliminated quota restrictions to exports and imports. Laos' market is relatively open in the region. The government has established a National AFTA Unit of the Lao PDR (NAUL) under the Ministry of Finance to facilitate the process of liberalisation and also to develope trade relations with ASEAN members and other countries in the world.

As of 2001, Laos has had a total of 1,673 tariff lines (47% of her total tariff lines) in the Inclusion List (IL); 1,716 tariff lines (48% of total tariff lines) in the Temporary Exclusion List (TEL); 88 tariff lines in the Sensitive List (SL) and 77 tariff lines in the General Exception List.

AFTA in the sense of trade liberalization will create additional opportunities for Laos in terms of accession to markets in the ASEAN member countries without barriers. However, trade liberalization will also make Laos facing challenges in internal economic development acceleration of import, export and environment as the Lao economy is not yet healthy enough to be able to compete with those member countries in trading activities. Many sectors are still initial stage of development. Because Laos has a weak economy, human resources, technology, quality of products, business has weak experience.

Moreover, Laos is realizing of AFTA over the last few years still far away from the AFTA impact. But we are learning from old ASEAN country members especially Thailand and Vietnam being aware of both negative and positive impact of AFTA on its economy and small producers.

1.2 Objective

The objective of this study is to assess the current situation from different aspects, including agriculture, trade, socio-economic conditions and food security in Laos, and the impact of AFTA on consumers and small farmers.

1.3 Limitation of the study

The various sources of secondary data (the same indicators the same time but difference values and difference amount) make difficulties in the selection of good data about macro performance, trade and investment.

1.4 Brief information of country

The Lao People's Democratic Republic (Lao PDR) is a relatively small country located in South East Asia. It is land locked, sharing an eastern border with the Socialist Republic of Vietnam, a western border with the Kingdom of Thailand, a Southern border with the Kingdom of Cambodia, a Northern border with the People's Republic of China and the Union of Myanmar. The Lao PDR has a land area of 236,800 square kilometers (land 230,800 square kilometers and water 6,000 square kilometers) forestry about 47% in 1999, Laos have rivers, including a 1,865 km stretch of the Mekong River (Namkong). Major stretches of the Mekong and its tributaries are navigable and provide alluvial deposits for the fertile plains. About two thirds of the country is mountains ranging from 200 to 2,820 meters high. The mountains pose difficulties for transportation and communication, but together with the rivers, they produce vast potential for irrigation and other infrastructure development projects such as hydropower.

The population of Lao PDR was increased from 4,140,000(1990) to 5,526,100(2002), and 5,679,000 (2003)[1] (male 2,731,025 and female 2,795,075), with an average annual from 2000-2002 growth rate of 2.8 % per year. About 86.81 % of population live in the rural region, 85 % of whom are still agrarian, about 10 % the middle class and only 5 % enjoy most of the wealth. The population density is average 23 persons per square kilometer in 2002, which remains one of the lowest in the region.

[1] Agriculture statistics 25 years (1975-2000), 2001, 2002 & 2003 of Ministry of agriculture and forestry

Chapter 2 - Literature review-Agriculture, trade and investment

2.1 Micro-economic performance

Central to economic success in the 1990s was the reform of the regulatory, legal and administrative environment to support the development of a market-oriented economic system, under the New Economic Mechanism (NEM)[2].

The successful implementation of the immunization programe, a top priority of the Government, today, 95 % of all the villages of our country are covered by basic vaccinations. in October 2000, The Lao PDR has been declared polio-free, another achievement as he eradication of polio has been central in National Immunization programme.

Combined with other factors such as improved quality of care and family planning activities, this immunization programme, supported by UNICEF, JICA, WHO, AUSAID, other international development organizations and led by the government through and inter-agency Co-ordination, led to an important decrease in immune preventable diseases. Indeed, we have recorded decreases in the infant mortality rate, namely from 113 per 1,000 live births in 1995 to 75 in 2000.

Similar progress has also been made with regard to the under-5 mortality rate, which shows a fall from 114 per thousand live births in 1995 to 97 per thousand live births in 2000. An equally impressive decline has been registered in the maternal mortality rate, which decreased from 656 per 100,000 live births in 1995 to 500 in 2000.

Progress can also be reported on, e.g., the reduction of micro-nutrient deficiencies. Today iodine-fortified salt’s distribution rate is covering 90 percent of total population and household’s consumption of iodine-enriched salt has consequently increased from 71 percent in 1995 to 95.3 percent in 2000.

Other noticeable improvements on the health front include increased food security. Several hundreds of village’s rice banks have been established. Families deposit a percentage of rice into the rice bank; the whole community can then draw on the bank if there is a drought or shortage of rice, or for use in crops. Access to latrines in the whole country improved from 28 percent to 37.2 percent between 1995 and 2000 and in the rural areas from 16 percent in 1995 to 21.6 percent in 2000. However, the overall access to safe drinking water improved only slightly between 1995 and 2000, namely from 51 percent to 51.8 percent for the whole country.

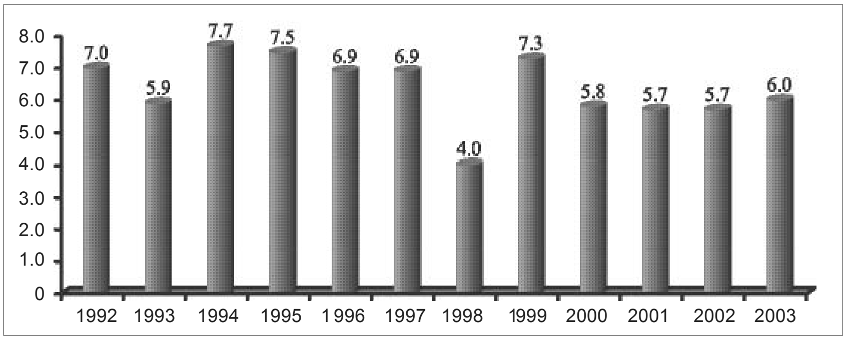
Many other improvements at the micro-level have taken place throughout the country thanks to many “smaller” projects some of them under the umbrella of larger program. Several income-generating projects have been developed in 391 villages. This directly improved the living conditions for approximately 40,000 people in 9 provinces. Furthermore, 150 villages have developed their own village development plans- an encouraging fact for the Government’s decentralization.

---

[2] Fighting poverty through human resource development, rural development and people’s participation, government report to the seventh round table meeting, Nov 2000. Page 21& 23

Nevertheless, the overall performance of the economy has remained strong, as reflected in the annual average rate of growth of GDP of 6.3 percent during the past 10 years (1992-2003) In particular; the industry and service sectors grew very strongly. The agriculture sector all important from an employment perspective has maintained steady growth in recent years, bolstered by an extensive irrigation investment programme launched by the Government just prior to the Asian crisis. In 2003, industry accounts for about 24 percent of GDP, up from 16.7 percent in 2002. The service sector share edged up to around 26 percent, while agriculture's share fell from 58 percent to 50 percent. The percentage of GDP growth from 1998-2003 was lower compared to 1992-97 because Lao economy has suffered from the crisis later than the other countries in region. In the case of our economy, the main impact of the crisis arose from its devastating effects on our public finances and balance of payments. Government revenues have fallen dramatically, capital inflows through private investment have slowed substantially, exports decline, the kip, and our national currency, depreciated ten-fold against the US dollars, while inflation reached 3-digit figures, fuelled sometime by speculation.

Figure 1: GDP Growth (%)



Source: National poverty eradication programme

On the other hand, the crisis had an illusionary "positive effect" on the balance of trade, which, since 1997 is approving both in real values and as a percentage of GDP. This improvement, however, is due to both a decrease of our exports and even greater decrease of our import, contributing thus to narrowing the gab between exports and imports. Unfortunately, this does not reflect an intrinsic structural improvement of our trade balance.

Prior to the Asian financial crisis, foreign direct investment (FDI) also contributed strongly to growth of the economy. FDI disbursement were US$ 128 million in 1997, but-as elsewhere in many parts of Asia-have dropped to much lower levels since the crisis.

The net result of these developments was that the 2000 target for GDP per capital could not be achieved. Instead of increasing over the level, GDP per capita actually fell by almost one fifth to US$ 331. High inflation and sharp depreciation of the national currency (kip) severely undermined income when expressed in US dollars.

In addition to the impact of the Asian financial crisis, internal financial imbalances (notably high fiscal, trade and current account deficits) chronically affected macroeconomic stability. In October 1999, the Government took a series of important policy measures, including enhancement of tax and non-tax revenue collection and tightening of expenditure management. Also budget financing through the bank sector was stopped. Trade reform and export promotion contributed to a more sustainable current account deficit.

These and other measures have supported a markedly improved macroeconomic environment since 2000. In the year, as a guide to monetary and fiscal management, the Government released its Macroeconomic Policy and Reform Framework. This framework is being progressively implemented and is an integral part of the National Poverty Eradication Progamme (NPEP). It includes three main reform programmes: The Poverty Reduction and Growth Facility (PRGF-IMF); the Financial Management Adjustment Credit (FMAC-WB) and the associated Financial Management Capacity Building Credit (CB-FMAC); and the Bank Sector Reform Programme (BSRP-ADB). A recent Public Expenditure Review has contributed further to the reform process[3].

The PRGF supports the Government in strengthening macroeconomic stability through encouraging credit restraint, fiscal prudence, and a flexible exchange rate regime, more particularly components of the PRGF include improvement of treasury system, enhanced fiscal reporting and accountability, and tax measures to increase revenues the PRGF. also provide for reforms in re-capitalizing the State-owned Commercial Bank (SOCBs). Trade and the role of the private sector are yet other areas included in the programme.

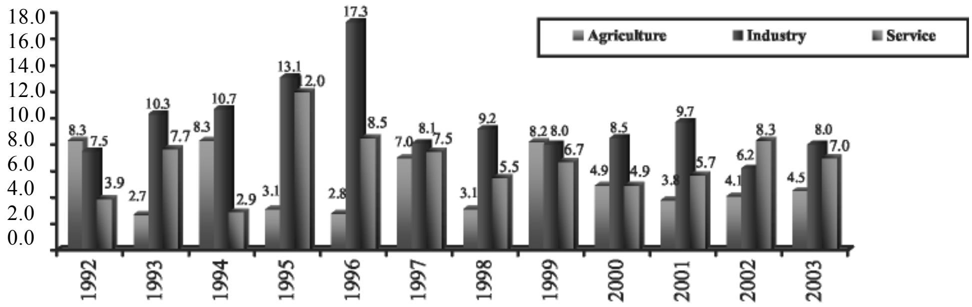
The FMAC addresses three areas: public sector reform (budget accounting and control natural resource management); reform of state enterprises (strengthening oversight capacity, enterprise restructuring, rate charges); and financial sector reform (Banking micro-finance). The CB-FMAC focuses on capacity building to help implement these reforms.

The BSRP focusses on the restructuring of the SOCS. It covers critical areas related to proper banking practices which include policy development, capacity building, strengthening of the legal framework and commercial court.

All these reform programme are well underway and are yielding good results. Through time, they will contribute strongly to economic growth and poverty reduction.

[3] World Bank, International Monetary Fund and Asian Development Bank, Lao PDR Public Expenditure Review and Country Financial Accountability Assessment, June 2002

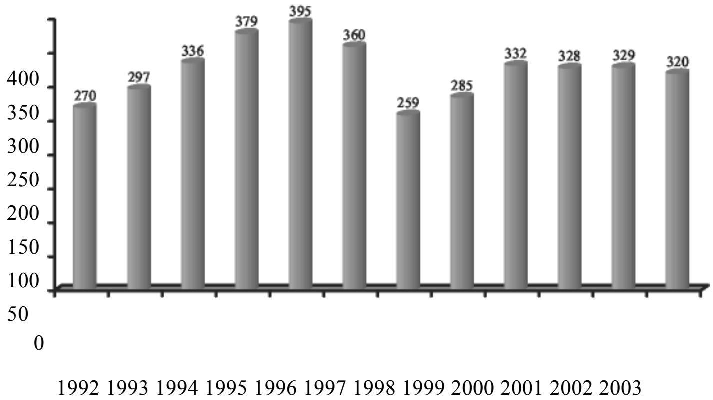
Figure 2. Agriculture, industry & service growth (%)



Source: National poverty eradication programme

The net result of these developments was that the 2000 target for GDP per capita could not be achieved. Instead of increasing over the 1996 level, GDP per capita actually fell by almost one-fifth to U$33 1. High inflation and sharp depreciation of the national currency (Kip) severely undermined income when expressed in US dollars.

Figure 3. GDP per capital (US$/person)



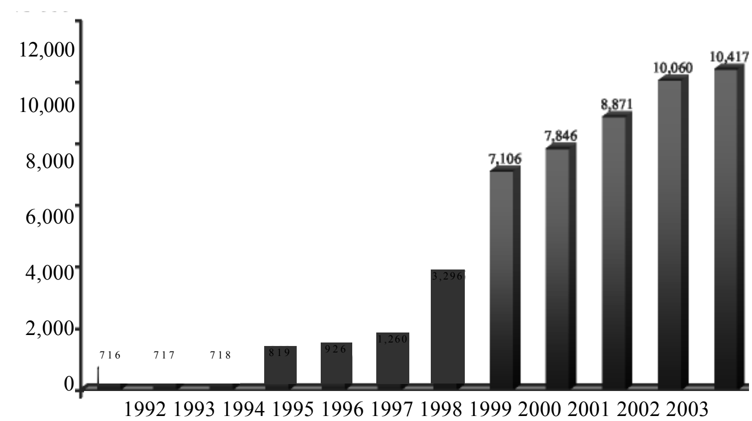
Source: National Poverty Eradication Programme

Inflation

Inflation rose to 134 percent in 1999; stabilization measures quickly reduced inflation to 30 percent in 2000 and to single in 2001 and 2002.

However, the high inflation contributed to a steep decline in the exchange value of the national currency (kip), from 716 kip (1992) to the US dollars just before the crisis to about 10,060 kip (2002) to the dollar currency.

Figure 4. Exchange rate (kip/US$)



Source: National Poverty Eradication Programme

The Government is striving to achieve a much stronger national revenue base through:

i) continuous improvement of revenue collection and modernization of the tax system.
ii) support of private sector development, including foreign direct investment and
iii) increased revenue flow to the treasury from investments undertaken through the national resource base (such as mining, hydropower, and plantation industry).

As measure by the total CPI (Consumer Price Index), has been falling for the year 2003-04, having risen in the first half of 2003[4]. Non-food inflation has also been falling, and has come down to single digits as of April this year. This clearly reflects improved management of fiscal deficits and domestic credit growth. A stable exchange rate has helped too. However, there are cost-push pressures like a) rising wold price for rice; b) scheduled increases in tariffs for domestic utility prices, including electricity and higher health-care costs, largely because of improvements in quality not captured in the data.

The six of the nine CPI components are most relevant for the following analysis. They are: 1) food (which constitutes the 46.2% of CPI); 2) transport and communications 17.9%; 3) Household good 8.1%; 4) beverage and tobacco 6.4%; 5) housing 3.8%; and 6) medical care 3.8%.

Employment

The labour force in agriculture sectors high percentage than industry and service sector. The table below shows the numbers of Lao in 3 main economic sectors.

Table 1: Percentage of labor and employment by major economic sectors

Items	2002	2003	2004
Total number of labour force accounts	55	55	56
Agriculture	77	78	78
Industry	6	6	6
Services	7	7	7
Others	10	9	9

Source: Planning Socio-Economic Development 2004-05.

From the table above, it is clear that agriculture sector still plays very important roles and main income of people is very high cover about 77-78 percent of total employments. in the year 2004. The labour force in urban areas about 11 percent, average increased 1 percent per year and labour force in rural areas 27 percent, average decreased about 1 percent per year.

The employment's abundant situation in rural area (especially in cropping season) recently is a big pressing issue all over society in terms of creating more job opportunities with an aim to improve incomes and limit the overflowing of population from rural areas to seek for jobs. The domestic and foreign investment in the field of garment factories and construction is growing rapidity and so the migration of labors from rural areas in to urban increasing in orders to obtain job employment.

Almost agriculture households mainly use family's man-forces. About 26% of agriculture households hire off-farm employment. In the northern mountainous provinces, employment being hired by paying wage manner and in the large plains the rate is over 50% of paying wages. Period for using hired employment is in cultivation and harvesting period.

[4] Laos economic monitor of world bank, May 2004, page 2

Poverty situation

In terms of real per capita consumption Vientiane capital is the wealthiest region in the country while the North is the poorest. Per capita consumption in Vientiane capital increases ad an average annual rate of 10.8 percent between 1992/93 and 1997/98. This was more than twice the rate of increase in per capita consumption in other region. For the Lao as a whole, the average annual increase in real capita consumption was 5.8 percent. Households have clearly benefited from economic growth.

Table 2: Per capita real consumption by regions (Kip)

Regions	1992/93	1997/98	Growth rate
Vientiane Capital	34,676	59,577	10.8
Northern	20,184	25,770	4.9
Central	25,720	32,586	4.7
Southern	23,623	29,504	4.4
Lao PDR	**24,595**	**32,848**	**5.8**

Source: National poverty eradication programme, VTE, Sep 03

Through the various stages of economic development, the share of non-food items in people's consumption patterns become higher than that of food items. Not surprisingly, people in the Laos have spent increasingly more on the non-food items in comparison with food items over time. More specifically, the per capita real non-food consumption has been growing at an annual of 13.5 percent, whereas the per capita real food consumption has increased at an annual rate of only 2.6 percent (see table 3).

As shown table 2, while Vientiane capital is the richest area in terms of its monthly total consumption per capital, the northern region is the poorest. Moreover, the annual growth rate in total consumption per capita per month in Vientiane capital has been 10.8 percent over time, while is far exceeding that of 3 other regions. Furthermore, although the North has remained the poorest region in the country, it has been growing faster than the Central and the South. The real total consumption per capita per month in the North has increased at the annual rate of 4.9 percent that is more than the Central and South. The Southern region is better off than the northern region but worse off than the Central region and Vientiane capital.

Table 3. Monthly per capita real food and non-food consumption in Kip by regions

Regions	1992/93		1997/98		Annual growth rate	
	Food	Non-food	Food	Non-food	Food	Non-food
Vientiane capital	22,099	12,577	28,040	31,537	4.8	18.4
Northern	16,923	3,260	18,623	7,147	1.9	15.7
Central	19,656	6,065	21,694	10,893	2.0	11.7
Southern	17,856	5,767	21,123	8,381	3.4	7.5
Lao PDR	**18,720**	**5,876**	**21,321**	**11,527**	**2.6**	**13.5**

Source: Fighting poverty through human resource development, rural development and people's participation.

Table 4 reveals the urban-rural differences in the per capita real consumption. As expected, per capital real consumption in rural areas is much lower than in urban areas.

More importantly per capita real consumption in rural areas has been growing at the annual rate of 5.4 percent. Whereas the growth rates in urban areas has been 9.0 percent. Thus the rural-urban disparity has increased between 1992/93 and 1997/98, which is indicated by the fact that the rural per capita real consumption as the percentage of the urban per capita real consumption has decreased from 72.8 percent in 1992/93 to 60.9 percent in 1997/98.

The per capital real consumption was used to measure the degree of inequality. It takes into account the regional differences in the cost of living and also the changes in monthly consumer prices. The empirical results are presented in Table 5.

