

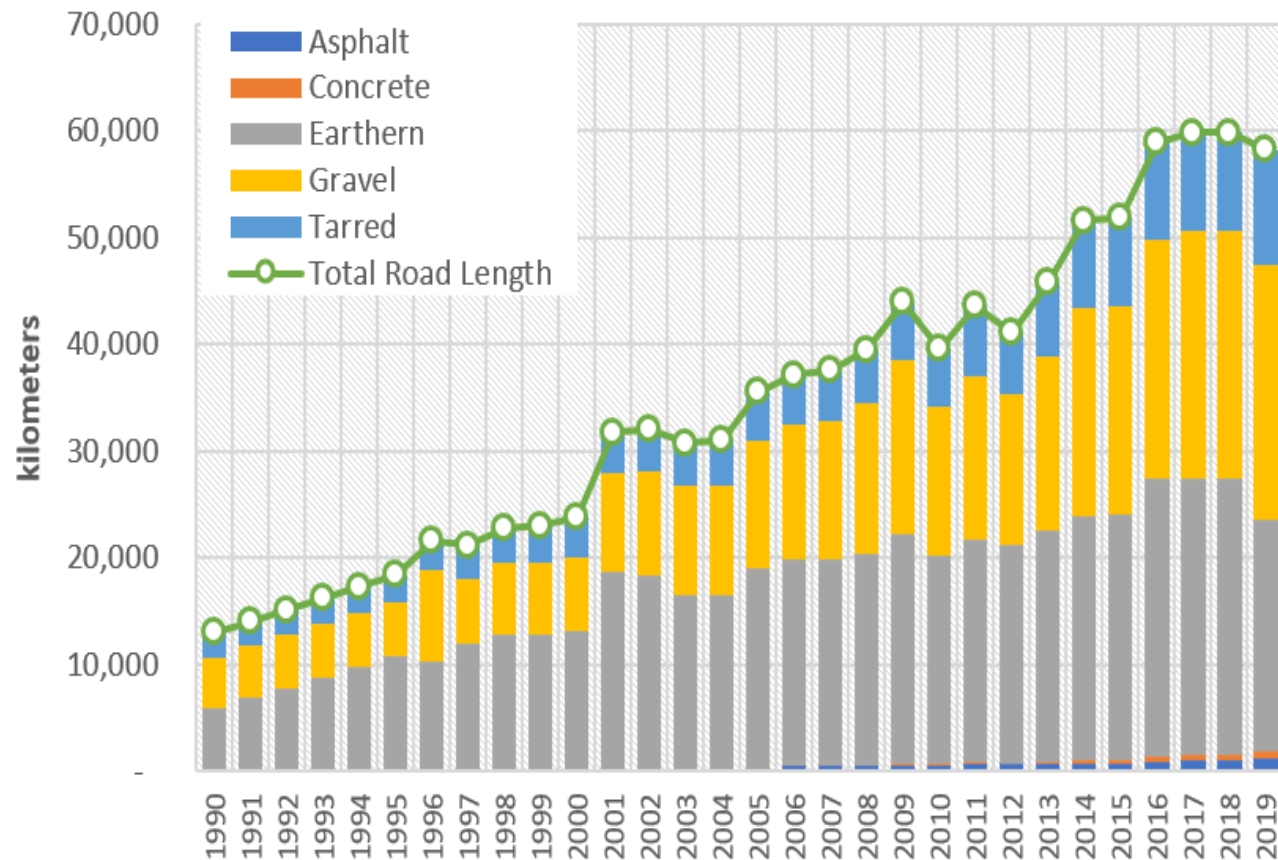


Regional Integration and Lao-China Economic Corridor

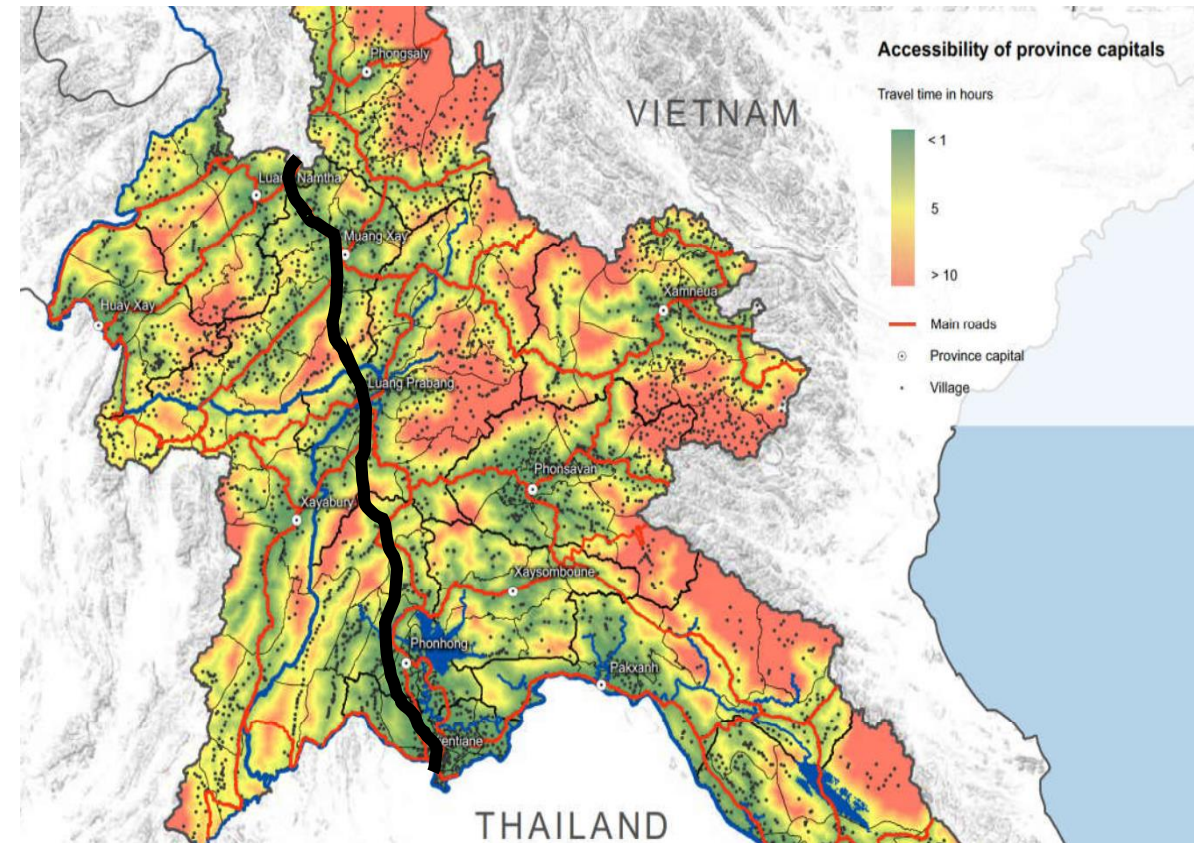
The Lane Xang EMU train passes by the China-Laos borderline inside a tunnel, October 15 (2021). Photo by Xinhua

Overview

To transform Laos from a landlock to land-link country, it is necessary to improve land transport infrastructure, particularly under various economic corridors.