Table 4: Per capita real consumption by regions and rural and urban areas (Kip)

Regions	Urban areas			Rural areas		
	1992/93	1997/98	Growth	1992/93	1997/98	Growth
Vientiane Capital	36,438	62,098	10.7	29,378	55,304	12.7
Northern	23,498	32,914	6.7	19,495	24,995	5.0
Central	30,111	42,477	6.9	24,872	31,197	4.5
Southern	30,842	39,938	5.2	22,138	28,378	5.0
Lao PDR	**31,035**	**48,721**	**9.0**	**22,609**	**29,668**	**5.4**

Source: National poverty eradication programme, VTE, Sep 03

Compared to many other Asian countries, inequality in Laos is not high. The bottom 20 percent of the population had a share in per capita real consumption of 9.3 percent in 1992/93, while the share for the richest 20 percent, the consumption was 38.4 percent in the same year. Unfortunately, the consumption share of the bottom 20 percent population declined to 7.8 percent in 1997/98, while that of the top 20 percent increased to 44.4 percent. The Gini coefficient, which is an overall measure of inequality, increased from 28.6 percent in 1992/93 to 35.7 percent in 1997/98. Thus, inequality in the Laos increased over time.

Table 5: Inequality of per capita real consumption

Regions	1992/93	1997/98	Growth rate
Gini Coefficient	**28.6**	**35.7**	**4.4**
Quintile share	(100%)	(100%)	
First	9.3	7.8	-3.5
Second	13.5	11.8	-2.7
Third	16.9	15.4	-1.8
Fourth	21.9	20.6	-1.2
Fifth	38.4	44.4	-2.9

Source: Fighting poverty through human resource development, rural development and people's participation.

An increase in inequality implies that the benefits of economic growth have not been flowing uniformly across the population. The proportional benefits received by the poor are lees than those by the rich. This is evident from the result that the per capita real consumption in the Laos grew at an annual rate of 5.8 percent between 1992/93 and 1997/98. But the annual growth rate of the bottom 20 percent population is only 2.3 percent, while that of the top 20 percent population is 8.7 percent[5].

[5] Fighting poverty through human resource development, rural development and people's participation, government report to the seventh round table meeting, VTE 21-23 Nov 2000, pg. 33

As shown Table 6, the head counts index[6] or incidence of poverty was 38.6 per cent in 1997/98, compared to 45 percent in 1992/93. The North had the highest incidence of poverty, at 52.5 percent. Some 830,000 people in the North are below the poverty line and they account for about 45 percent of total number of poor in Laos. There were considerable variations in rate of progress in poverty reduction. The North not only is the poorest region, it has experienced the slowest rate of reduction in poverty.

In contrast, Vientiane the capital, the wealthiest of the region, experienced a 50 percent drop in poverty between the two surveys. The Central region also experienced a slow rate of poverty reduction, but the incidence of poverty is still lower than in the South. There are many provinces with a poverty head count higher than 50 percent.

Table 6: Incidence of poverty by regions

Regions	1992/93	1997/98	Annual rate in decrease of poverty
Vientiane Capital	24.4	12.2	-13.9
Northern	58.4	52.5	-2.1
Central	39.5	34.9	-2.5
Southern	45.9	38.4	-3.6
Lao PDR	**45.0**	**38.6**	**-3.1**

Source: National poverty eradication programme, VTE, Sep 03

In addition to large differences in the poverty incidence across, there are also differences between provinces. Huaphan in the Northern region is identified as the poorest province, where 78.4 percent of the population lived in poverty in 1992/93. Although the percentage of poor fell to 74.6 in 1997/98, this province still remains the poorest in the country.

It is important to note that the reduction in poverty is not uniform across regions and provinces. In Vientiane the capital city, the incidence of poverty decreased at an annual rate of 13.9 percent, whereas in the Northern region, the incidence of poverty decreased at an annual rate of 2.1 percent. In the Central and Southern regions, incidence of poverty diminished at annual rate of 205 and 3.6 percent, respectively. Thus, not only is north the poorest in the country[7], but also its rate of poverty reduction is also the lowest. This seems in contradiction with the fact that the growth rate of per capita real consumption in the Northern region is higher than that in the central and Southern regions. But it can be explained by the fact that growth in the Northern region has been accompanied by a sharper increase in inequality which reduced the impact of faster growth on poverty reduction.

---

[6] The head count index shows the percentage rate of the population with consumption of food and non-food essentials lower than poverty line. For the Lao in 1997/98, the overall poverty line was 15,218 kips per person per month; for urban and rural people the poverty line was 19,270 kips and 14,407 kips per person per month, respectively.

[7] This is country to earlier reports based on a 1995 WB study which identified the South as the poorest region of the country.

Table 7: Incidence of poverty by regions and rural and urban areas (Kip)

Regions	Urban areas			Rural areas		
	1992/93	1997/98	Growth	1992/93	1997/98	Growth
Vientiane Capital	22.46	16.7	-5.9	30.14	4.47	-38.2
Northern	48.93	43.27	-2.5	60.4	53.53	-2.4
Central	37.42	27.65	-6.1	39.89	35.89	-2.1
Southern	27.64	35.84	5.2	49.62	38.66	-5.0
Lao PDR	**33.14**	**26.86**	**-4.2**	**48.66**	**40.97**	**-3.4**

Source: Fighting poverty through human resource development, rural development and people's participation.

As case seen from table 7, the urban-rural disparity in the incidence of poverty is large: in 1992/93 for urban areas the incidence was 33.1 percent, and for rural areas it was 48.7 percent. Large differences in the percentage of poor between urban and rural areas are prevalent across regions. The disparities have, however, lessened slightly in 1997/98 where the incidence of poverty was 26.8 percent for urban areas and 40.9 percent for rural areas.

Poverty in urban and rural areas

In the Table 4, shown earlier indicated the significant differences in per capita consumption between urban and rural areas. In 1997/98, the incidence of poverty in urban areas was 27 percent, compared to 41 percent in rural areas. In the five-year interval between the 1992/93 and 1997/98 the poverty in urban areas decreased much more than in the rural areas. Nevertheless, living conditions of the urban poor are difficult.

Most urban poor have a low level of education and no permanent jobs, which increases their vulnerability.

To date, there is no study on urban poverty in the country as a whole[8]. However, a Participatory Poverty assessment (PPA) was carried out for Vientiane capital where the nature, causes and linkages of poverty were investigated[9]. Key findings included i) the diversity of poor people, ii) an interdependence between households within poor communities, iii) uncertainty in tenure and frequent flooding as causes of poverty. The PPA also found particularly vulnerable groups and individuals whose conditions contributed to, and were often a cause of, their poverty. Table 8 summarizes the most vulnerable groups.

[8] As mentioned before, Lao Expenditure and Consumption Survey III will for the first time provide a quantitative analysis of urban poverty

[9] The PPA was carried out by the Vientiane urban development and administration authority (VUDAA) with support from the ADB (Poverty in Vientiane, 2000). There was also a the small town PPA conducted by the Department of Housing and Urban Planning, MCTPC, with support from the ADB (Nov 2001).

Table 8: Vulnerable groups in Vientiane capital

Vulnerable	Percentage
Physical and mentally handicapped/blind	18.5
Drug alcohol user	14.5
The elderly living alone	14.0
Female headed household	8.4
Isolate individuals	7.2
Young children	6.7
Youth and school drop-out	5.5
Unemployed	4.0
Criminals	4.0
Destitute	2.7
Beggars	2.2
Rural migrants and illegal migrants	1.6
Homeless/Squatters	1.6
Street children	1.6
Partially, temporality employed	1.6
Lazy people	1.1
Others	2.7

Source: Fighting poverty through human resource development, rural development and people's participation.

Socio-ecnomic aspects of poverty

Table 9 indicates the relationship between poverty and access to basic infrastructure. Clearly, the poor has much less access to infrastructure, compared to the less-poor. For example, only 38 and 17 percent of poor people have access to an all-weather road or electricity, respectively. In terms of distance, the poor are on average 13 kilometers from a road, compared to 9 kilometers for the less poor. The poor are on average 13 kilometers from a road, compared to 9 kilometers for the less poor. Access to piped water is also limited. Complete primary schools are not as available to the poor as to the less – poor people, but as found by the PPA- this factor is not considered an important cause of poverty. Basic health services are very deficient in areas where the poor people mostly reside. Disparities in rural areas are marked, although less so than in urban areas.

Table 9: Percentage of poor and less-poor people with access to infrastructure

Access to	Poor	Less-poor	Total
All areas			
Road in dry season	70.8	84.8	79.4
Roar in wet season	3804	61.5	52.5
Electricity	17.1	40.0	31.6
Pipe water	38.6	57.1	49.9
Public transport	38.2	57.1	49.7
Primary school	86.4	87.6	87.1
Complete primary school	43.0	55.6	50.7
Medical practitioner	46.8	57.2	53.2
Trained nurse	63.0	63.7	63.4
Immunization	87.7	90.2	90.9

Birth attendant	44.6	50.5	48.2
Pharmacy	23.8	37.5	32.1
Community health worker	41.7	45.9	44.3
Hospital/health center*	84.2	95.7	91.2
Rural areas			
Road in dry season	67.8	80.7	75.2
Roar in wet season	32.2	51.3	43.2
Electricity	10.1	25.6	19.0
Pipe water	34.6	51.9	44.5
Public transport	32.6	47.2	41.0
* Lees than 6 hours away			

Source: Fighting poverty through human resource development, rural development and people's participation

Gender dimensions of poverty

Women and men experience poverty differently in the Laos[10], even within the same ethic group or community. Women tence to work much longer hours than men do as they are primarily responsible for their families' food security, a responsibility that is especially difficult in the case of upland families that have relocated to lowland areas.

If families can not grow sufficient rice in their new location, they may return to their old shifting cultivation fields, which could be a considerable distance away. The heavy workload of minority women involved in opium production, and the burden on them of addicted household members, is a major cause for concern.

Lao women have lower literacy rates than men (59.1 percent, compared with 81.7 percent)[11] Women on average have had 3 years of school (2years in rural areas), compared to 4 years for men. However, there has been improvement, especially in urban areas: young rural women aged 15-19 have now 4 years of school compared to 5 years for young men, and both young women and men in urban areas have now an average of 7 years of schooling. Several reasons for the low school attendance of poor girls in rural areas, especially in higher grades, have been identified. They include the girls' household responsibilities, the cost of clothing and school supplies, the distance to the nearest school, language barriers for ethnic minority girl, and questions about the quality and relevance of formal education for those girls.

As more young women and men migrate from remote areas to towns and cities for work, young ethnic minority women with little education and limited knowledge of Lao language will have few opportunities and will be at greater risk of exploitation. As majority of ethnic group women do not speak Lao, this limits their ability to engage with health care workers, extension workers, traders and other outside the village. They also have limited access to family planning services; with high fertility rate; there is very high risk of health complications for death for both mother and child.

Recommendations to improve the positive of women include the following[12] : i) reduction of

[10] National Poverty Eradication Progamme (NPEP), eight round table meeting, VTE, Sep 4-5 2003. pg.26-27
[11] National statistical center, Basis statistics of the Lao PDR 2001, also, the LECSII and LHRD 2000.
[12] Lao Women's Union and the state planning committee workshop (Aug 2000)

women's heavy workload through appropriate technologies and improvement access to water supply. ii) Improvement of women's and girls' educational levels. iii) Improvement of material and child health, including family planning. iv) More income generation opportunities (e.g. rice mills, handicraft production) for women through skills training and micro-finance; and v) more budgetary resources for programmes addressing women's need. There is an urgent need to address gender disparities.

Poverty Assessment

Poverty in Laos is complex and can be viewed from many perspectives[13]. For the Laos multi-ethnic culture, poverty has a particular meaning, as it refers to those families that have been stricken by misfortune and are the lest well-off in a given community[14]. That is why household poverty is an important criterion for poverty assessment at district level. Villages provide a measure of welfare, a natural safety net to compensate for shortcoming in livelihood with the village.

The understanding of poverty in Lao culture must be account in designing sector programmes for eradicating basic poverty. Livelihood improvement has a series of manifestation highly relevant to identifying strategic approaches to poverty reduction, For this reason, the Government prefers to stress the improvement of livelihood, focusing on people centered, participatory development. These are positive and socially mobilizing concepts, embracing all segments of society and not only those identified as poor.

Poverty measurement in Laos is still in the initial stages. Poverty analysis in Laos is mainly drawn from the research of the Lao Expenditure and Consumption Service (LECS), before the Asian financial crisis.

More fully, the degree states the following: "Poverty is the lack of ability to fulfil basic human need such as: not having enough food (i.e. less than 2,100 calories per day/capital), Lack of adequate clothing, not having permanent, not capable of meeting expenses for health care, not capable of meeting educational expenses for one's self and other family members, and lack of access to transport routes". The poverty lines these are equivalent in the first instance to lack of food security and in the second to lacking the combination of food and non-food necessities.

The food poverty line threshold is 2,100 calories per day per person, which WHO and other international organization have determined as the basic requirement for people in Laos. Those with less than this daily calorie intake are considered to be living below the food poverty line. The cost of acquiring this intake, plus 20 percent for non-food necessities (e.g. shelter, closing), determines the overall poverty line.

---

[13] Fighting poverty through human resource development, rural development and people's participation, government report to the seventh round table meeting, VTE 21-23 Nov 2000, pg. 20.

[14] For instance, in the Prime Minister's Instruction regarding "decentralization" (PM/01/March 11, 2000) villages are encouraged, before formulation a village development plan, to collect data and to observe the living conditions of each family, ranking them accordingly in to wealthy, self-sufficient and poor families.

2.2. Agriculture situation

A. Land and productive assets

The land is well distributed in Laos. Almost 90% of the households own land. In the Northern the percentage is slightly lower 85%. The presence other of productive agriculture assets is rather scarce. Tractors are owned by 19% of household and 6% of the household own a cart[15]. From year 2002 the policy of Government must put namely in land ownership certification both husband and wife.

Figure 5. % of households owning

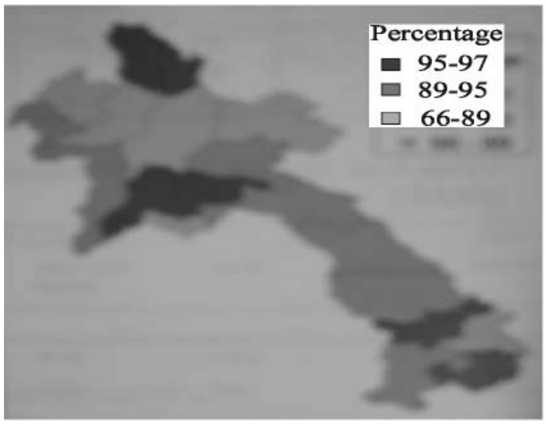
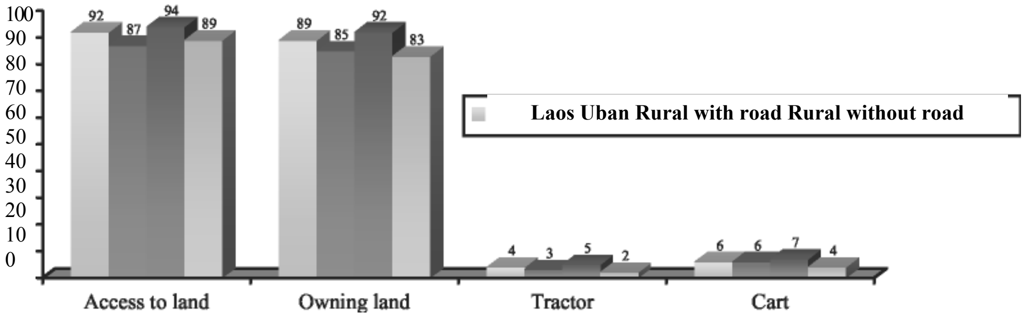


Figure 6. Percentage of household with access in 2002/03



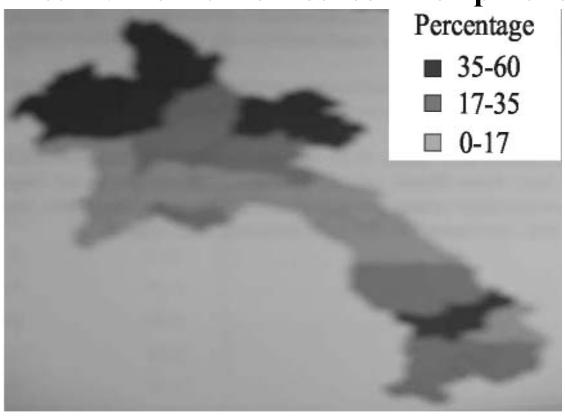
Source: The household of Laos, LECS 3, March, 04

Sustainable Use of Land

Rotational (shifting cultivation is the most common agriculture practice, but it seems to have increased substantially compared to 1997/98. The frequency of pioneering cultivation practice (slash and burn) has on the other land been reduced to about half the level it was in 1997/98[16].

Deforestation is mainly a problem in Xayabury and more in the South than in other parts of the country. Assistance in implementation of government projects is quite evenly distributed among regions.

Figure 7. % of villages where pioneering cultivation is the most common practice



---

[15] The household of Laos, Social and economic indicators Lao Expenditure and Consumption Survey 2002/03 (LECS 3), March, 04, page 32

[16] The household of Laos, Social and economic indicators Lao Expenditure and Consumption Survey 2002/03 (LECS 3), March, 04, page 55

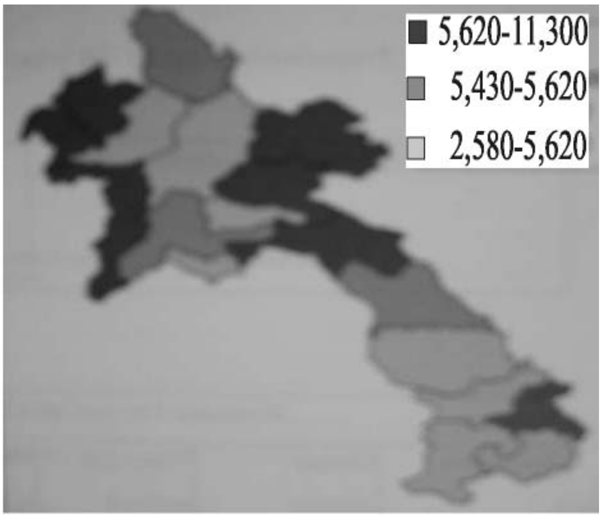
Table 10: Agriculture practices by region 2002/03 (% of village)

Items	Agr. practices mostly used in village		Villages with deforesta-tion	Villages receiving agr. Extension workers	Land & forestry and allocation project implemented	Villages with development project
	Rotational (shifting cultivation)	Pioneering (slash & burn)				
Laos	**77**	**23**	**13**	**48**	**42**	**46**
Urban	75	25	21	50	39	47
Rural with	84	16	14	55	48	49
Rural	64	36	7	34	31	38

Source: The household of Laos, LECS3, March,04

Agriculture production

Figure 8. Agriculture Profit (Kip)



Source: The household of Laos, LECS 3, March,04

Income from grain stands for about 50% of the agriculture production[17], 48% in urban households and 51% in rural households. The output consists of production for own final use and market sale. Out of the total gross output, just below 37% of the production values are for the market. For most products less than one third of the production is sold at the market.