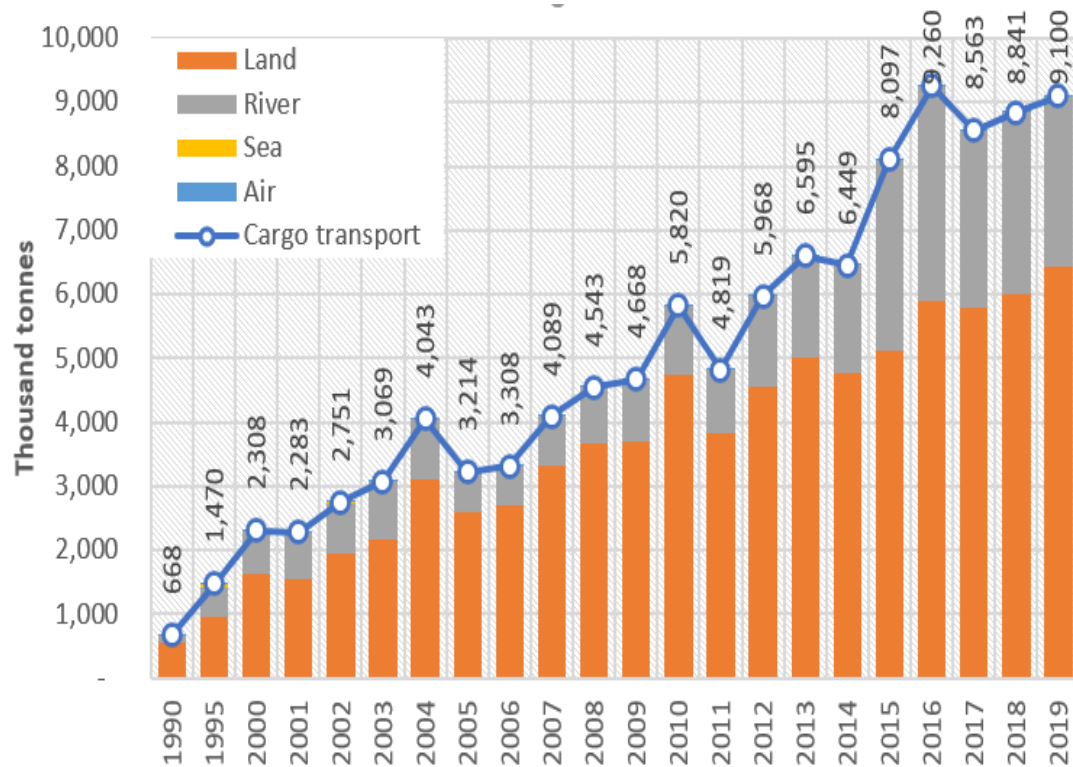


Source: the authors, based on the data from the Ministry of Public Works and Transport, Laos



Source: Socio-Economic Atlas of the Lao PDR: Patterns and Trends from 2005 to 2015

Although the trend in land transport of cargo is upward, alternative modes of transport are more attractive nowadays.



Source: the authors, based on the data from the Ministry of Public Works and Transport, Laos

Logistics Performance Index (LPI) of Laos remains lower than neighboring countries, except Cambodia and Myanmar