The entrepreneurial income from agriculture (income less running costs) is generally higher in the Northern and in particular high in Xayabury compared to other parts of the country. However when these figures have been adjusted with number of hours worked the differences are not so large. The income level is overall rather low-less than 50US$ per month. Different price levels may explain why income differs between provinces and regions. According to village head data lowland paddy prices were on average 30% higher in the Northern than in the Southern and 10% above the level in the Center.

Table 11: Agricultural production, by region in 2002/03. Annual income and costs, 1,000 kip/household

Items	Income						Costs				Entre-prenurial income
	Grain	Vegeta ble & fruit	meat	Fish	Forest ry	Others	Seed & fodder	Equip ment	Wages	Others	
Laos	3,129	694	1,234	732	40	313	183	137	189	228	5,404
Urban	1,696	379	543	508	37	375	222	151	308	233	2,624
Rural	3,598	797	1,460	805	41	292	170	132	149	227	6,316

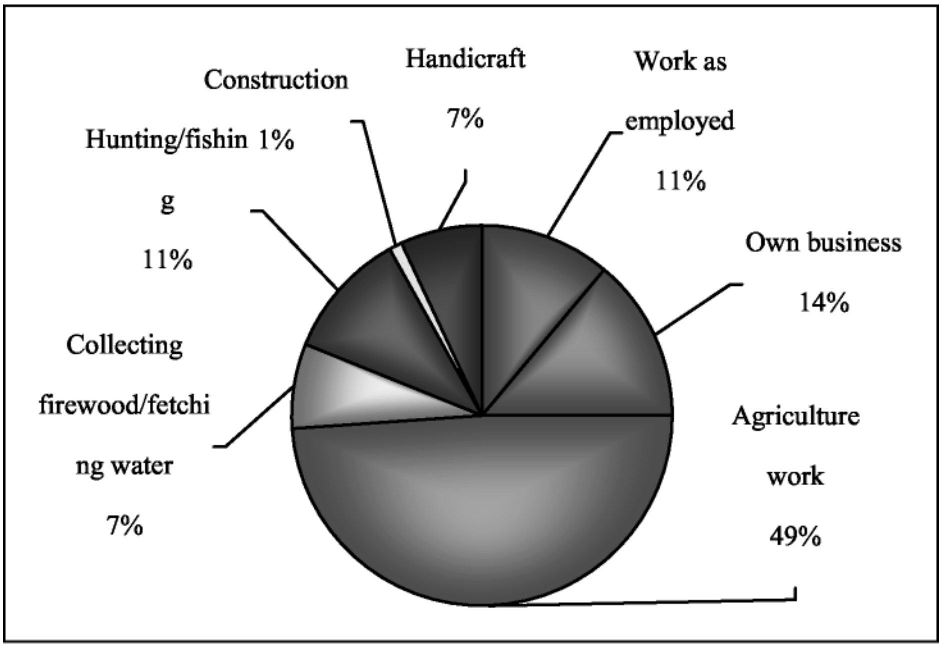
Source: The household of Laos, LECS 3, March, 04

17 The household of Laos, Social and economic indicators Lao Expenditure and Consumption Survey 2002/03 (LECS 3), March, 04, page 38-46

Lao Expenditure and Consumption Survey (LECS) in 2002/03 has captured economic activities with the households, and can provide estimates on household production by activity. If an activity entirely takes place with the households, LECS give a total estimate of the production of that activity. Households do most of the agriculture production, although other institutional units produce some important cash crops such as tobacco and coffee. The figures presented here are thus not the entire agricultural production. but production confined to the household sector.

In the time use module of the LECS, there are a number of income-generating activities that household members take part in. The following table shows how the percentage of time that an average Laos household spend on those activities

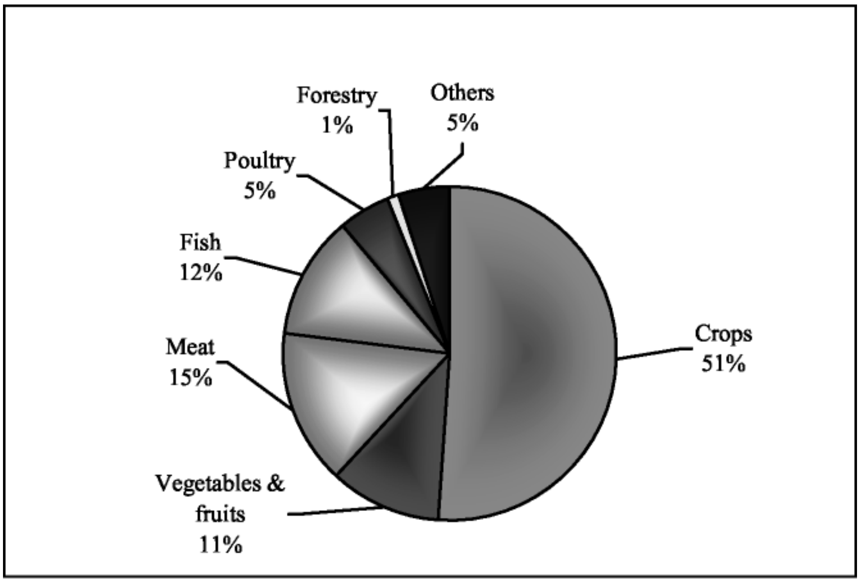
Figure 9. Income generating activities (persons 10+ years of age)



Source: The household of Laos, LECS3, March, 04

Figure 9 indicates that a household in Laos on average spends half of its working time (on income generating activities) on agriculture. The time used on hunting and fishing is of the same size as the time spent on business activities and work as employed. Agriculture, hunting and fishing use 60% of the total number of hours worked-one way to reflect the size of sector.

Figure 10. Household agriculture output

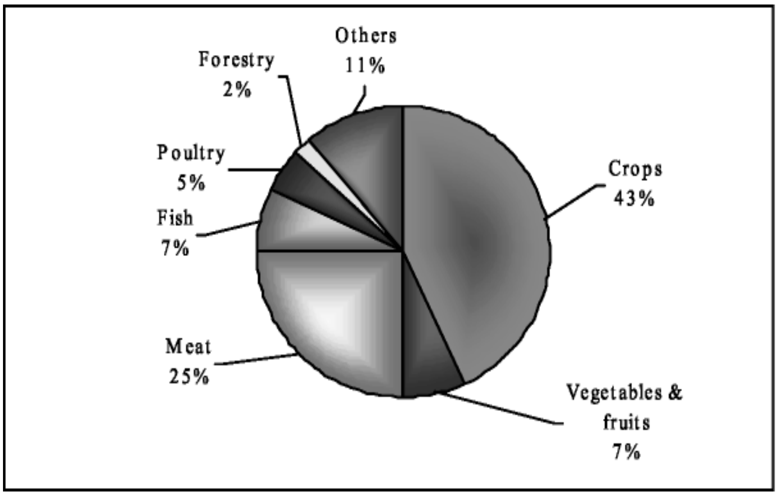


Source: The household of Laos, LECS3, March,04

As the chart illustrates, grain is the most important product group. Meat also includes wild animals. The group “others” includes cash crops such as cardamom but also agriculture services, for example land clearing or ploughing for others.

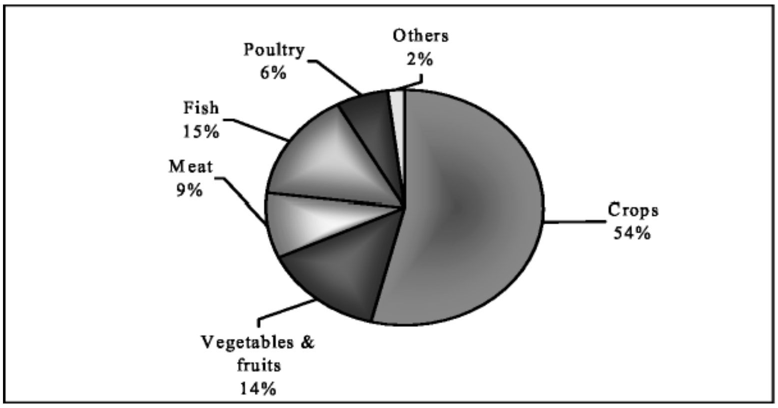
The figure 10 and 11 show the product groups proportion of the total production for sale at the market and for own use respectively.

Figure 11. Household agriculture output for market



Source: The household of Laos,LECS3, March,04

Figure 12. Household agriculture output for own final use



Source: The household of Laos, LECS3, March,04

The structure of the market output is somewhat more diversified than the output for own final use. The production group meat takes a much larger part of the production for the market than it does in the production for own use. For fish and vegetables and fruits it is the other way around.

Situation analysis

Situation analysis on the agricultural and forestry sector[18] has shown that:

- An estimated 620,000 households depend on agriculture, of which some 490,000 rely on subsistence farming
- The Lao agriculture is dominated by three main farming system: dry-land rice cultivation, employing shifting cultivation techniques in the Northern and Eastern mountain region; paddy rice along the Mekong river; and the cultivation of horticulture crops in the highland areas of the south.
- Rice is the single most important crop, accounting for 40 percent of agriculture output; in addition the paddy rice, rural households obtain their basic food needs from raising livestock and fishery and gathering Non-Timber Forest Products (NTFP).
- Agriculture output has risen steadily over the past decade, by 4-5 percent annually on averages; rice output has increased following irrigation investment and other initiatives since the mid 1 990s; livestock production has increased by 50 percent, and fishery by 160 percent.
- While the country's food needs are currently being met from domestic production, a stable supply remains uncertain because of inappropriate farming and domestic marketing system.
- The crop sub-sector is characterized by low used of improved varieties of rice, fertilizers or pesticides; irrigation and double cropping are also quite limited; agriculture support (e,g., extension services) remains inadequate due to budget and technical limitations; crop yields per hectare are below average for the region; and

[18] Including: Lao PDR, map. The government's Strategic Vision for the Agriculture Sector, 1999; JICA/MAP, Master Plan Study on Integrated Agriculture Development on Lao 2001; A strategic Vision for an Integrated Watershed Management Approach for Sustainable Upland Development and Poverty Alleviation in Lao PDR 2002.

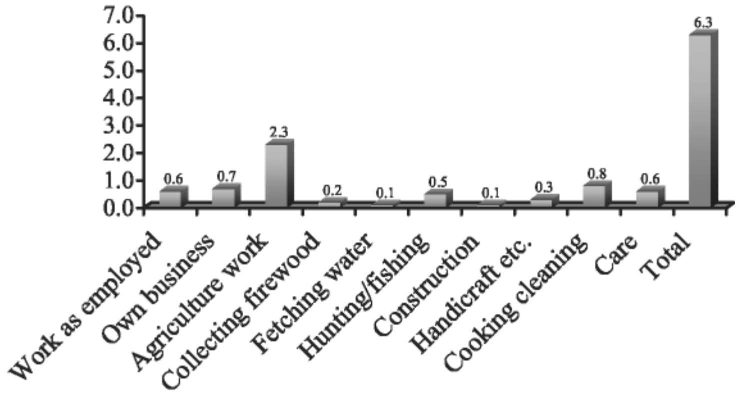
harvest and post-harvest technologies are weak.

- Agriculture development is closely interwoven with rural development; poor market access reflects lack of all-weather roads linking rural areas to domestic and international markets; distribution networks have yet to be established in most areas.
- Relative to the upland, the lowland areas are more mechanized and make more use of agriculture inputs (improved seeds, fertilizer); because of better transport links, they are also more market-oriented and commercialized.
- Reassessment of the land forest allocation programme[19] is needed, particularly as it applies to upland areas where shifting cultivation is widespread; shortened fallow periods, together with population pressures, have resulted in declining yields and hardship in some upland areas.[20]
- Preliminary results from the most recent survey (2000-2002) suggest that forest cover has further diminished from the level in 1992, due to number of causes under assessment.

Time Use

On average a person 10 years and above spend 6.3 hours per day on economic activities. 5 hours are income generating and the rest refers to home activities. There are significant urban/rural differences especially in work as employed, own business work and agricultural work. Demonstrate that women work more per day than their male peers. Working on income generating activities plus household work occupies women 7 hours per day compared to 5.8 hours for men[21].

Figure 13: Time used for economic activities in 2002/03, hours per day.



Source: The household of Laos, LECS3, March,04

[19] National poverty eradication programme, eigth round table meeting, Sep 2003, page 55

[20] Shifting cultivation is two form: rotational and pioneer. Rotational involves rotation of cleared plots in cycles of 7 to 15 year, depending on soils and other conditions. During the fallow periods the soil and the forest cover regenerates, and thus are sustainable if population pressures and/ or land allocation provisions do not interfere with the traditional cycle. Pioneer shifting cultivation as practiced by some is not sustainable, as it involves utilizing the land until it is exhausted. Shortened fallow periods, in addition to resulting in declining yields, give rise to excessive weeds-forcing much more labour to maintain crops.

[21] The household of Laos, Social and economic indicators Lao Expenditure and Consumption Survey 2002/03 (LECS 3), March, 04, page 56-58

Table 12: Time use by sex, hours per day

Activities	Male	Female	All
Sleeping	8.8	8.7	8.7
Eating, drinking, personal care	2.7	2.6	2.6
School	1.3	0.9	1.1
Work as employed	0.8	0.3	0.5
Own business work	0.6	0.8	0.7
Tending rice	1.3	1.3	1.3
Tending other crop	0.5	0.6	0.6
Tending animals	0.6	0.4	0.5
Collecting firewood	0.1	0.3	0.2
Fetching water	0.1	0.2	0.1
Hunting	0.2	0.0	0.1
Fishing	0.6	0.1	0.4
Buying/shopping	0.1	0.1	0.1
Construction	0.1	0.0	0.1
Weaving, sewing, textile care	0.0	0.4	0.2
Handicraft (not textile)	0.2	0.1	0.2
Cooking and baking	0.1	0.9	0.5
Washing, cleaning, do the dishes	0.1	0.4	0.3
Care for children/elderly	0.3	1.0	0.6
Travels	0.7	0.5	0.6
Leisure time	4.0	3.5	3.7
Others	0.9	0.7	0.8
Total	**24.0**	**24.0**	**24.0**

Source: The household of Laos, LECS3, March,04

Condition of small farmers

More than 85% of total population are engaged in agricultural activities and most of them are small farmers, In Laos there are not bigger farms and the biggest farms are about 1-2 ha per household. The government allocated the land for farmers to use and manage for agricultural by themselves, more than 90 percent of total population own the land and among food crops, rice was the mainly one accounting for more than 90 % food growing area. The general of Laos custom, the people have the habit to use glutinous rice about 90% and less than 10% ordinary rice. However, in the plain and big urban and rural areas presently tend to use ordinary rice which gradually in the daily meal ration (occupies about 15-25%). And grow sweet corn for family consumption and most of farmers grow corn integrated with other crops. Some places especially in the upland of the Northern part of Lao PDR farmers grow hard corn for animal feed industry and for the export of raw materials that facilitated by the government programme. In order to reduce slash and burn cultivation as well as the poverty of rural people. The area of small farmers for corn production decreased[22] because of natural disaster and lack of marketing system. The government has resolved the marketing problems, promote and support farmers to grow corn by using hybrid seed of corn from Vietnam and Thailand so the areas of corn production are increased from the year 2002 up to now. The activities in the farm are integrated agricultural production in order to prevent the risks and to ensure the food

[22] Data from figure 16 the production of corn decreased 1995, 1999 and 2001

security of the households.

Majority of plant have been used by the local strains about 71% of paddy variety (especially rainy season) and the irrigation plant have been used by hybridization seed 100%. Mainly farmers living in the outskirts of the city but those who live in the rural areas still use native rice varieties. As maize stains, the mountainous areas mainly use local stains for livestock production (the Lao Soung uses maize for meal at about 10-20%)

Concerning fertilizer, most of the farmers use bio-natural fertilizer such as compost and animal dung about 72% of total farmers. Source of chemical fertilizer, pesticide and insecticide of small farmers in general have not been produced in domestic but have to be imported. In 1998 this amount-distributed average into 1 ha of wet rice is only 14-15 kg per ha. The actual estimation on chemical fertilizer quantity has applied for wet paddy cultivation is about 20-30 kg per ha. Pesticide and insecticide application in average for wet rice is only 0.1-0.2 kg/ha.

Surely the privatization of water reduce the income of farmers approximately 15-19 US$ per ha and per season of rice production and Lao farmers are used to pay the irrigation cost after harvesting their crops. Now most of the irrigation projects of the Ministry of Agriculture-Forestry have set up the group of water users to manage the use of water on farms.

In the general, small farmers have the similar habit that they make rice stores near their house for storing and preserving rice for family amount of paddy of the household is quite large average 4-5 tones and sell the surplus. Some farmers though insufficient rice still exit but during harvesting time. The farmers have to sell rice to return loan and serve for other expenditures of their family. But due to the low purchasing capability, they are being forced to sell at low price and that makes the farmers to suffer losses in between crop period (they have to buy rice at high prices). The price of paddy rice was increased every year, farmers decide the price of paddy and the price is related to the situation of market.

Farmer's point of view against AFTA: Based on the interview with the farmers, it can be summarized as follows: there is not much influence of AFTA to farmer's present situation. 15 % of interviewees / informants said "I have no idea what benefits AFTA brings to me " but in contradiction, 25% of them voiced that it will create more market for us to send their products.

Rice and Corn

Rice production has been unstable and mainly depends on 7 key plain areas[23] along Mekong River; however Monsoon rice crop (main production crop) depends greatly on annual flood and drought conditions.

Total food growing area from 1990-2002 increased 349,842 ha with an average 1.5 % per year. Among food crops, rice was the main one, accounting for more than 90 % food growing area. In the year 1990-2002, the production of rice increased from 1.5 million tons to 2,4 million tons, average increased about 60 percent. Average rice (particularly paddy) increased from 310 kg/person /year in 1990 to 437 kg per person/year in 2002. Rice productivity of the whole year in 1976-2002 increased of 2.3 times (from 1.26 tons/ha in 1976 to 2.3 tons/ha in 1999 and 3.21tons/ha in 2002)

The production of corn from 1990 -2003 increased 76,610 tons, the increasing rate is about 115.09% so the average of increasing rate is about 8.22%/year. In 1995 and 1999 the production of corn decreased because of natural disasters (drought and flood) in some places. Most of the production of corn is in the North because the areas of this part are suitable for corn cultivation and the percentage of the corn production in different parts is: North 5 8.34%, Central 34.05% and the South 7.6 1%. The corn production for animal feed is covered by 57.69% and for consumption is 42.3 1%.

Table 13: Total area, production and yield of rice by years (1,000)

Items	Years								
	1990	1995	1996	1997	1998	1999	2000	2001	2002
Harvest area (ha)	650	560	554	601	627	718	719	747	738
Production (ton)	1,491	1,418	1,414	1,660	1,674	2,103	2,202	2,335	2,417
Yield (ton/ha)	2.55	2.76	2.83	2.99	2.83	2.94	3.07	3.02	3.21

Source: Agriculture statistics 25 years (1975-2000), 01,02 of Ministry of agriculture and forestry

Cost production of rice

Rice production from the past up to now was characterized by self-sufficiency and subjected to the nature. Labor power, production material, etc. were mainly mobilized from the available capacity of household themselves for production so the price of products has not been paid real attention yet.