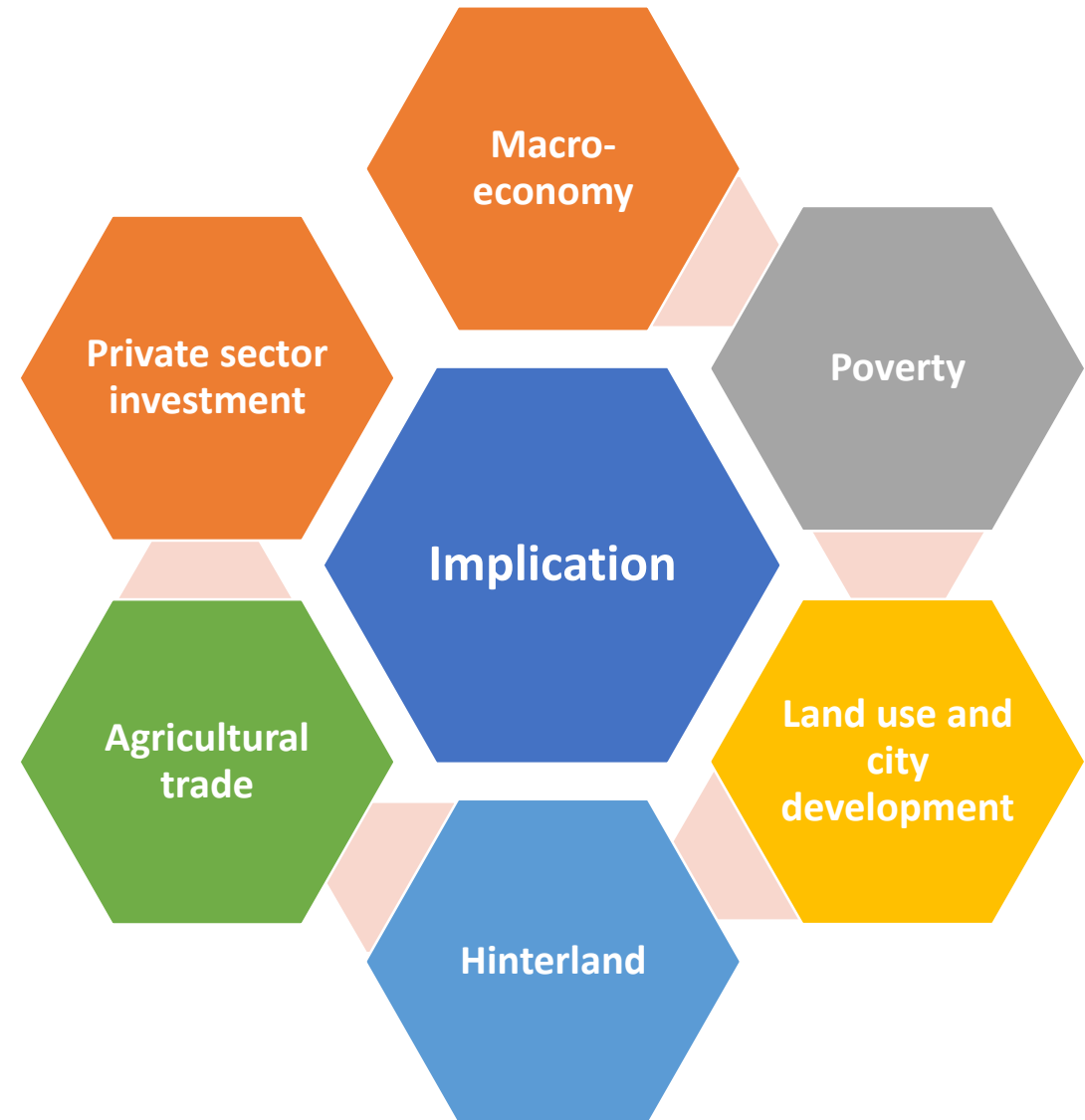


The LCEC is not the first transnational economic corridor that was established in Laos. But the realization of the Lao China railways brought about debates among scholars.



Research Methodologies and Focus Areas of the Study

- 1 Quantitative analysis tools to assess the impact of LCEC (i.e. CGE linked Household, VAR and OLS regression model)
- 2 key informants interviews