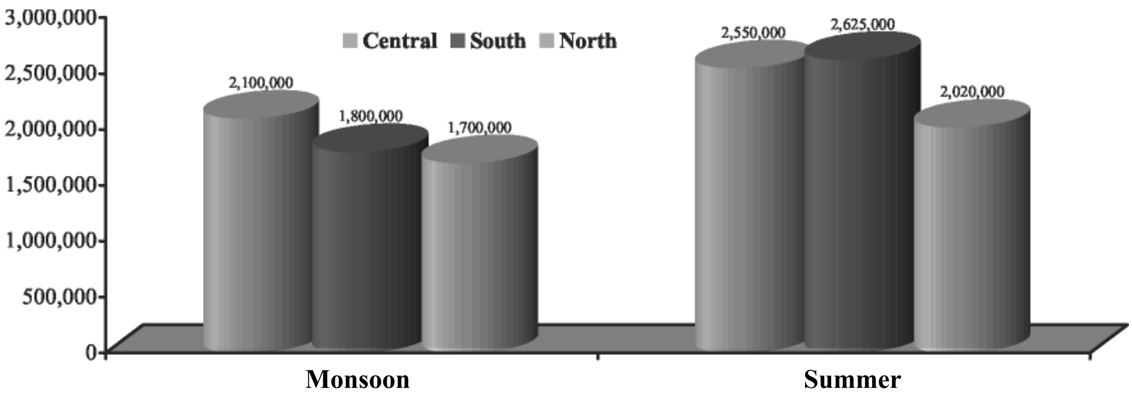
However, during the process of production development in recent years, intensive farming for boosting crop yield has forced the farmers to strengthen the farmers to strengthen the inputs (irrigation, fertilizer, machine, etc.), so the problem of production efficiency is taken in to account prior the decision of the scale for production is made (producing just enough for consumption or for selling), This problem is especially emphasized towards households in delta regions where is shifting to commodity and rice product driven, especially area expansion of Summer crop should need to have higher input than of in Monsoon crop.

Expenditures allocated for monsoon crop production normally are lower than that of in summer crop (lower irrigation, fertilizer cost) but its yield is lower than that of in summer crop. However, in the delta regions, Monsoon crop production was shaky due to water logging. Cost of rice production in pilot delta was higher, rendering 10-25 US$/ton[24] compared to small one in Northern mountainous regions.

[23] Lao PDR food security strategy in the period of 2001-2010. page 17

[24] Lao PDR food security strategy in the period of 2001-2010. page 28

Figure 14. Cost of rice production in the some regions (key plain areas) in 1999 (1US$=7,500k)(data survey of MAF)



Source: Lao food security strategy in the period of 2001-2010

Table 14: Cost-benefit of rice and corn (kip/ha)

Items	Cost	Benefit	Net income
Rice	2,100,000	4,800,000	2,700,000
Corn	2,340,000	5,300,000	2,960,000

If compared between the cost and benefit rice and corn were equally but corn is easier to planting and use chemical lower than rice.

Rice and corn varieties

According to results of existing comprehensive research programmes on plant strains (especially rice stains) in Laos[25], it is indicated that the potential of genetic source of the plant strains is quite large and diversified (in which 200 are wild rice varieties). Majority of plant have been used by the local strains about 71% of paddy variety (especially rainy season) and the irrigation plant have been used by hybridization seed 100%. Paddy is the plant it be used the most numerous new varieties due to the increasingly demand of improving rice productivity.

To serve the production of corn in 2002-2003[26] the project of the promotion of corn for trade has coordinated with the state, company and private sectors to support the improved seed of corn to farmers. In 2002-2003 the private Companies have played an important role in the support of the corn seed because the government has supported the corn seed to the grass root more than 3 years by providing the corn seed of Vietnam and Thai. Farmers interested to use the new seed because the production's yield increased that show the interest of farmers to grow corn for trade. If there is an improvement of market systems and the quality of the products the production will be going well.

[25] The agro-forestry research institute (the Naphoc Cener-1997) and Report on promotion corn for export project 2003 of Crop summary on yearly 2003 of Crop multiplication center, Department of Agriculture

[26] Report on promotion corn for export project 2003 of crop multiplication center, development of agriculture.

Fertilizer and plant protection for rice crop

In line with the development of new high productivity rice varieties[27], However, chemical fertilizer has not been applied commonly, in 1999 only 28% of the agricultural households applied chemical fertilizer. The chemical fertilizer application commonly beside with using organic fertilizer but low degree (only about 33% of the households applying organic fertilizer). In term of paddy cultivation, chemical fertilizer is mainly applied to the improve rice varieties (67%). In big plain areas, the average fertilizer application level for paddy is about 40kg/ha. The farmers apply chemical fertilizer to improve soil was not high about 3 0-40 kg/ha usually farmer plant corn for consumption did not use chemical fertilizer and pesticide. Kind of fertilizer used is Urea and composition NPK (at rate of 16:20:00 and 15:15:15). Pesticide and insecticide application in average for wet rice is only 0.1-0.2 kg/ha.

Pesticide and insecticide are not widely used. There are only 10.6% of the agricultural households using pesticide and insecticide, mainly concentrated in the Vientiane plain. As 1995-2000 statistics revealed that 7.87% of damage in paddy was caused by pest and disease, damages by pest and disease of paddy is averaged 7.8% compared to the total damage.

Price of rice and corn

In surplus rice producing areas, from 1995-2002, paddy price of market farmers increased from 143-1,057 k/kg, account 637.21 % and averagely 79.65 % per year. Kinds of paddy rice price increase different:

- Non glutinous paddy (averagely 71.08 % per year)

    + Monsoon rice increased price from 152-1,070k/kg account 603.95% and averagely 67.11% per year

    + Secondary rice increased price from 146-1,030k/kg account 605.48% and averagely 67.28% per year

    + Upland rice increased price from 144-1,150k/kg account 698.61% and averagely 77.62% per year

- Glutinous paddy (on average 70.67% per year)

    + Monsoon rice increased price from 141-1,040k/kg account 637.59% and on average 70.84% per year

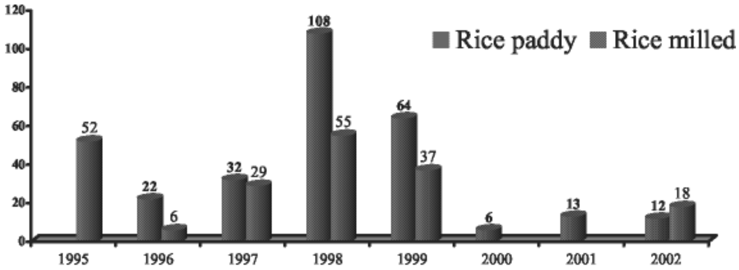
    + Secondary rice increased price from 140-950k/kg account 578.57% and on average 64.29% per year

    + Upland rice increased price from 137-1,100k/kg account 702.92% and on average 78.10% per year

[27] Lao PDR food security strategy in the period of 2001-2010. page 36

The price is changeable every year especially the milled rice increased: Glutinous rice from 203- 2,066 k/kg (1990-2002) account 917.73 %, averagely 70.59% / year and Non glutinous rice from 225- 3,107 k/kg (1990-2002) account 1,280.89 %, averagely 98.53% / year.

Figure 15. Percentage of paddy and milled prices of market of farmers increased.



Source: Agriculture statistic 25 years (1975-00), 01& 02

Table 15: The price of paddy and milled rice by years[28]

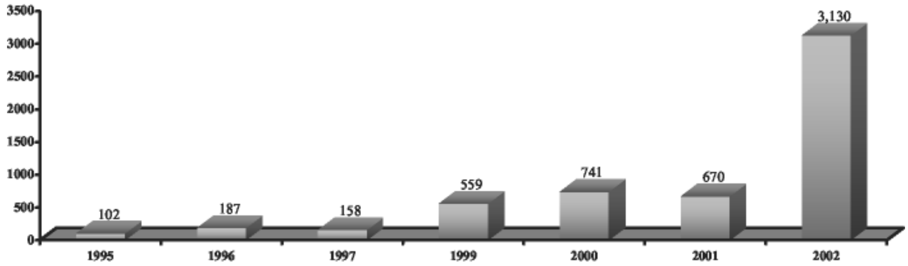
Unit: kip/kg

Descriptions	Years								
	1990	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Paddy rice		143	178	230	478	788	833	942	1,057
Milled rice	214	450	426	601	1,348	2,127			2,587

The price of rice increases every year because it is depended on the market situation. The price of the goods and foods increase more than 50% of the initial price especially the agricultural inputs such as land preparation, water of irrigation, fertilizers, machines and labor cost. There is not only the impact of agricultural inputs but there is also the impact of monetary inflation, high cost of electricity unit, the small traders have bought rice to stock when the price is low and sell it when the price is higher.

The price of corn increased every year from 1995-2002 the price is 3,028 kip/kg or 2,968% or average 371.08 %/year. In 2001-2002 the price increased to the maximum 2,460 kip/kg because of the high request of the Chinese and Thai market and also caused by the new economy mechanism or market economy.

Figure 16. Total corn prices (Kipes/kg)



Source: Agriculture statistic 25 years (1975-00), 01& 02

[28] Source: Agriculture statistics 25 years (1975-2000), 2001 & 2002 of Ministry of agriculture and forestry

Rice consumption

In general, the Laos people have the habit to use glutinous rice about 90%. However, in the plain and big urban and rural areas presently tend to use ordinary rice which gradually in the daily meal ration (occupies about 15-25%).

From the data of the rice consumption per capita per day is 582g or 2 12.80kg milled rice/person/year. The total consumption of rice of Lao with a population of 5,526,000 in 2002 was estimated at about 1,175,954 tons/year.

People in the urban households consume 20% less than rural households. At the same time there are a few differences about 3.05% of rice consumption between rural people that have access to road and no access to road.

People living in the southern part of the country consume rice less than people living in the Central and Northern parts especially people in remote areas of Sekong and Attapeu provinces consume rice less than other provinces

Table 16: The rice for consumption of 1997-98[29]

Unit: gram/day

Items	Total	City	Community within road	Community without road
Lao PDR	**582**	**493**	**590**	**608**
Northern	**644**	**589**	**651**	**650**
1. Phongsaly	660	497	556	679
2. Luangnamtha	658	583	647	686
3. Oudonxay	666	662	639	675
4. Bokeo	621	709	669	599
5. Luangprabang	601	504	603	615
6. Huaphanh	616	629	577	639
7. Xayabury	704	610	716	704
Central	**565**	**474**	**575**	**617**
8. Vientiane Ca	489	445	504	644
9. Xienkhuang	659	505	600	723
10. Vientiane	612	554	608	650
11. Borikhamxay	629	452	637	642
12. Khammouane	589	531	578	620
13. Savannakhet	546	497	558	546
18. Special region	588	582	635	648
Southern	**526**	**458**	**544**	**528**
14. Saravane	594	506	591	606
15. Sekhong	433	465	407	445
16. Champasak	513	442	550	512
17. Attapeu	465	483	485	452

[29] Sources: National statistics, household consumption of Lao PDR, Survey on paid and used of household consumption in 1997/98. November 1999

Domestic circulation

At present, rice circulation and distribution between regions is one of greatest challenges to ensure national food security. Around 50%[30] of provinces (9/18 provinces, cities) are regularly in rice deficit situation and most of those provinces are located in mountainous areas with dissected topography and difficult transportation conditions (mainly northern mountainous provinces). These obstruct the rice circulation and distribution.

Hence, in period that the key plain areas having the greatest commercial rice (monsoon crop) so rice deficit region (mountainous region) able produce for self-sufficient (mainly upland rice), and rice regulation is not necessary. In high time between crop period (February to September) the mountainous regions in serious rice deficit status, the plain area produce secondary crops with small commercial paddy reservation, thus reservation and circulation capacity mainly depend on purchasing monsoon's paddy (the purchased quantity is not high due to lacking of capital, lacking of storing, transport price is high (difficult transportation) leading to paddy circulation to mountainous region does not satisfy requirement.

Domestic preservation

Rice preservation for household's consuming circulating, distributing[31], national reserving is a urgent issue and should be paid special attention to reduce losses both rice quantity and quality.

In rural areas, farmers have the similar habit that they make rice stores near their house for storing and preserving rice for family. Bamboo baskets containing rice in these stores are often made by bamboo. Around the pillars of these stores, they cover toile to prevent rat. In addition, they store paddy in wood caskets, jute sack, big jars, sacks, etc. When preserving rice in jute sack, moisture content in the seed increase that makes worm and insects to develop. In some plain areas (in southern part), amount of paddy of the household is quite large average 4-5 tones but preserving means still are bamboo baskets, jute sacks, sacks so the lost amount is quite high.

Domestic market

At current rice markets[32], numerous economic sectors participate in rice trading, but the rice companies (under the Ministry of Trade (MoT) still assigned principle tasks in providing food goods to the farmers and stabilizing rice price in provinces and within areas of the nation. An additional trading force of private companies (contracted with under Mot's companies) or small size trading households have contribute a significant part in regulating rice sources over all parts of the country, especially in mountainous area. However, rice market is actually now surging some issues as follows:

- Rice trading companies are not good enough both in capital and other material conditions (stores, means, and facilities) to purchase rice commodity from the farmers. In mountainous area though insufficient rice still exit but during harvesting time, the farmers have to sell rice to return loan and serve for other expenditures of their family, but due to the low purchasing capability, they are being forced to sell at low price and

[30] Lao PDR food security strategy in the period of 2001-2010. page 46
[31] Lao PDR food security strategy in the period of 2001-2010. page 42-43
[32] Lao PDR food security strategy in the period of 2001-2010. page 47-48

that makes the farmers to suffer losses in between crop period (they have to buy rice at high prices)

- Purchasing management and regulation of the rice market recently managed by the Ministry of Trade. while the agriculture sector who directly taking part in direction and condition of production and understands well the actual situation of rice (production capacity, surplus and deficit levels of rice in regions). But not much and strongly to be participated in executing management. The agricultural sector has not been played and active but only cooperative role with the Ministry of Trade so that their possibility to coordinate the rice market remains not timely.

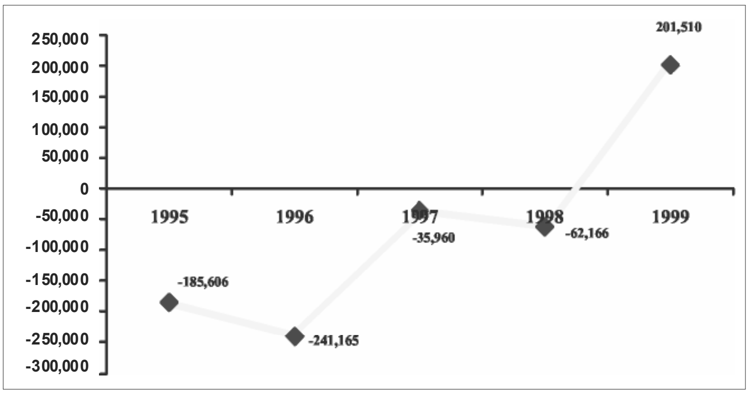
- There is no regulation or stabilization on the price of rice. The result is that in the insufficient rice areas where the low rate of income remains, farmers still have to buy rice with higher price compared with plain areas. This creates an opportunity for private traders to speculate and raise rice price especially in between crop period.

Results of rice-stuff production

In the past, People's democratic republic of Laos, at national level, the rice production had not responded to the demand of domestic consumption, about 40,000-250,000 tons[33] deficient annually, especially Northern mountainous regions (Northeast and Northwest) usually had been suffered from rice shortage.

In 1999, rice production wassufficient and seemed to be plenty but in mountainous region rice shortage still existed, about 150,000 tons, rice output obtained over 2.2 million tons particularly over 2.1 million tons of paddy), average rice per capital 413 kg of paddy/ person /year. Such was great success, bringing the Lao PDR, or the first time, as a sufficient rice producing country for domestic consumption. Nevertheless, rice output was distributed uneven between various regions:

Figure 17. Minimum rice balance (paddy)



Source: Lao PDR food security strategy in the period of 2001-2010.

+ Key delta regions produced enough rice and have their commodity and rice product, however, paddy and commodity with slow consumption that make low the price, affecting to the producer's interests.

+ Over 50% of the provinces are being suffered rice shortage (lack of 150,000 tons), especially in Northwest and Northeast provinces. Those provinces which have the lowest average rice (paddy) per capita are Louangprabang, Phongsali, Sekong and Houaphan (less than 230 kg/person).

[33] Lao PDR food security strategy in the period of 2001-2010. page 25-26.

C. Agriculture strategy and policy

General strategy on socio-economic development by the year 2020 of party and state is striving to bring Laos out of list of the poor country. As such, in short-team as well as long-term, food security is still the highest priority strategy to stabilize economic development, stabilize socio-political of the country.[34]

The objectives of national food security in specific periods are:

1. Period 2001-2005: Achieve food security: Striving to stabilize rice production and growth rate to meeting the domestic demands (average 450-500Kg/person/year); Solving problems in rice distribution and circulation in difficult areas and increase household's food security level. The average energy level is set at 2,100-2,300 Kcal/person/day.

2. Period 2005-20 10: Achieving foodstuff security: Striving to achieve average 500 Kg of rice/person/year and ensuring demands on other foodstuff. The average energy level should be assured be at 2,400-2,500 Kcal/person/day

3. Period 20 10-2020: Achieve nutrition security: Ensuring appropriate rice intake to ensure enough nutrition. The average energy level should be assured at 2,600-2,700 Kcal/person/day.

C.1 Agriculture strategy

Area expansion

Properly and efficiently exploiting land potentials in hill and mountainous area to create on the spot rice source and to create production foundation for permanent settlement and cultivation of over 100,000 farm households[35]. In the key plain areas, concentrating on intensification and increasing crop of paddy to create stable rice source for the country.

The total expected new reclaimed land for wet rice cultivation by the year 2010 is around 127,000ha, out of which 80,000 are located in the 7 key delta, and 47,000 ha in hilly and mountainous regions. Total paddy area in the whole country is expected to be 615,000 ha by the year 2010.

Increasing paddy yield

In current rice production conditions in comparison with other countries in the region and world, capacity of rice's yield increasing in Laos is high. For increasing rice's yield, the most effective solution is new high yield rice varieties and adequate and sufficient application of fertilizer for crops.

[34] Lao PDR food security strategy in the period of 2001-2010. page 65
[35] Lao PDR food security strategy in the period of 2001-2010. page 68

Striving to increase yield of monsoon crop as average of 3.47 -3.5 tones/ha in 2005[36] and 3.6-3.7 tones/ha in 2010 is made the summer crop from 4.2-4.4 tones/ha in 2005 and 4.5-4,6 tones/ha in 2010.

Diversifying agriculture products

The demand of society on food and foodstuff is very diversified, even for food, there is demand not only on rice. Daily life requires more and more on quantity and varieties, on quality and processing technology.

In long term, diversification of crops and livestock is the basic measure for increasing efficiency of land use, improvement of soil fertility, increasing product number in one land unit, and creating more jobs, increasing income for farm households and the entire society[37].

Service to serve production

Agricultural material such as variety of seeds and pesticides, fertilizer are important factors to decide the crop productivity. In the past these services were nearly not existed. There were problems in coordination, organization and management among different sectors. Consequently farmers were facing a lot of difficulties. Therefore to ensure materials arrive, a few things need to be done:

- Plants variety propagation centers and station at several levels assure to provide sufficiently on quantity as well as quality and in time according to production's requirement on order to stabilize and increase product's yield and quality.

- Form companies (Northern, Central and Southern) and organize service networks for seeds, fertilizers, pesticide to local authorities that belong to Ministry of Agriculture and Forestry.

In the case of most of fertilizer has to import, needs to increase organic manure source (dung of buffalo, cow, pig, poultry, green manure and other) to reduce gradually chemical fertilizer in order to balancing inorganic and organic elements in the fertilizer, avoid the soil is worse by chemical fertilizing. Construct 3 bio-fertilize productions station in three regions (Northern, Central and Southern) Construct NPK production factory with capacity 20,000 tones/year in Vientiane[38].

Potential to develop rice export market

In fact the rice production in recent years has shown that spared commodity paddy in the key plain regions is rather great but the Government has not yet bought all for farmers caused low price situation, the producers are not happy to enlarge paddy production. If this matter don't be solved quickly and timely, the situation of lacking rice on whole country can be re-happened (China met in the past). Therefore to encourage the investment for production in order to ensure rice source for nation, beside the pushing domestic rice

---

[36] Lao PDR food security strategy in the period of 2001-2010. page 70-71
[37] Lao PDR food security strategy in the period of 2001-2010. page 71
[38] Lao PDR food security strategy in the period of 2001-2010. page 78

circulation market development, rice exportation needs to be carried out by following orientation:

a. Rice export and change: This is support solution for rice circulation in the country which is facing difficulty (such as transportation, high price) from the rice production pivotal region (Central and South regions) to the regions are having difficulty on rice in North mountainous are: Export rice from the Central and the South to Vietnam and import rice from the North (Dien Bien, Thanhhoa of Vietnam)

b. Carry out rice export join-venture with some countries in the region (especially with Vietnam): Join venture between rice companies or allows external companies buy rice in Laos.

c. In the future Laos will export rice to international market

The contents (a) and (b) can be implemented when having Cooperation Agreement between 2 Governments to lift the import-export tax Barrie.

At the present the rice production price of Laos is only equal with 75-80% price of some countries which are producing rice with great volume as Vietnam, China, Thailand but in Laos mainly produces glutinous rice, due to difficult transportation and without direct export therefore the price is increased, other hand the quality of agro-products in general and of rice in particularly is being low, has not yet had experience on rice exportation, therefore in the coming time the competition of rice product in Laos will be less domestic in comparing with ASEAN countries on 3 aspects: Quality, Price and procedure.

Productive potential and condition of Laos can meet rice export demand, however to export rice, three above constraints needs to be overcome. The rice export plan as follows:

- Prepare to planning rice production region for export with scale from 100,000-150,000 ha (Savannakhet and Champasak).

- Apply advanced technology, technique in order to increase quality, reduce product price (variety, essential infrastructure)

- Find the rice market, which is suitable with productive condition of Laos.

In planning the period of 2001-2005: Carry out rice changing cooperation program with Vietnam to increase circulation ability with some provinces where lack of rice in the Northern are and simultaneously carry out technology to increase gradually and study to find world rice market. In the period of 2005-2010 will export rice[39].

Gender strategy for poverty reduction

Lao women play critical roles in agriculture and other economic activities, and are primarily responsible for maintaining families' food security and health. The Government

[39] Lao PDR food security strategy in the period of 2001-2010. page 88-89

recognizes that it will not be able to realize the goals of reducing poverty and improving national education, health and population indicators without the active participation of all women, particularly poor and ethnic minority women.

Therefore, the Government is taking concrete steps in all key economic sectors and through nation programmes to: support poor women's economic activities; improve their access to basic services such as education and health and productive resources, such as extension services; involve them in local decision-making, and; generally take their needs in to account in developing national policy.

Promoting gender equality is an important national goals, as reflected in articles 22 and 24 of the 1991 constitution, in numerous international commitments (e.g., the Convention on the elimination of all forms of discrimination against women) and in the recently established National Commission for the Advancement of Women-Lao PDR (NCAWLao). Ensuring equal access to basic services and productive resources is a matter of equity (fundamental fairness), efficiency (poor women are a valuable) and effectiveness (women's support is needed to implement national policies on shifting cultivation, opium production, education, health and population). Under the guidance of the new NCAWLao, it is expected that all ministries will develop strategies and action plans to promote gender equality at national, provincial, district and village level. [40]

Line ministries have begun to mainstream gender concerns by:

- establishing high-level gender working groups
- Collecting sex-desegregated data relevant to poverty reduction and other national goals.
- Using the data to develop a gender profile or assessment of the sector
- Developing a gender strategy and action plan, identifying issues or problem related to women's participation in the sector and actions to redress them
- Providing gender training and capacity-building to staff
- Improving the gender and ethnic balance of staff al all levels
- Screening all new policies, programs and projects from a gender perspective
- Consulting local women in the design of new projects for poverty reduction, and ensuring that they participate in project activities, including extension services and training.

Strategic responses

In the agriculture sector, gender concerns will be integrated in specific programmes and projects through a number of measures, research and project planning will includes: - Gender-related data and need assessment

- The inclusion of women in project activities

[40] Guidelines have been developed for a National Action Plan to integrate the gender strategies and action plans of ministries, agencies and mass organizations. The development of such a national plan will be guided and coordinated by the NCAW-Lao.

- The application of gender equity in extension and training services.
- The use of gender-related indicators to monitor projects
- Affirmative action concerning staffing of provincial and district staff, including extension workers
- Gender focal points in villages to improved agricultural practices
- Account of women's traditional rights in land reallocation, land titling and resolution of land disputes
- Assistance to women in accessing rural savings and credit schemes.

In the education sector, gender gaps in literacy and school enrolment and completion rates, particularly among ethnic minority groups, must be redressed. This is critical both to achieving the Government's education and literacy goals and the goal of poverty reduction. Accordingly, emphasis will be placed on increasing the availability, quality and relevance of primary and secondary education for girls, particularly poor and ethnic minority girls; ensuring that vocational and technical school programs are accessible to women, particularly poor and ethnic minority women, and; approaches to non-formal education that are highly beneficial to women.

Lessons will be draws from past and current projects for increasing the number of ethnic minority teachers, improving the relevance of primary school materials and providing incentives for girls to attend school. Provinces and districts will be encouraged to develop locally appropriate material to supplement the core curriculum, and to schedule primary and secondary school classes to encourage school attendance. Other approaches include distance learning and "bridging" course to enable students (particularly women) to enter vocational and technical schools.[41]

C.2. Agriculture policy

Poverty-focused agriculture and forestry development

A top priority for the Government of Laos PDR is to modernize the agriculture and forestry sector in a manner that fully meets sustainable practices and that achieves food security and bestir livelihoods for all Lao people. The goal of poverty eradication and graduation from Least Development Country (LDC) status by 2020[42] depends on a more productive agriculture and forestry sector. Farming defines the character of the country, and working the soil and raising of livestock and fishery are second-nature to the Lao multi-ethnic population. It is a character that the Government is committed to protecting. In addition to strengthening the quality and quantity of agriculture output, this requires management of Lao PDR's forestry in a manner that both conserves this essential resource and encourages sustainable forestry practices.

The agriculture and forestry sector provides the economic, social and culture base for more that 80 % of the population, and account for more than 50 % of GDP. Subsistence farming

[41] National Poverty Eradication Progamme (NPEP), eight round table meeting, VTE, Sep 4-5 2003. pg.1 13-114.
[42] National poverty eradication programme, eigth round table meeting, Sep 2003, page 55

is still widespread, characterized by low inputs (little use of fertilizers and quality seed) and low input (yields), with the result that farming incomes are very low, especially in the poorest districts. The Government is firmly of the view that more progress in modernizing the sector can and must be made, while respecting the traditions of the Lao way of life and the rich diversity of its ethnic minorities.

All levels of government and all stakeholders will exercise great are in this endeavor. The marled differences between the lowlands and uplands of the Lao PDR call for very different approaches to agricultural reform. Transition from central planning to more market-based economic calls for much greater reliance on the private sector, and a more supportive role for the Government. The marked differences between pioneer and rotational shifting cultivation call for different approaches. Ethnic sensitivities and language barriers call for highly localized policy and programme responses.

There are many challenges but also many opportunities ahead. The Government is committed to a fully participatory process, from the village level up, in meeting these challenges and realizing opportunities. The Lao PDR is strategically situated in a huge and ever growing regional market, offering trade and investment opportunities that can life the agriculture sector into the millennium. The Government's development plan for the agriculture sector builds on these opportunities in a comprehensive and compelling manner.

Economic policies

+ <u>Land policy</u>

It is shown in the progress of land and forestry allocation for farmers on management, exploitation and resettlement. In Concerted status needs to consider to allocate for households which has actual capacity on production, soil protection and land use to ensure stable production in long time.

Promulgate concrete regulation and manage closely the moving of land use objective, especially rice productive moving to other land use objective. This matter is very important for mountainous area where limited rice productive land. In the case it must moves, needs to have reclaimed plan at other places to compensate the area which has been lost[43].

[43] Lao PDR food security strategy in the period of 2001-2010. page 85

2.3. Trade and investment

A. Trade and investment policy

Purchase encouragem ent policy

Agro-products price in general and rice price in particularly at anywhere and when are also urgent and decides matter to investment ability of farmers. In the market economic condition with the participation of economic component in agro-products production and business, the price seems to be strong lever. If the farmers meet difficulty in consuming commodity agro-products, the farmer produces enough products for their consumption, not for selling. Therefore it needs to have closed policy to able buy all commodity rice of farmer after harvesting with reasonable price to satisfy benefit for producer, enterprise tax policy or priority export-import taxes (for difficult region) it will help for farmer and their organization being confidence and invest for productive development[44].

Investm ent policy

Supplement and enforce related policies to investment in the sector of agro-forestry, of which it needs to be given by priority on technical and infrastructure investment such as water resource, mountainous rural transportation (to reach to market), support processing industry and product consumption[45].

Policy on tax and water fee

Measure and classify land to identify reasonable tax rate for each field plot, provide tax book for each agricultural land use household to be stable the tax level for households.

The fee needs to be enough cost for operation and maintenance of irrigation schemes, which are exploiting. Investment fund for new construction and repair provided by state budget. Water management mechanism for local (assign for farm household), allowed to enlarge business activities, exploit advantages on aquaculture cultivation, develop transportation and tourist on the water surface that are belonging to the irrigation schemes to increase income[46].

Policy on agricultural support service

+ Policy on credit and rural credit fund

Policy on credit and rural credit fund in order to help farmer in borrowing capital widely and multi-helping to develop production[47].

- Increased agriculture bank, unify capital source from external and internal at macro level in to agriculture bank to loan by projects, priority region and state regulation.

- Poor farm households should have credit support policy, enlarge small credit loaning

[44] Lao PDR food security strategy in the period of 2001-2010. page 85
[45] Lao PDR food security strategy in the period of 2001-2010. page 85
[46] Lao PDR food security strategy in the period of 2001-2010. page 86
[47] Lao PDR food security strategy in the period of 2001-2010. page 86

formula without interest.

- Enlarge loaning formula: mid-term for agriculture production and rural economy.
- Encourage rural credit development formulas, use management organizations (groups, collectives and associations in the rural) to operate as credit agents for the banks to give loan directly to farm-households.
- Correct interest rate loaning term to be suitable condition of each region and productive style.

+ Policy on productive organization of farmer

Promulgate development encouragement policy the cooperated organizations of farmers such as productive collectives (farm household groups) in Combining with management, exploitation and maintenance of irrigation schemes, farm household collective with forestry protection and development, occupation association, socio-organization and guide these organizations to participate in agriculture support service[48].

Policies on market development and food reservation +

Price policy

The state needs to issue early policies on rice price sponsoring as basement for stabilizing food supply. In which "Floor price and ceiling price"[49] is calculated at averages level of the whole country, supply concrete guidance for every key regions, and these prices are annually published according to financial-price system of the whole country, When the big changes on ceiling and floor prices occur, the State will regulate the prices by financial sources, rice reservation sources, in order to protect interest for the producers and consumers[50].

+ Tax policy

- Exemption, reduction return tax for rice trading activities serving the remote and isolate areas
- Must have measures to avoid duplication on tax levied otherwise it will lead to increase rice price from production place to consumers.
- Reduction a part of income tax on rice trading in order that the enterprises could have favorable condition to compensate for risky of loss and preserve own capital.

+ Purchase encouragement policy

Promulgate regulations, policies on purchase encouragement aim to guide and propagate knowledge spread to several objects on marketing capacity including: regulations of product's quality, package, commercial civilization, harvesting time, in order to improve the trading the effectiveness and promote the development of the market[51].

48 Lao PDR food security strategy in the period of 2001-2010. page 86
49 Floor price: Pl=C+I*C (C: production cost, I: interest's rate), Ceiling price Pc=Pi+Tax (Pi: average import price, Tax)
50 Lao PDR food security strategy in the period of 2001-2010. page 93
51 Lao PDR food security strategy in the period of 2001-2010. page 93

B. Trade

The expansion of foreign trade will be achieved through the establishment of more bilateral trade relations and regional and international integration. In addition, border trade with neighboring countries will be enhanced under the new land-linked programme, together with the development of border trade zones and special economic zones. North-South and East-West corridors will be developed with improved national road and checkpoint network.

The Government has finalized arrangement to sign a bilateral trade agreement with the USA. The signing of this agreement is expected to establish normal trade relations with USA and help attract more foreign investment[52].

Import Administration

It is important for sustainable development that the Lao PDR lives within its means. This means that the country's expenditure on import should approximate its total income from exports of goods and services, foreign aid receipts and net flows of capital. Containing imports is mainly a function of macroeconomic management. AS such, the Government will provide a sound import administration system. This system will be consistent with a liberal and free market trade regime and accordance with a country's obligations under AFTA and other international requirements. The application of quantitative and other restrictions on imports will be minimal and only to the extent required for social security and infant industry protection[53].

Export Development

The Lao PDR has been General System of Preference (GSP) status from 35 countries, China being the latest country to give the Lao PDR this preferential status. This status is significant opportunity to expand export[54].

The promotion of export development and production activities will be achieved though:

- Rationalizing of export administration procedures reduce time taken for processing license applications, etc.
- Researching on products in which Laos would have a comparatives advantage.
- Disseminating market intelligence on overseas market opportunities, procedures, GSP and other tariff concessions etc to prospective exporters.
- Providing information on investment opportunities and facilities to domestic and foreign investors using a variety of mass media as well as International Trade Center (ICT) networking. This will mainly be done by the information service of the Lao Trade Promotion Centre.
- Improving trade facilitation.

---

[52] National poverty eradication programme, eight round table meeting, Sep 2003, page 110
[53] National poverty eradication programme, eigth round table meeting, Sep 2003, page 110
[54] National poverty eradication programme, eigth round table meeting, Sep 2003, page 111

Fair Trading Commission

Anti Monopoly and Competition: In order for the country and its people to fully benefit from trade and business development, the Government will promote competition and fair-trading practices in business sector. Restrictive business practices by dominant firms such as transnational corporations can impede the realization of the benefits of trade liberalization. To prevent such practices and other monopoly elements emerging in the economy, the Government will take steps to promote more competition.

Competition will ensure greater efficiency in production, export development and trading activities. Action is being taken to introduce an anti-monopoly and competition low.

Consumer Protection: It is essential, particularly for a newly emerging market economy, to have measures to protect the consumer from hazardous products and unethical trade practices. To this end, the Government is taking steps to introduce consumer protection legislation. In order to implement the policies and legislation on competition and consumer protection, a fair trading commission will be established under the Ministry of Commerce (MoC)

A Fair Trading Unit will be set up within MoC to provide administrative support to the commission. Assistance is being obtained from United Nations Conference on Trade and Development (UNCTAD) and other aid agencies for the preparation of necessary legislation, for training of staff and for raining community awareness and understanding of competition and consumer protection. Community awareness will be raised through seminars, workshop and public awareness programs[55].

Commercial law reform

The liberalized trade and commercial regime that is emerging in Laos through the new market mechanism requires an appropriate legal framework to ensure its smooth functioning. To this end, the Government has taken steps to review and revise the existing relating to trade and commerce.

Trade Deficit

Since 1990 Lao PDR has had a trade deficit[56]. An example for this is indicated in the total value for 2003 about 122.7 million USD and covered approximately 6% of GDP. The trade deficit trends are decreased when compared with the values of 2000, 2001 and 2003. In 1996, the trade deficit is higher than in other followed years. It covers 21.4% of GDP

External challenges

The Government of the Lao PDR's open door policy has brought about a number of opportunities as well as challenges. In July 1997, the Lao PDR left the observer status and become a full member of ASEAN and AFTA. With nevertheless an adaptation period until 2008 regarding the liberation of trade and harmonization of customs tariffs[57].

---

[55] National poverty eradication programme, eight round table meeting, Sep 2003, page 111-112

[56] Summary report on foreign trade of Ministry of Commerce from 1990-2003

[57] Fighting poverty through human resource development, rural development and people's participation, government report, VTE, Nov 2000. Page 41.

ASEAN and AFTA offer a number of opportunities to the Laos, notably in form of a huge market of many hundred millions of potential customers with a greater purchasing power than we possess. Efficient implementation of national priority of commodity production will promote the access of national communities to the large ASEAN market, which could contribute to the Region's as well as to the Laos enrichment. In addition, active membership in ASEAN and AFTA will enable the Laos to strengthen its role as a land-link, at the centre of the Greater Mekong Sub-region. In this way, the Lao will be able to contribute decisively to an increasingly integrated area, with ASEAN countries providing it with examples of successful development.

The challenges that the membership to ASEAN and AFTA entail are nevertheless important, especially because of the need to produce goods and services on a competitive basis to encourage joint venture projects and to promote the economic sectors in which the Laos has a strong comparative advantage.

The external challenges also include the need the give more importance to the regional/national development interface in all our co-operation undertaking whenever this possible. Indeed, increased national/regional interface through regional co-operation schemes will enable us to narrow the gap between the Laos and other counties of the region. In particular, the development programme within the Greater Mekong Sub-region (GMS), within the quadrangle composed of the northern region of the Lao and Thailand. The Eastern part of Myanmar and the Yunnan province of the PR of China and with the Eat-West corridor programme, etc. must be increasingly integrate in to the Lao PDR's own regional planning system.

Joining the World Trade Organization (WTO) is a logical continuation of the open-door policy as reflected by the Lao's adhesion to ASEAN-AFTA. As the Laos benefits already from the General system Preference (GSP) and the Most Favored Nation (MFN) clause from some of its trading partners, one of the main challenges in this respect will be to reinforce the emerging market-oriented agriculture pattern, while finding the necessary currency reserves to finance the needed imports.

The Export

The export volumes do never approach the import volumes for productive sectors plus individual consumption and thus, the overall economy relies more and more on import, foreign aid and investment. The value of Kip - national currency declines its purchase power and remains among other Asian countries at the most bottom lines. Foreign debt per capita is increased more than that of other poorest countries whilst inflation rate is still remained high tendency.

However, from 1990 up to date the export promotion is made in favor of market goods production, which will make gradually more sense of diversities of export items. On one hands, the effects of both government and private investment run by domestic and foreign investors result in extension of industrial goods processing for export. On the other hands, the policy on open-up cooperation and free trade with foreign countries makes export acceleration more effective.

In 2003, the total amount of export products is 359 million USD worth, increased from 300 million USD in 2000. In the period of the year 1990-1995 the average export volumes is increasingly developed for 58%, but absolutely decreased in the period of 1995-2000, and 2000-2003 for 1.5% and 3% respectively. The main export productions are Electricity, wood sawn, timber, ply wood, coffee, gypsum and lead.