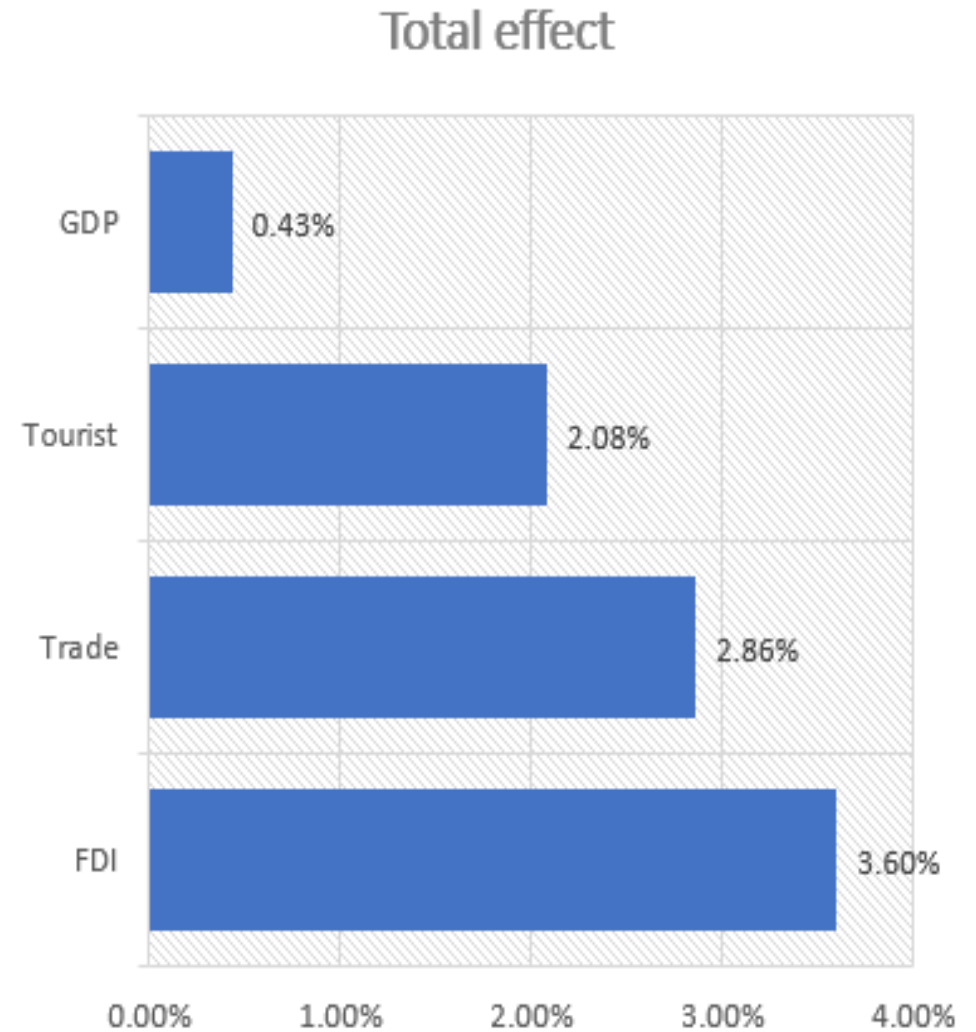


Key Findings

Potential benefits and risks of LCEC

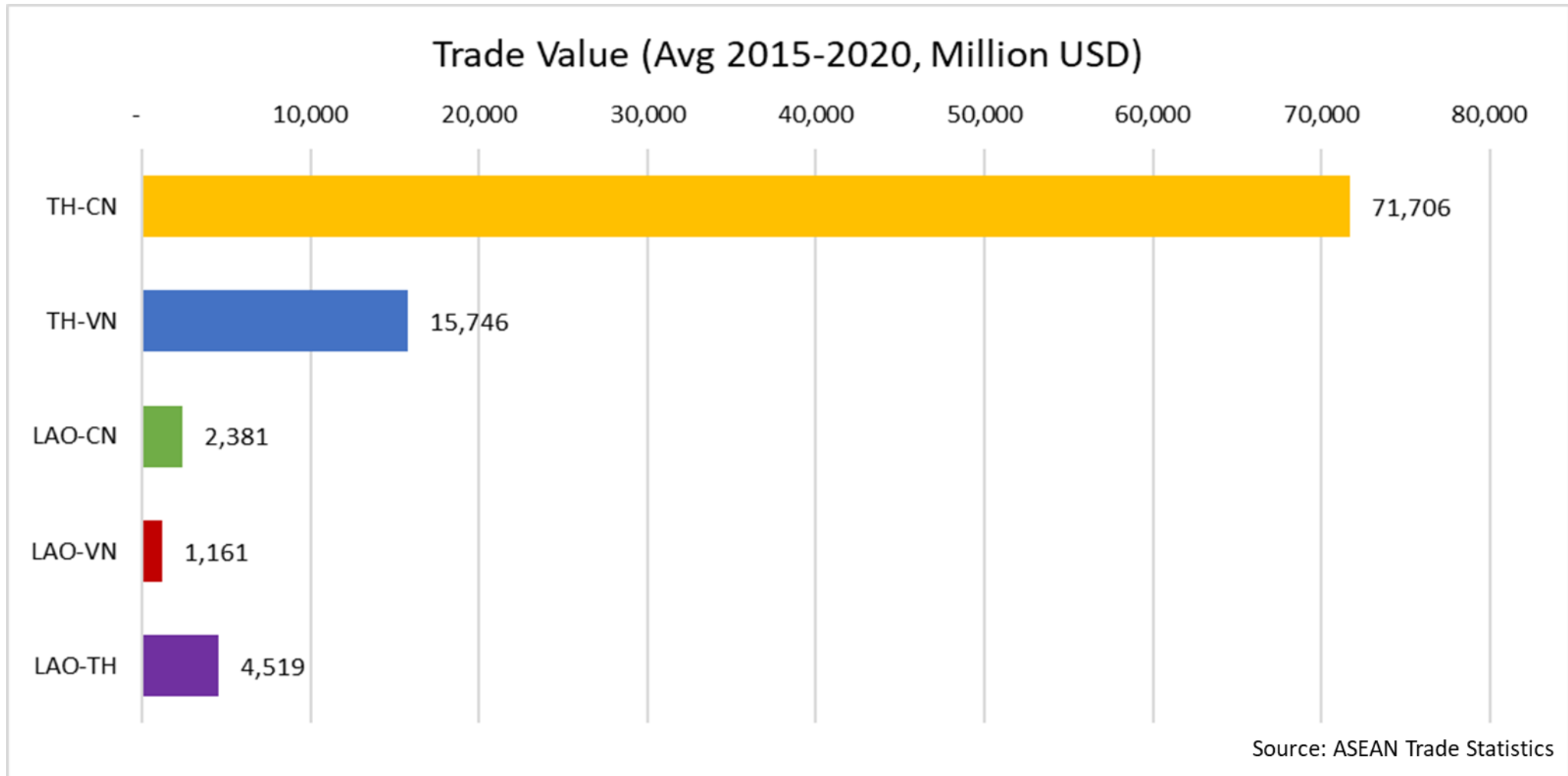
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- LCEC will be attributable to increases in GDP growth (0.3-0.43%), FDI, tourism, trade, productivity and employment.
- Supporting infrastructure linking the railway and productive areas is essential to fully benefit the railway.



1

- Low level of international integration might limit benefits from the LCEC.



2

- By sector, service and extraction industries are winners. But manufacturing and agricultural sectors are the losers backing by concerns on higher competition from oversea and outflow of labor despite improvement in the sectors' firm performance via transportation cost reduction.

No.	Sector	Output			Import
		Domestic sale	Export	Total	
1	Agriculture	-0.18%	0.99%	-0.08%	3.56%
2	Extraction	0.09%	8.45%	8.07%	-0.54%
3	Manufacturing	-0.36%	0.19%	-0.19%	0.85%
4	Utility	0.34%	-0.57%	-0.20%	0.31%
5	Construction	0.48%	0.48%	0.48%	0.12%
6	Wholesale	0.41%	-0.48%	0.39%	0.52%
7	Transport & Communication	0.47%	-0.25%	0.21%	0.54%
8	Accommodation	0.69%	-0.55%	0.61%	0.75%
9	Entertainment	0.54%	0.41%	0.54%	0.29%
10	Other services	0.27%	-0.53%	0.20%	0.52%