The amount of wood products accounts for 30.7% of the total export; beside wood products the electricity covers 25% and coffee 4.6% of that in 2003. More than 50% of the total amount Lao PDR exports its products to ASEAN country member esp. from 2000 onwards more than 90% of the total export amount[58].

The Import

The amount of the import is increased from 447 million USD in 2000 to 482 million USD in 2003[59]. The import tendency has decreased its percentage of 1.8% and 3% in the period of 1995-2000 and 2000-2003 respectively. The main import productions are electricity, lorries and trucks, cars, buses, tractors, motorcycles, bicycles, fuel, cement, iron bar, paper, threads, clothing, medicines, sugar, milk, sewing machine and rice.

In 2003, the main import products for consumption cover 46.2% of the total amount of import and for capital revenue cover 39.7%

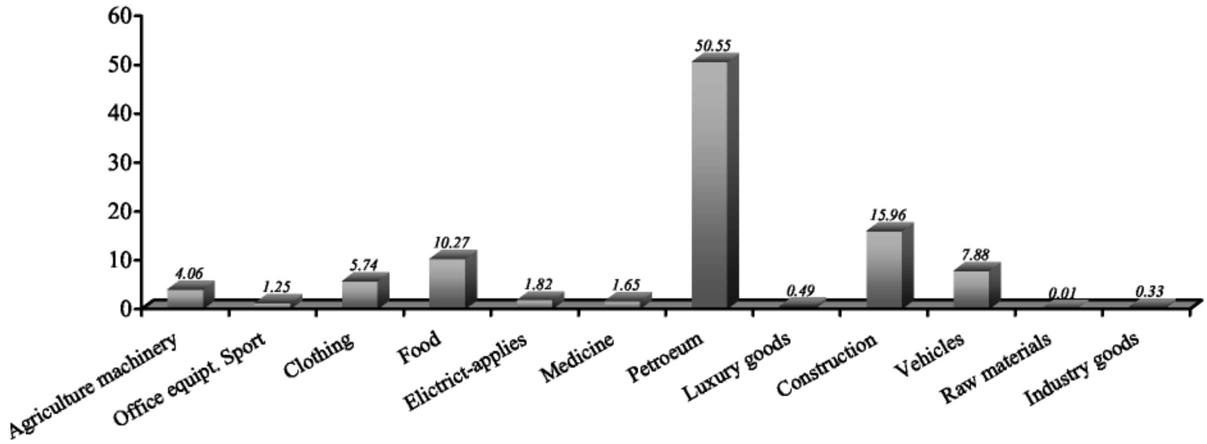
Lao PDR imports products more from ASEAN countries. The import from such countries accounts for 78% of the total import products for instance from Thailand and Vietnam.

[58] Summary report on foreign trade of Ministry of Commerce from 1990-2003
[59] Summary report on foreign trade of Ministry of Commerce from 1990-2003

Import and export in ASEAN countries

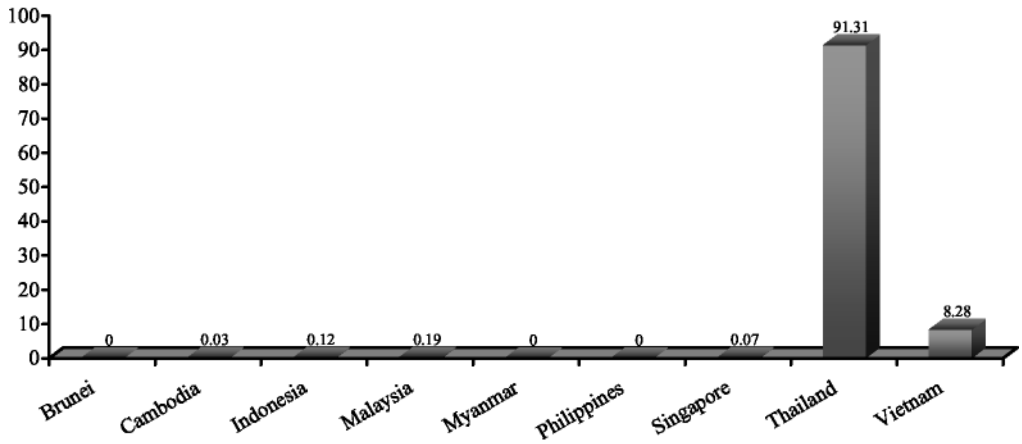
In the year 2001-02, Lao has imported from ASEAN countries was mainly petroleum (about 50.55% of total imports), construction materials (15.96%), food (10.27%) and agriculture machinery (4.06%). Thailand is Lao's most important trade partner in ASEAN, which accounts for about 91.31% of total import and over 86% of total exports. The major export items consist of electricity 50.91%, wood and its processing 33.84%, agriculture products 3.78%, forest products 3.67% and mining 2.11% (see figure 18-21).

Figure 18. Percentage of import from ASEAN countries by sectors of 2001-02



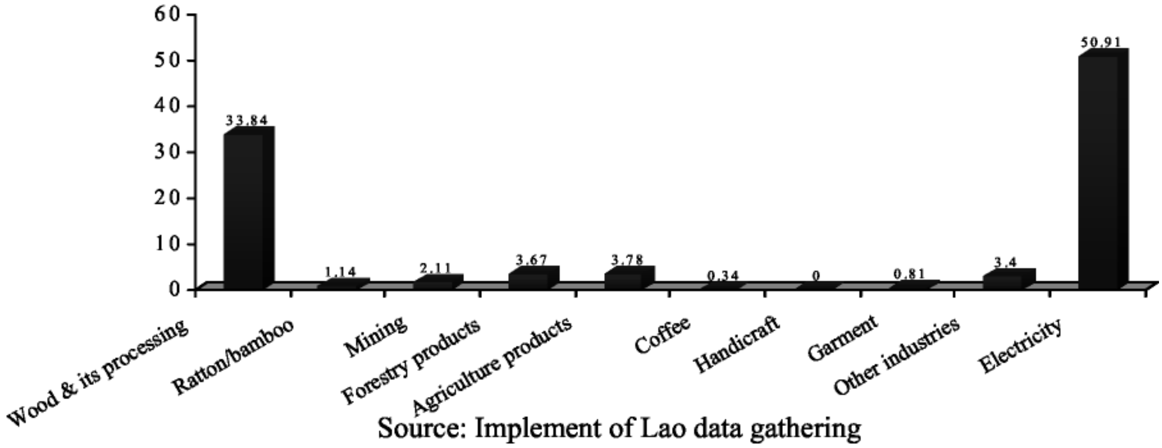
Source: Implement of Lao data gathering

Figure 19. Percentage of import from ASEAN by countries of 2001-02



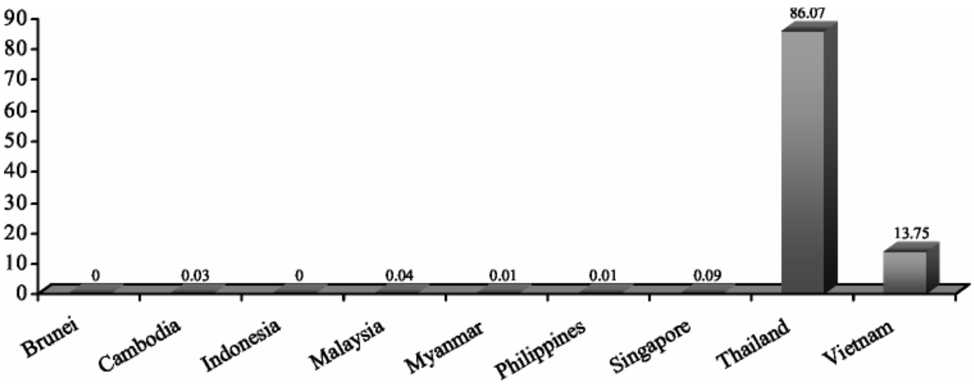
Source: Implement of Lao data gathering

Figure 20. Percentage of export from ASEAN countries by sectors of 2001-02



Source: Implement of Lao data gathering

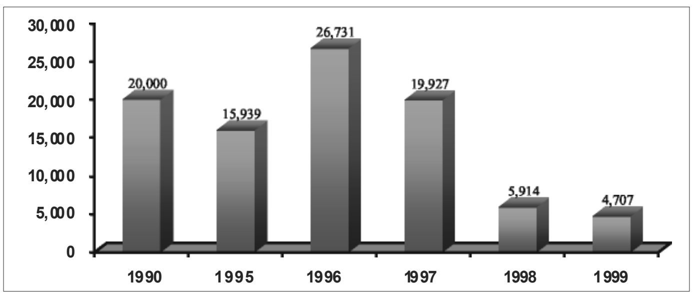
Figure 21. Percentage of export from ASEAN by countries of 2001-02



Source: Implement of Lao data gathering

Import of rice

Figure 22. The import of rice milled by production (tons)



Source: Agriculture statistics 25 years (1975-2000)

The Lao PDR has dynamically decreased its rice import amount. The statistic of Ministry of Agriculture and Forestry (MAP)[60] from the period of 1990-1999 is the quantity of import has been reduced from about 20,000 tons to 4,707 tons. In 1996 the importation of rice increased to 40.37% from 15, 939 tons in 1995 to 26,731 tons (1996) because of the local production was by decreased natural disasters.

- In the year 2000-01 Laos has imported 8,844.48 tons of rice (Thailand 6,875.02 tons (77.73%), Cambodia 3.01 tons (0.03%) and Vietnam 1,966.45 tons (22.23%))
- In the year 2001-02 Laos has imported 7,852.70 tons of rice (Thailand 6,817.55 tons

[60] Source: Agriculture statistics 25 years (1975-2000) of Ministry of agriculture and forestry

(86.82%), Vietnam 745.15 tons (9.49%) and US 290.00 tons (3.69%))

- In the year 2002-03 Laos has imported 17,062.14 tons of rice (Thailand 15,875.54 tons (93.05%) and Vietnam 1,186.60 tons (6.95%))
- In the year 2003-04 (1/10/03-30/3/04) Laos has imported 1,185.58 tons of rice from Thailand.

Authorities in remote and isolated areas (boundary and mountainous area) encourage economic sectors to circulate food or exchange good for foods with neighboring countries (wherever the transportation condition is more comfortable than domestic transportation)

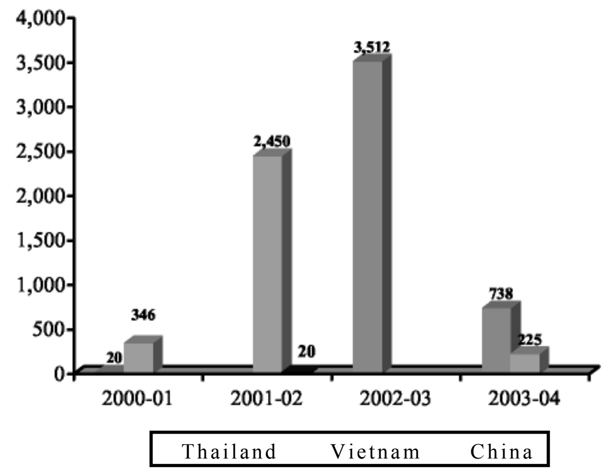
Export of rice

The data on rice exportation could not collage with people along the borders exchange food with neighbors to Thailand, Vietnam, China, Cambodia and Burma (especially rice). The illegally exported rice in the North of Laos is many tons per year; because the small traders from Vietnam came to this place and buy rice namely Baby chick rice (glutinous rice with good smell and good appetite) from farmers for family consumption. They make trade because the rice is famous and local variety and the production of rice is free of chemical residues but we are not able to receive the data legally.

- In the year 2000-0 1 Laos has exported rice at the amount of 366 tons from this amount the rice exported from: Thailand 20 tons (5.46%) and Vietnam 346 tons (94.54%)
- In the year 2001-02 Laos has exported rice at the amount of 2,519.8 tons from this amount the rice exported from: Vietnam 2,499.80 tons (99.21%) and China 20 tons (0.79%)
- In the year 2002-03 Laos has exported rice from Thailand at the amount of 3,512.20 tons
- In the year 2003-04 (1/10/03-30/3/04) Laos has exported rice at the amount of 963.20 tons from this amount the rice exported from: Thailand 738.20 tons (76.64 %) and Vietnam 225 tons (23.3 6%)

Note: the data of rice and corn situation is mentioned for Lao trade in the general

Figure 23. The Export of rice milled by production and countries (tons)



Source: Department of custom, MOF

• **Rice export to Japan (rice seed of Japan plant in Laos)**

The Japanese rice production project is to produce rice to Japan[61]. The project supplied rice seed to farmers in Vientiane capital, Xieng khuang, Khammouane and Champasak provinces with the areas of 400ha and the harvest will be achieved 1,500 tons of paddies with the price on farm 2,000 kip/kg. With 1,500 tons we can have white rice about 855 tons that will be exported to Japan in next June 2004. In the last year the company has exported rice to Japan 180 tons with the price 500-600 US$/ton.

This project aims to produce rice with the support from the Lao Government and with the cooperation of Japanese governments. The Arony Company Corporation has started the project from 1996. The company has done the trials to grow the Japanese rice and then to support farmers to produce rice for the exportation to Japan. Up to now farmers have adopted the production of Japanese rice. The rice is produced organically and the rice exported to Japan has been controlled its quality and standard by the Japanese experts. The production of rice is free of chemical with the yield of 4-5 tons/ha and made the income of Lao farmers about 3,000 US$. Now the Company has the Japanese rice seed more 200 tons to grow in the coming season.

Most of the corn production for animal feed production is in the Northern part of the Country and most of the corn is exported to China through the local borders; so the Chinese market is very important for Lao farmers in Northern to sell corn and other agricultural products.

In 2003 corn is exported from Luang Namtha to China in the amount of 6,338 tons and from Sayaboury to Thailand 13,997 tons[62].

From 1990 there were an export of corn to Thailand but the government did not have data because farmers sold the corn illegally[63]

In 2001 Thangone feed mill factory has exported corn in grain to Malaysia in the amount of 1,750 tons[64]. The price is counted for 93.00US$/ton because the quantity of corn is higher than the need of factory to produce animal feed and there were not a dryer machine to dry the corn for stocking

Foreign Investment rule

The government updated its 1988 Law on Foreign Investment with the 1994[65] Law on the promotion and Management of Foreign Investment. The new law, a response to competition for foreign investment from Laos' neighbors, aims to streamline licensing procedures and unity and simplify taxation while maintaining the liberal framework of the earlier legislation.

Laos' foreign investment regime is one of the most liberal in the region. Most sectors of the economy are open to foreign investment: only a few are reserved for Lao citizens. Fully foreign-owned companies and joint ventures (with at least 30 percent foreign equity) are permitted, with attractive tax and other incentives.

---

[61] Mr. Khamsavang Mingboupha the Director of the Arony Corporation Company
[62] Report on Promotion corn for export project 2003 of Crop multiplication center, Department of agriculture
[63] 63 Interview: Mr. Bounmy Souvannalangsy, Director of Promotion corn for export project and Crop multiplication center
[64] GOLD COIN DN LAO Company
[65] New asean; part 4: Lao politics/chapter 10: preserving one party rule. pg: 243

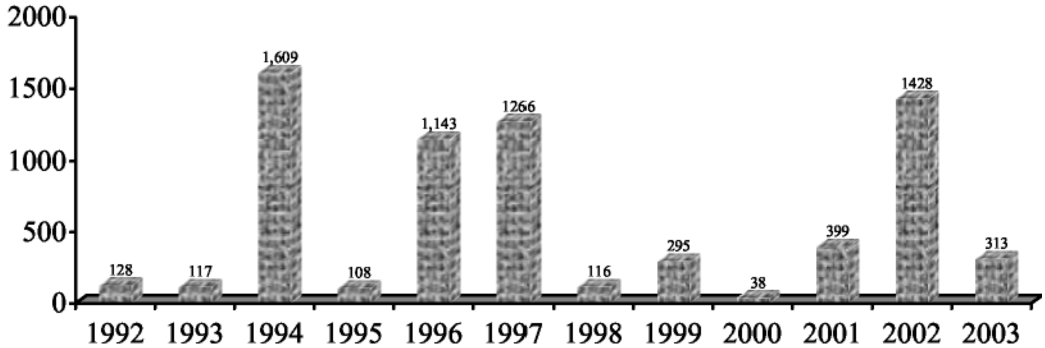
Initially, fully foreign-owned ventures were preferred for foreign investment, as State-Owned Enterprises (SOEs) other than those under military control were reluctant to center into joint ventures with foreign companies. However, the position changed recently. The Government now encourages foreign investors to enter into joint ventures with domestic investors or SOEs; these are approved more easily than fully foreign-owned companies. Lao military interests, however, continue to dominate the field.

Although the Committee for Investment and Foreign Economic Cooperation (CIFEC) is the one-stop shop' for approving foreign investment projects, most foreign investors find it necessary to develop relation Lao ministries and authorities. Processing foreign investment applications remains slow and cumbersome. It can take up to 18 months to obtain an investment license unless "facilitation" payments are made, and investors need to follow up regularly with the bureaucracy.

C. Foreign Direct Investment (FDI)

In the early year of 1989 the government has encouraged foreign and private domestic investment in most sectors, improving the overall economic climate for investors. The government has issued over 1,000 new investment licenses worth more than US$ 7.1 billion in private investment commitments. Measuring actual foreign direct investment implemented is difficult because the government only releases data on the number and value of approvals. But by 1994, wholly foreign-owned investment accounted for about half of total investment approved.

Figure 24. FDI (mill.US$)



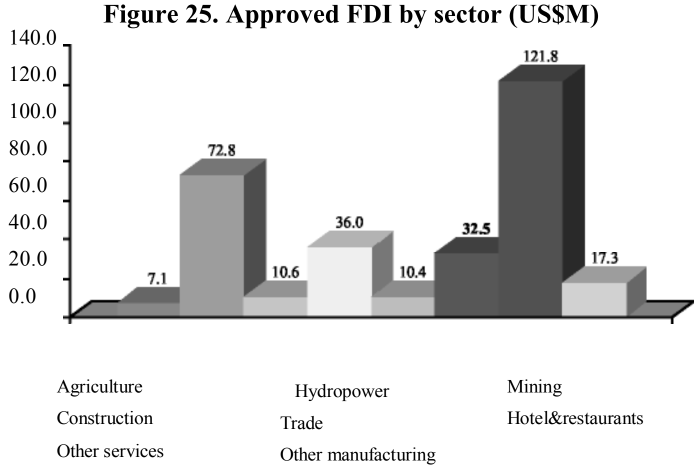
Source: Foreign Direct Investment from year 1988-2003

In general, in the Lao context, investments in hydropower and mining projects have huge impacts on magnitude of overall FDI in each year. At the moment of writing, data on the actual FDI inflow was not available. In 2003 the approved FDI was about US$ 313 millions, considerably lower than 2002[66].

[66] Lao PDR Economic Monitor of the World Bank, May 2004. page 18

In 2003, approved investments in services, such as trade, hotel and restaurants, construction and other services accounted for more than haft of total FDI (about 53 percent), whereas industry was at about 45 percent[67] (construction, hydro and mining).