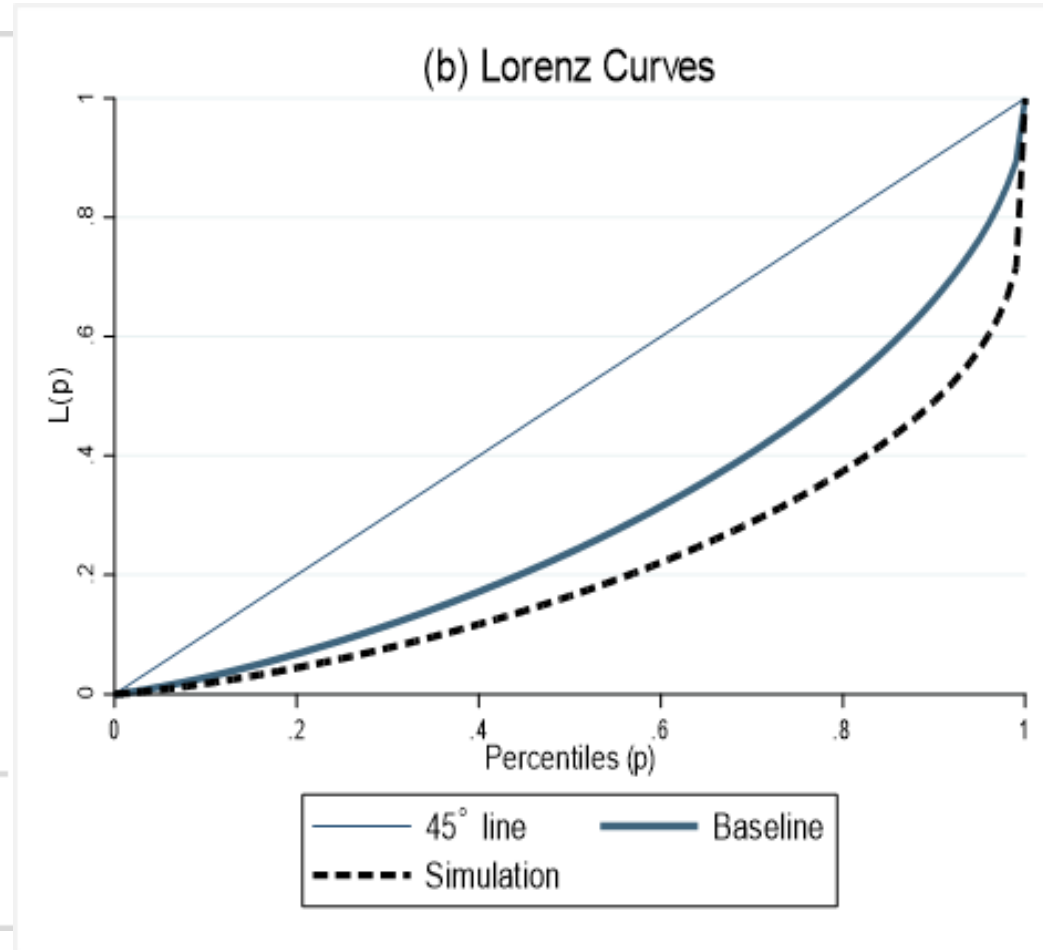
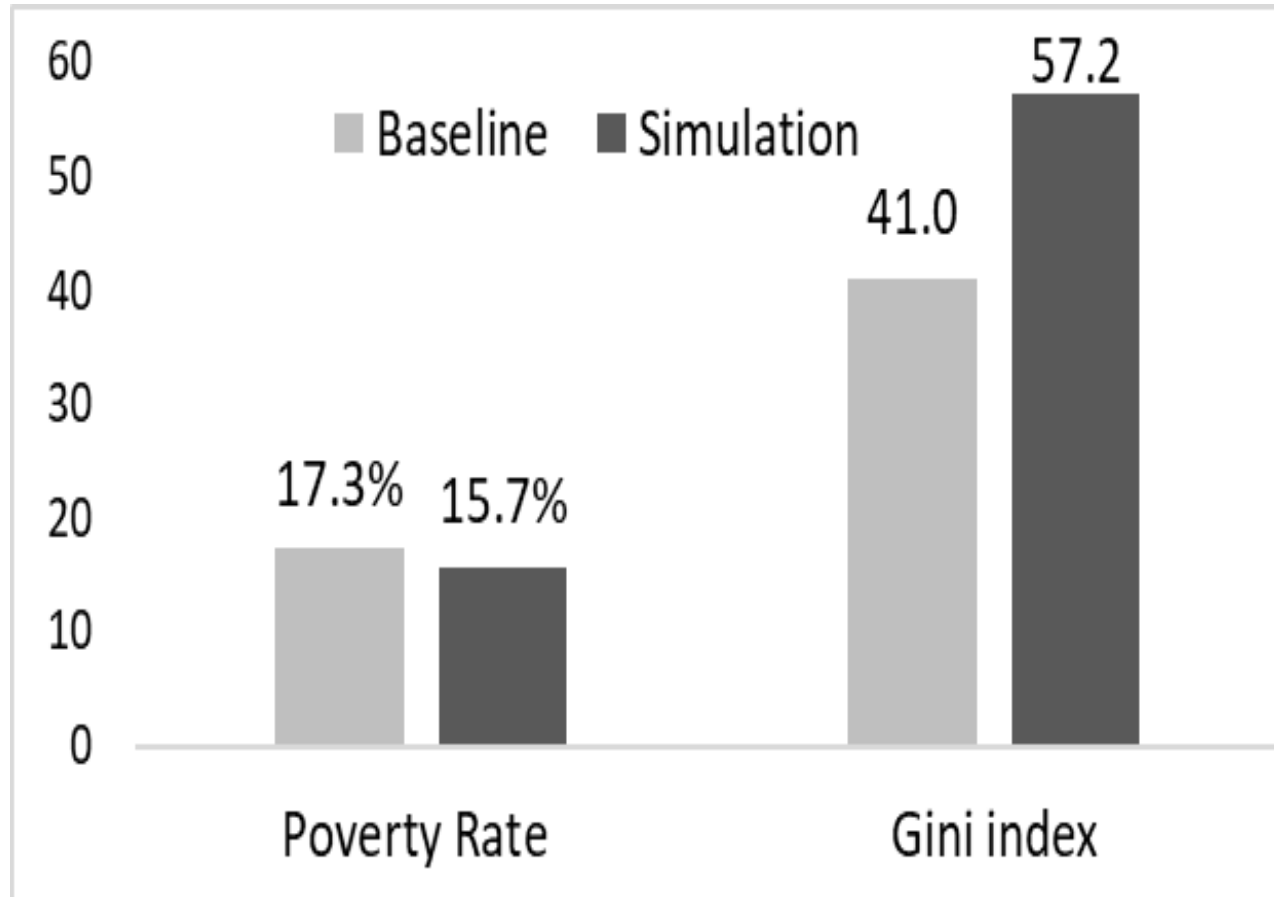
Source: Author's estimation from using the GEMPACK economic modelling software [Horridge et al. (2018)], GTAP model and GTAP database version 10.