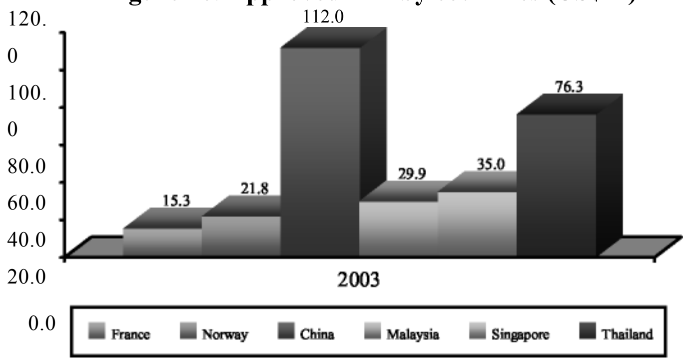
Figure 25. Approved FDI by sector (US$M)



Source: Lao authorities

In 2003, The key countries /investors in the approvals have been mainly China, Thailand, Singapore, Malaysia, Norway and France. As compared to 2002, approved investment from China, Singapore and Norway increased rapidly, as opposed to other countries, such as Vietnam, Australia, EU and ANIES [68].

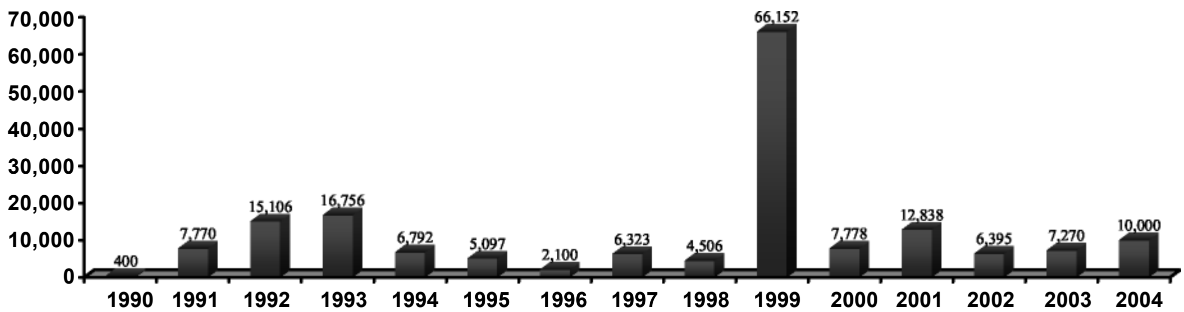
Figure 26. Approved FDI by countries (US$M)



Source: Lao authorities

The total amount of investment on agriculture before AFTA from 1990-1996 is worth US$54 million and after AFTA from 1997-2003 the amount is accounted for US$105 million. Increased about 94 percent. The major of investors among others is Thailand, Republic of Korea, Vietnam and China

Figure 27. Foreign investment on agriculture before and after AFTA (1,000 US$)



Source: Summary foreign investment from 1988-2003

[67] Lao PDR Economic Monitor of the World Bank, May 2004. page 18
[68] Lao PDR Economic Monitor of the World Bank, May 2004. page 18

D. AFTA

Laos signed the Protocol for the Accession to AFTA of the Lao People's Democratic Republic to the Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN Free Trade Area (AFTA) on 23 July 1997. And began implementing the CEPT commitment on 1 January 1998 in five equal installments due to the agreement of ASEAN beginning 1 January 2001 and ending January 2005.

Since the year of 2001 to 2004, Lao PDR. Transferred the products from the Temporary Exclusion List into the Inclusion List completed four equal installments together 2967 items The remaining 435 items are in the 5th. Equal installment for the transference the products from the Temporary Exclusion List will be transferred into the Inclusion List in the year 2005.

The Sensitive List has 75 items will be also transferred into Temporary Exclusion List but should be in the extra plan and tariff reduction and ending on 1 January 2015. The General Exception List of the Lao PDR has 74 items. Therefore, the product items to be implemented under the CEPT product lists of total 3,551 tariff lines of ASEAN Harmonized Tariff Nomenclature six digits (Harmonized System 1992).

At the present time, Lao PDR has changed the ASEAN Harmonized Tariff Nomenclature: 8 digits (Harmonized System 2002), all the Tariff Lines are moved from 3,551 into 10,689 Tariff Lines.

On 23 July 1997 the Lao PDR, was formally admitted into the Association of South East Asian Nations. As a member of AEAN, the Lao PDR has to implement all ASEAN Agreements and Protocols including the " Agreement on Common Effective Preferential Tariff-CEPT Agreement " and other nine Economic Agreements. These were signed by the Lao delegation during the ASEAN Economic Ministers Meeting on 10 October 1997 in Kuala Lumpur, Malaysia.

Based on the CEPT Agreement, the implementation of CEPT scheme for AFTA has started on 1 January 1998 for a ten-year period ending by 2008, with tariff rates of 0-5%.

The implementation of the CEPT Scheme for AFTA is based mainly on the implementation of the four Products List such as: the Inclusion List (IL), the Temporary Exclusion List (TEL), the Sensitive List (SL), and the General Exception List (GEL). While the completion of the " Inclusion List, is the main objective, the implementation of the Inclusion List requires the compliance with measures and conditions stipulated in the CEPT Agreement.

The National AFTA Unit of the Lao PDR (NAUL) was established on 22 July 1997.
The first task of NAUL was the collective formulation of the four above-mentioned Product Lists in accordance with the provisions of the CEPT Agreement.

Laos signed the Protocol for the Accession to AFTA of the Lao People's Democratic Republic to the Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN Free Trade Area (AFTA) on 23 July 1997. Under the terms and conditions of its accession, the Lao PDR is to:

- Extent Most Favored Nation Treatment and National Treatment to ASEAN Member Countries;
- Provide relevant information on the trade regime as and when requested;
- Prepare a list for tariff reduction and begin tariff reduction effective 1 January 1998;
- Phase in products which are temporarily excluded in five equal installments beginning 1 January 2001 and ending January 2005, and at 0-5% by 1 January 2008 and prepare a list of these products for their annual installment; and
- Phase in agricultural products which are temporarily excluded beginning 1 January 2002 and ending 1 January 2008 at 0-5% and prepare a list of these products for their annual installment.
- Phase in agricultural products which are considered sensitive beginning on 1 January 2006 and ending on 1 January 2015 at 0-5%, except certain highly sensitive products whose final rates shall be subject to further negotiation. However, encouraged accelerating the tariff reduction for these products.

Lao PDR began implementing the CEPT commitments on 1 January 1998. Lao has already submitted the CEPT package – Inclusion, Temporary Exclusion, Sensitive and General Exception Lists.

The Lao PDR has placed a total of 533 tariff lines in the Inclusion List, representing 15.2% of the total tariff lines. All the products in the Inclusion List have tariff rates of 5%. The products in the Inclusion List have no quantitative restrictions. The bulk of the products in the Inclusion List consisted of machinery and electrical appliances (242 tariff lines or 45.40%) and optical and precision instruments (102 tariff lines or 19.14%). The Temporary Exclusion List of the Lao PDR contains 2,820 tariff lines, representing 79.4% of the total tariff lines. The products in the TEL will be phased into the CEPT scheme in five equal installments beginning on 1 January 2001 and ending on 1 January 2005 and at 0-5% tariff rates by 1 January 2008. This means that by 1 January 2008 the Inclusion List of the Lao PDR will consist of 3,353 (the sum of the present Inclusion List and present TEL) tariff lines, representing 94.4% of total tariff lines. The Lao PDR has 96 tariff lines in the Sensitive List. Most of the items in the Sensitive List are agricultural products. These products will be phased in the beginning on 1 January 2006 and ending at 0-5% 0n 1 January 2015. The General Exception List of the Lao PDR consists of 102 tariff lines, representing 2.9% of the total tariff lines[69].

The Government will implement the CEPT under AFTA by reducing tariff on a range of products to 0-5 percent by 2008. This will almost eliminate remaining trade barriers between the Lao PDR and its ASEAN counterparts and thus increasing trade. These tariff reductions, as well as the harmonization of standards and rules, will mean that the ASEAN market will be a favorable environment to attract foreign investment, particularly with regard to export orientated investment.

[69] Information provided by the Division of ASEAN Economic Cooperation

Impact of AFTA

Laos have joined ASEAN since 1997. As member of ASEAN Laos is obliged to accede to all ASEAN Economic Agreement. With regard to AFTA, Laos has to implement the Framework Agreement on Common Effective Preferential Tariff for ASEAN Free Trade Area. Like other new member of ASEAN, Laos has a 10-year time frame for implementing the CEPT for AFTA, that means by 2008 all the products in IL will have tariff of 0-5%. As far as agricultural products, Laos will have to minimize to zero tariff by 2018.

The main objective of AFTA is to further liberalize intra-ASEAN trade by reducing customs tariff and elimination of non-tariff barriers. Besides CEPT for AFTA, member states agreed to accelerate cooperation in other important areas including the harmonization of tariff nomenclature, customs valuation and procedures, mutual recognition of product certificate, harmonization of standard, simplification of trade and investment related to procedure. It is understand that, in response to these requirements, Laos needs to readjust its legal framework to be consistent with more prevailing in ASEAN. The implementation of joining AFTA are multi-dimensional.

However, the most potential challenges of Laos's participation in AFTA are the impacts of tariffs change on budget revenue. The import tariff collection contribute almost one forth of the total revenue collection. These will be happen may be in 10 years time. The Lao Government is now intensively study and will introduce Value Added Tax by the year 2007 for replacement of what that has foregone by import tariffs.

As far as small producers, AFTA will of course adverse them, so long that they stay on the same place. They need to have a "Road-Map of improvement". Participation in AFTA means that trade and economic regime will further liberalized and more open, for those who are WTO member means "WTO Plus". As a result of tariff reduction and elimination of NTB, and in combination with its comparative advantages, Laos can attract more foreign direct investments and strengthen its comparative advantages. In fact we should accept that in the path of globalization process, the trade liberalization in the world Agenda; any country slowdown economic and trade liberalization, will miss the opportunity for Economic Growth. In this sense, the faster the implementation of AFTA, the better it is for Laos. Laos is located strategically in the heart of the Mekong Sub-region, that can fit very good to link East Asia to South Asia with it East-West Economic Corridor policy.

Again Lao reaffirm its AFTA participation means creation a wider market access and expand production and trade in general.

In summary, Laos is one of the poorest countries in Southeast Asia. The major sector of the economy is agriculture. It's contributed over 50% of the GDP; the industry is still in the infant try stage. Laos lagged far behind of all other ASEAN member countries in all various aspects. In the short run, low level of industry and manufacturing, as well as low productivity in Agricultural sectors will limit the country's ability to benefit effectively from reciprocal concession offered under AFTA principles. This will reflect in the limit of Laos Export in ASEAN, and as the result-notably negative balance of trade within ASEAN.

The small producer need urgently the “Road map of competitiveness improvement” in order to restructure its productions line and strengthen the capacity building to find the market based on comparative advantage that Laos has, they can not only survive but will the champion.

Laos long-term external competitiveness will also depends critically on the impact of the domestic policy initiatives. The utmost is the overall maintaining the political stability and the continuation of the present macroeconomic and structural reform programs. The tariff reduction be implemented under AFTA should be viewed in conjunction with specific sectored development especially the services sectors development, the Agroproces sing Industry. The tourism development and comprehensive tax reform measures, which should compensate or substitute revenue deterioration caused from tariff cut.

Analysis

Since the Lao government has undertaken to move from a centrally planned to market-oriented economy in the later 1980’s. A wide opening policy for foreign relation and investment has been introduced. The national economy has continuously expanded and improved and open up to international trade. Since July 23, 1997 the Lao PDR has become a full member of the Association of Southeast Asia Nation which is an important step in the implementation from centrally planned economy system to market-oriented economy. Soon after joining ASEAN, Lao PDR as a full member has to follow the implementing of obligation, principles and commitment or various agreements that ASEAN committed.

Especially, is the commitment on tariff reduction plan to be effected together with the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area, Lao PDR began implementing from the year 1998 and has to realize its commitment by the year 2008.

Lao PDR‘s participation in the Agreement on the Common Effective Preferential Tariff Scheme of AFTA will have many opportunities and a challenge especially is the impact on the tariff cut. This will affect the small and middle business enterprises and various local producing units due to their basic and capability are still young in comparison to the others old ASEAN countries such as: Singapore, Malaysia, Indonesia and etc. However the participation in the AFTA or tariff reduction in each category is based on thorough consideration and consultation thoughtfully with the various institutions concerned to study the possible impacts from AFTA’s participation. It can be seen that in the past there are affected small impacts from the tariff cut, since the major tax is still at the low-level tariff lines. Therefore, the local business and producer units are not serious effected. Till the year 2018 all of the products have to be reduced to 0%. At that time, not only for the Lao PDR, most the ASEAN countries should be able to improve their own business sector to become stronger in order to recognize the various challenges from AFTA in ASEAN.

The liberalization in ASEAN nowadays focused on three main sectors: Trade, trade in service and investment. The investment cooperation of ASEAN has AIA contract since 1998. This contract is the reason and the main documentation for investment cooperation in ASEAN. It seems to be the implementation of CEPT in AFTA, ASEAN has set up the list of activities or sectors to opening up for the investors in the intra-ASEAN and extra-

ASEAN and which activities should be given 1st priority to the local investors. Yet the investment liberalization agreement should compatible with the existing rules and regulation of each member country opening up the investment based on the agreement of the country. Likewise, the collaboration in this area for cooperation should not affect the regulation when the program is entry in to the force[70]

Conclusion

The population of Lao PDR was increased from 4,140,000(1990) to 5,679,000 (2003) (male 2,731,025 and female 2,795,075), with an average annual from 2000-2002 growth rate of 2.8 % per year.

Total national employment age (15-64 years old) is about 2.7 million and occupies 53,1 % of total. The number of employment working the national economy is about 2.3 million which agro-forestry sectors occupies 1,973,000 equivalent to 85%. Almost agriculture households mainly use family's man-forces. About 26% of agriculture households hire off-farm employment

The overall performance of economy has remained strong, as reflected in the annual average rate of growth of GDP of 6,3% during the past 10 years (1992-2003). In 2003 industry accounts for about 24 5 of GDP up from 16.7 % in 2002. The service sector share edged up to around 26 percent while agriculture's share fell from 58 percent to 50 percent. The actual GDP per capita is 331 USD.

High inflation and sharp depreciation of the national currency Kip severely undermined income when expressed in US dollars. Inflation rose to 134 percent in 1999. High inflation contributed to a steep decline in the exchange value of the national currency "Kip" from 716 Kip in 1992 to the US Dollars just before the crisis to about 10,060 Kip in 2002 and 10,850 Kip in 2004.

Almost 90 per cent of the households own land. Total existing rice cultivation area is 738, 100 ha, of which wet rice account for 70,38%, upland rice area 134,600ha. From year 2002 the policy of Government must put namely in land ownership certification both husband and wife.

Sustainable Use of Land: Rotational (shifting cultivation is the most common agriculture practice, but it seems to have increased substantially compared to 1997/98. The frequency of pioneering cultivation practice (slash and burn) has on the other land been reduced to about half the level it was in 1997/98

Agriculture: A top priority for the government of Laos PDR is to modernize the agriculture and forestry sector in a manner that fully meets sustainable practices and that achieve food security and better livelihoods for all Lao people. An estimated 620,000 households depend on agriculture, of which some 490,000 rely on subsistence farming. Income from grain stands for about 50 per cent of the agriculture production, 48% in urban households and 51 % in rural households.

Income generating activities: Handicraft 7%, work as employed 11%, own business 14%, agriculture work 49%, construction 1%, hunting/fishing 11%, collecting firewood/fetching

[70] Information provided by the Division of ASEAN Economic Cooperation

water 7%

Household agriculture output: Crop 51%, forestry 1%, poultry 5%, fish 12%, meat 15%, vegetable & fruit 11% and others of natural resources 5%.

Household agriculture output for market: Crop 43%, forestry 2%, poultry 5%, fish 7%, meat 25%, vegetable & fruit 7% and others of natural resources 11%.

Household agriculture output for own final use: Crop 54%, poultry 6%, fish 11%, meat 9%, vegetable & fruit 14% and others of natural resources 2%.

Time use: On average a person 10 years and above spend 6.3 hours per day on economic activities. 5 hour are income generating and the rest refers to home activities. Working on income generating activities plus household work occupies women 7 hours per day compared to 5.8 hours for men

Poverty situation: For the Lao as a whole, the average annual increase in real capita consumption was 5.8 percent. Households, the per capita real non-food consumption has been growing at an annual of 13.5 percent, whereas the per capita real food consumption has increased at an annual rate of only 2.6 percent capita real consumption in rural areas has been growing at the annual rate of 5.4 percent. Whereas the growth rates in urban areas has been 9.0 percent. Inequality increased from 28.6 percent in 1992/93 to 35.7 percent in 1997/98. Thus, inequality in the Laos increased over time. Incidence of poverty was 38.6 per cent in 1997/98, compared to 45 percent in 1992/93. In 1992/93 for urban areas the incidence was 33.1 percent, and for rural areas it was 48.7 percent.

Socio-ecnomic aspects of poverty: The relationship between poverty and access to basic infrastructure, clearly, the poor have much less access to infrastructure (not comfortable road) compared to the less poor.

Gender dimensions of poverty: Women and men experience poverty differently. Women ten to work much longer hours than men do as they are primarily responsible for their families' food security. Women have lower literacy rates than men (59.1 percent, compared with 81.7 percent). As more young women and men migrate from remote areas to towns and cities for work. In the majority of ethnic group women do not speak Lao.

Poverty Assessment is the lack of ability to fulfil basic human need such as: not having enough food (i.e. less than 2,100 calories per day/capital). Lack of adequate clothing, not having permanent, not capable of meeting expenses for health care; not capable of meeting educational expenses for one's self and other family members, and lack of access to transport routes

Poverty in urban and rural areas: In 1997/98, the level of poverty in urban areas was 27 percent, compared to 41 percent in rural areas. In the five-year interval between the 1992/93 and 1997/98 the poverty in urban areas decreased much more than in the rural areas. Nevertheless, living conditions in some urban areas are difficult, especially as poor people must live on a cash basis.

Condition of small farmers: More than 85% of total population are engaged in agricultural activities are small farmers the area about 1-2 ha per household. Rice was the mainly one accounting for more than 90 % food growing area. And grow sweet corn for family consumption and most of farmers grow corn integrated with other crops. Majority of plant have been used by the local strains about 71% of paddy variety (especially rainy season). Concerning fertilizer, most of the farmers use bio-natural fertilizer such as compost and animal dung about 72% of total farmers. Surely the privatization of water reduce the income of farmers approximately 15-19 US$ per ha and per season of rice. Small farmers have the similar habit that they store rice in their home average 4-5 tons.

Rice production of Monsoon crop contributed high portion in gross rice output accounting for over 72.24%, 78.28%, 74.54% in 1990, 1997 and 2002 respectively. The remainder is upland rice and irrigated rice portion that occupies about 30 % of gross rice production. Average rice (particularly paddy) increased from 310 kg per person per year in 1990 to 413 kg per person per year in 1999 and to 437 kg in 2002. Rice productivity of the whole year in 1976-2002 increased of 2.3 times from1.6 tons/ha in 1976to 2.3 tons/ha in 1999 and 3.2 tons/ha in 2002. Corn: in 2003 the production was 143.175 tons, increased 19.05 % compared with the year 2002 and this amount was included by corn for animal feed 89.732 tons or 62.67% and the corn for consumption 53.454 tons or 37.33%. The yield in 1990 was 1.8 tons/ha, in 2002 the yield increased to 2.76 tons/ha. The price of rice is changeable every year esp. the milled rice increased glutinous rice from 203 kip/kg in 1990 to 2,066 kip/kg in 2002 equal to 917.73 %. Non glutinous rice increased from 225 Kip/kg to 3.107 Kip/kg in the same period of time. The price of corn increase every year from 1995 – 2002 at average percentage of 371% per year.

Chemical fertilizer has not been applied commonly, in 1990 only 28% of the agricultural households applied chemical fertilizer. In the large plains as Vientiane, the rate of agricultural households applying chemical fertilizer is about 65%. Pesticide and insecticide have not been used widely, now there are only 10,6% of the agricultural households using pesticide and insecticide.

Production cost of rice and corn: Expenditures allocated for monsoon crop production normally are lower than that of in summer crop (lower irrigation, fertilizer cost) but its yield is lower than that of in summer crop. However, in the delta regions, Monsoon crop production was shaky due to water logging. Cost of rice production in pilot delta was higher, rendering 10-25 US$/ton. In the city, average cost of rice and corn about 200US$ per. If compared between the cost and benefit rice and corn were equally but corn is more easy to planting and use chemical lower than rice.

Rice and corn varieties: Majority of plant has been used by the local strains about 71% of paddy variety (especially rainy season) and hybridization seed 100% has used the irrigation plant. Four years ago, government had supported the hybrid corn variety for farmers to planting for market. The hybrid corn variety import from Vietnam and Thailand. Corn for consumption has been use local variety.

Price of rice and corn: In surplus rice producing areas, from 1995-2002, paddy price of market farmers increased from 143-1,057 k/kg, account 637.21 % and averagely 79.65 % per year. The price of corn increased every year from 1995-2002 the price is 3,028 kip/kg or 2,968% or average 371.08 %/year. Rice consumption: In general, the Laos people have the habit to use glutinous rice about 90%. From the data of the rice consumption per capita per day the average is 582g or 2 12.80kg of the milled rice/person/year.

Domestic preservation Farmers have the similar habit that they make rice stores near their house for storing amount of paddy of the household is quite large average 4-5 tones.

Domestic market: Rice trading companies are not good enough both in capital and other material conditions (stores, means, and facilities) to purchase rice commodity from the farmers.
Rice trade: trading force of private companies (contracted with MoC's companies) or small size trading households have contributed a significant part in regulating rice sources over all parts of the country. Rice trading companies are not good enough both in capital and other material conditioning (stores, means and facilities) to purchase rice commodity from farmers. Farmers have to sell rice to serve for other expenditures of their family. They are forced to sell at low price and that makes the farmers to suffer losses in between crop period, they have to buy rice at high prices. The agricultural sector has not been played and active but only cooperative role with the Ministry of Commerce so that their possibility to coordinate the rice market remains not timely. Rice trading companies considers rice trade as the major activity but does not focus on other activities as regulation and stabilization the rice price.

Agriculture strategy and policy: General strategy on socio-economic development by the year 2020 of party and state is striving to bring Laos out of list of the poor country. As such, in short-team as well as long-term, food security is still the highest priority strategy to stabilize economic development, stabilize socio-political of the country

Foreign Investment rule: The government updated its 1988, Law on Foreign Investment with the 1994 Law on the promotion and Management of Foreign Investment. The new law, a response to competition for foreign investment from Laos' neighbors, aims to streamline licensing procedures and unity and simplify taxation while maintaining the liberal framework of the earlier legislation.

Investment: now there are 2 private companies that invested the production of corn for animal feed production. The two companies borrow money from the government bank 2 billion Kip for each but they did not receive money. They buy 4 tons of seeds of corn from Vietnam. Most of fertilizer has to import, needs to increase organic manure source (dung of buffalo, cow pig, poultry and other). 3 factories of bio-fertilizer are constructed in three regions: north, central and southern part of the country with capacity of 20,000 tons/year in total. In 2003, the key countries/investors in the approvals are China, Thailand, Singapore, Malaysia, Norway and France. The government has issued over 1,000 new investment licenses worth more than US$ 7.1 billion in the period of 80s. In private investment as foreign direct investment (FDI). At the moment of publication, data on actual FDI inflow is not available. In 2003, the approved FDI was about US$ 313 million considerably lower than 2002. The main approved investments are as follows: trade, hotel and restaurant, construction and other services accounted for more than half of total FDI. The total amount of investment on agriculture before AFTA from 1990-96 is worth US$54 million and after AFTA from 1997-2003 the amount is accounted for US$ 105 million. The major investors among others are Thailand, Republic of Korea, Vietnam and China.Policy on trade: The expansion of foreign trade will be achieved through the investment of more bilateral trade relations and regional and international integration. The Government will implement the CEPT under AFTA by reducing tariff on a range of products to 0-5 percent by 2008. The government has finalized arrangement to sign a bilateral trade agreement with USA. This agreement help attract more foreign investment.

External challenges: The Government of the Lao PDR's open door policy has brought about a number of opportunities as well as challenges. In July 1997, the Lao PDR left the observer status and become a full member of ASEAN and AFTA. With nevertheless an adaptation period until 2008, regarding the liberation of trade and harmonization of customs tariffs. Joining the World Trade Organization (WTO) is a logical continuation of the open-door policy as reflected by the Lao's adhesion to ASEAN-AFTA. As the Laos benefits already from the General system Preference (GSP) and the Most Favored Nation (MFN) clause from some of its trading partners.

Since 1990 Lao PDR has ever had a trade deficit. It is indicated in the total value for 2003 about 122.7 million USD and covered approximately about 6% of GDP. The trade deficit trends are decreased when compared with the values of 2000, 2001 and 2003. The overall economy relies more and more on import, foreign aid and investment. In 2003, the total amount of export product account for 359 million USD worth increased from 300 million USD in 2000. The main export products are electricity, wood sawn, timber, ply wood, coffee, gypsum and lead. The amount of the import is increased from 447 million USD in 2000 to 482 million USD in 2003. The import tendency has decreased its percentage of 1.8% and 3% in the period of 1995 – 2000 and 2000 – 2003 respectively.

Lao PDR has imported from ASEAN countries for example in 2001- 2002 namely petroleum about 50.55 % of total imports, construction material 15.96 %, food 10.27% and agriculture machinery 4.06%

The small farmers heard about AFTA only 35 % of interview 30 persons in the Vientiane city they heard from television about 46% and government 20%. Farmer's knowledge on AFTA will create more market to sent the produce 26%, will cut down the subsidies currently enjoyed by wider choices and cheaper goods for consumers 20% and will bring investment into the country 26%. Government policies provided adequate support for small farmers were irrigation facilities 26%, training 23% but no subsidy because the government has limited budget.

Laos signed the Protocol for the Accession to AFTA of the Lao People's Democratic Republic to the Agreement on the Common Effective Preferential Tariff Scheme (CEPT) for the ASEAN Free Trade Area (AFTA) on 23 July 1997. At the present time, Lao PDR has changed the ASEAN Harmonized Tariff Nomenclature: 8 digits (Harmonized System 2002), all the Tariff Lines are moved from 3,551 into 10,689 Tariff Lines. the implementation of CEPT scheme for AFTA has started on 1 January 1998 for a ten-year period ending by 2008, with tariff rates of 0-5%.

Comment and Recommendation

- Information and data collection from AFTA unit at the relevant Ministries and institutions of Lao government can not be provided as required by the research team due to among other reasons such as unsystematized and/or improper files management and records.

- Most of AFTA related works are not yet overwhelmed and not resulted in actual framework nationwide esp. in trade and agriculture. The government is still in the stage of support concerned sectors to meeting all determined subjects in inclusion list.

- The spread of information and knowledge of AFTA deep into local authorities for instance district level and small-scale farmers is limited and even taken least actions.

- The government should quantitatively reduce the import of chemical items for agriculture but promote small-scale farmers using more local bio-fertilizers.

- For Lao PDR, the impact of inflation rate on trade, agriculture and investment is substantially considerable and leads to reluctant decision-making for both domestic and international investors.

- Direct supervision, management and control in most production sectors and services are slowly implementing by concerned AFTA units and therefore should be accelerated forwards.

Bibliography

Reference

1. Agricultural statistics yearbook 2002; Department of planning, Ministry of Agriculture and Forestry (MAF) Vientiane, April 2002.
2. Agricultural statistics year book 2001; Department of planning, Ministry of Agriculture and Forestry (MAF) Vientiane, May 2002
3. Agriculture statistics 25 years (1975-2000); Department of planning, Ministry of Agriculture and Forestry (MAF)
4. Agricultural statistics yearbook 2003; Department of planning, Ministry of Agriculture and Forestry (MAF) Vientiane, July 2003.
5. National statistics, household consumption of Lao PDR, Survey on paid and used of household consumption in 1997/98. November 1999
6. National statistics, household consumption of Lao PDR, Survey on paid and used of household consumption in 2002/03. March 2004.
7. Lao agricultural census, 1998/99 Highlights, Steering committee for the agricultural census, agricultural census office Vientiane February 2000
8. Fighting poverty through human resource development, rural development and people's participation, Government report to the seventh round table meeting
9. National poverty eradication programme (NPEP), Eight round table meeting, Vientiane, September 4-5, 2003
10. Lao PDR food security strategy in the period of 2001 – 2010 (Vietnam-Lao Cooperation Program 1999-2000) Vientiane October 2000
11. The agro-forestry research institute (the Naphoc Cener- 1997)
12. Data from department of custom, Ministry of financial
13. Data from Ministry of labour and social welfare
14. Data from Arrowny corporation company
15. Data from crop summary on yearly 2003 of crop multiplication center, Department of Agriculture
16. Report on promotion corn for export project 2003 of crop multiplication center, Department of Agriculture
17. Data from The Gold Coin DN Lao Company
18. Part 4-Lao of New ASEAN
19. Lao PDR Economic Monitor, World Bank Vientiane Office, May 2004
20. AFTA reader, Current economic developments in the Lao PDR and its participation in AFTA, December 1998.
21. Key indicators of development Asian and Pacific countries
22. Laos' dilemmas and option. Edited by Mya than & Joseph L.H. Tan. 1997 Institute of Southeast Asian studies. Singapore.
23. Information provided by the Division of ASEAN Economic Cooperation of Ministry of Foreign Affairs (MOFA). Vientiane, 2005.
24. Planning Socio-Economic Development 2004-05 of National Economic Research Institute of Laos, Vientiane, 2005.

Appendix

The process of interview is made through the following steps:

Interview with small farmers
a.) Coordinate with Village Administration Office (VAO) explained that the AFTA research team will conduction interview with small farmers in the topic knowledge of AFTA
b.) The head of VAO has coordinated with small farmers for selection number of farmers who will be interviewed
c.) Make an appointment for interview (time schedule)

Interview with government officials

a.) Coordinate with agriculture extension office of district
b+c.) Steps are the same as interview with small farmers

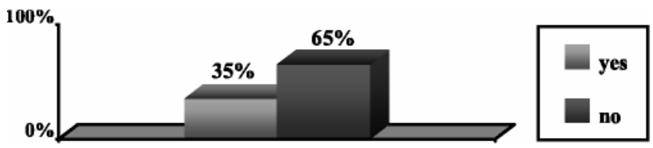
* Location of interview is about 5 Kilometer from Vientiane City. The place is one of the most popular rice production.

A. Interview small scale 30 producers (15 men and 15 women)

KNOWLEDGE OF AFTA

Whether farmer has heard/seen anything about AFTA

Heard/seen about AFTA from difference source of information

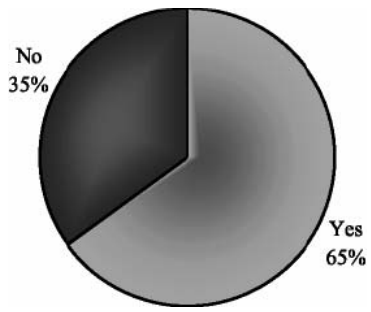


No	Items	Total interviewed	No of Informants	Percentage
1	From government	30	6	20
2	From radio	30	0	0
3	From television	30	14	46.6
4	From fellow farmers	30	2	6.6
5	From my organization	30	6	20
6	From NGOs	30	2	6.6
7	From other farmers' organization	30	0	0
8	Newspapers	30	0	0
9	Others	30	0	0
	Total	**30**	**30**	**100**

Farmer's knowledge on AFTA

No	Items	Total of Interviewed	No of Informants	Percentage
1	I just saw the word in the newspapers	30	1	3.3
2	I have no idea what benefits it brings to me	30	5	16.6
3	It will create more market for us to send our produce	30	8	26.6
4	It will cut down the subsidies currently enjoyed by us wider choices and cheaper goods for consumers	30	6	20
5	Free trade/globalization	30	2	6.6
6	Will bring investments into the country	30	8	26.6
Total		**30**	**30**	**100**

Government Policies



Government provided adequate support for small farmers
The kind of government support

No	Items	Total interviewed	No of Informants	Percentage
1	Price support	30	4	13.3
2	Marketing support (e.g. marketing loans)	30	2	6.6
3	Special loan for farmers	30	1	3.3
4	Irrigation facilities	30	8	26.6
5	Appropriate law and regulations	30	3	10
6	Training	30	7	23.3
7	Conduct more researches	30	3	10

8	Land reform	30	2	6.6
9	Subsidy	30	0	0
	Total	**30**	**30**	**100**

Reasons why government supports limited

No	Items	Total interviewed	No of Informants	Percentage
1	Small scale farmers are considered inefficient producers	30	7	23.3
2	Farmers do not have influence on government decisions	30	7	23.3
3	Limited government budget	30	7	23.3
4	Government favors big scale farming/agribusiness	30	4	13.3
5	Misallocation of budget (i.e. more money allotted to pay foreign debts, military purpsoe)	30	0	0
6	Agriculture is not a priority economic activities	30	1	3.3
7	Cash crop is given priority by government	30	4	13.3
8	Others	30	0	0
Total		**30**	**30**	**100**

Type of government support expected/needed

No	Items	Total interviewed	No of Informants	Percentage
1	Provide marketing support/assist farmers in direct marketing	30	2	6.6
2	Implement land reform & rural development program	30	1	3.33
3	Appropriate agriculture extension services	30	3	10
4	Provide subsided seeds	30	2	6.6
5	Provide subsided fertilizers	30	3	10
6	Provided subsidized pesticides	30	1	3.33
7	Provide subsidized training	30	3	10
8	Provide subsidized post harvest facilities	30	1	3.33
9	Provide subsidized crop insurance	30	4	13.33
10	Provide subsidized credit	30	3	10

11	Build irrigation facilities	30	3	10
12	Build good/durable farm to market roads	30	1	3.33
13	Guaranteed price	30	1	3.33
14	Price support	30	2	6.6
15	Others	30	0	0
Total		**30**	**30**	**100**

B. Interview government staffs (10 persons)

Impact of AFTA on trade in manufactured goods and unprocessed agricultural products

The country benefited the most and the least from AFTA

- The most - Thailand, Vietnam, Singapore and Malaysia (Good economic)
- The least – Laos, Myanmar, Brunei (Import more than export)

The facilitating factors that enabled those countries to benefit (the most) from AFTA

- Goods exchange, skilled human resources, good quality of merchandise

The hindering factors that inhibited those that benefited the least

- Low level of technologies, poor farmers, unskilled labors forces, prices and qualities

The expected benefits of AFTA is increased intra-trade (specific sectors, industries have benefited)

- Household equipment, food production, gradually growth of GDP

Specific sectors, industries have been negatively/adversely affected

- Environment (natural resources), low workmanship

The increase in intra-trade to the growth of national economies

- Disadvantage for least developed countries but advantage for developed countries, good for countries that produce goods and not good for countries that consume most and good for Lao economy

The prices of traded goods

- Low price for domestic goods, prices increased because of less export but more import, generally Laos will take disadvantages concerning price of export

The impact of increased intra-ASEAN trade to demand for services like transportation, shipping, packaging, finance and insurance, etc.

- No impact on finance due to low price of goods, uneasy transport, Laos is not ready to respond any standards

Impact on agriculture and domestic support

Specific sectors or industries in agriculture have benefited from AFTA

- Coffee, black rice, tea and fruit marmalade

Specific companies

- State export-import companies

Small-scale farmers are complaining that they could not compete. The kind of support did the government extended to assist them to become competitive.

- Bank credit scheme, irrigation canal, promotion of secondary crop production (corn), ensuring price, quantity and quality of goods

If governments were giving subsidies before AFTA, the continue to do so or did they phase out the subsidies (the amount of subsidies decrease or increase)

- government give subsidies and subsidies increased

The actions did government do to mitigate the adverse impact of trade liberalization brought about by AFTA

- Propaganda on production with quality for market, allure projects for investment both domestic and international.

Impact on investments and production structures

The analysis of government officials regarding investments

- Less foreign investment, less consumers, limited market, state joint venture

The pattern of investments over the last ten years (Intra-ASEAN and Extra-ASEAN)

- Electricity, brewery (beer), vehicles from China, border trading Thai, Vietnam and China

The new companies from A SEAN/ international which transferred their production and processing in country

- Garment factory, Brewery Company, and others

On ASEAN + 3

The consequences of China assuming bigger leadership in regional economic coordination

- Domestic goods can not be sold out because of cheap price of Chinese goods, cheap price is good for the poor, influx of population, any consequences for any countries in the region

ASEAN profiting from a free trade pact with China. (ASEAN in general and the country in particular to the potential influx of cheaper Chinese products such as garments, toys, computer and electronic products)

- Promote farmers for subsistence, techniques promotion, produce goods with cheaper price so that the poor are able to buy

Get their views on: The proposed ASEAN Food and Water Charter

Some are suggesting the adoption of an A SEAN Food and Water Charter that is based on the right to development concept.
The view regarding this

- Chemical frees or reduce chemical

The suggestions regarding key elements that should be incorporated in the charter

- Make use of natural resources efficiently, good water treatment system prior release to rivers, reduce logging trade, no use of chemical in food, wealthy for people

The view regarding the possibility of enacting this into a legally binding protocol in ASEAN and in the country

- Any law created by ASEAN concerning free chemical in food production, legislation on chemical use, short-term accession especially electricity, environmental sound, free of starvation and release from least developed country.

About SEACON

The Southeast Asian Council for Food Security and Fair Trade (SEACON) provides a coordinated approach to food security, agriculture and trade issues. We integrate local initiatives of agrarian reform and agricultural development with trade concerns at the Southeast Asian level. In each of our member countries, we support people centred national based food security councils that enable government, private sector and civil society representatives to meet and dialogue on agriculture and trade issues.

The establishment of the national food council is to ensure that whatever analysis / positions taken on at the regional level, would have the secure backing from the grassroots and vice versa.

ISBN 983-43301-1-1

Published by:
SOUTHEAST ASIAN COUNCIL FOR
FOOD SECURITY AND FAIR TRADE
No. 24, Jalan SS1/22A, 47300 Petaling Jaya,
Selangor Darul Ehsan, Malaysia.
Tel : (6) 03-7876 0520
Fax : (6) 03-7873 0636
Email : seacon@tm.net.my /
seaconfood@yahoo.com
Web : www.seacouncil.org

Sustainable Agriculture Forum (SAF)
Unit 2, Phonsavanh Tay,
P.O. Box 4881, Vientiane,
Lao PDR.
Tel : (856)-21-313042
Fax : (856)-21-313755
Email : saflao@laopdr.com

ISBN 983-43301-1-1
9 789834 330118

Printed by Syarikat Asas Jaya

Published in 2006