3

- For business, transport infrastructure development has significant impacts on firms' performance, particularly the firms that directly bear transportation cost in running their business.
- But the way firms run business and its financing environment play more important role determining the firms' performance. And, the firms request necessary supporting infrastructure (linked roads) to fully leverage the benefits of the LCEC.
- Most of the Lao entrepreneurs lack the information about the future market and concern about their use of old production means, so that they are still doubtful on how to reap the benefit of LCEC.

4

- LCEC could bring a positive impact on reducing the poverty rate across provinces. But the inequality of income distribution would be larger.



4

- By province, the gain in poverty reduction are different, depending largely on the recipient provinces' endowments and characteristics including the degree of urbanization, the availability of skilled labor, the ratio of employment in the wage sector, the initial level of the poverty rate, the industrialization level relative to their peers, and most importantly the provincial landscape and location.
- Commodity prices, particularly consumption goods are expected to increase and would adversely affect the gain from poverty rate reduction for the households whose consumption goods accounts for the most part of their spending.

- LCEC would create new job opportunities for both skilled and unskilled labor in extraction and service sector, but not in the agriculture, manufacturing and utilities sectors. This would lead to the transition of labor from agriculture to the booming sectors.

Table 9: Change in employment and consumer price by sectors in Laos

No.	Sector	Employment		Consumer price		
		Skill	Unskill	Domestic price	Imported price	Total price
1	Agriculture	-0.12%	-0.07%	0.26%	-1.57%	0.13%
2	Extraction	8.04%	8.08%	-0.28%	-0.21%	-0.21%
3	Manufacturing	-0.34%	-0.16%	0.09%	-0.37%	-0.05%
4	Utility	-0.34%	-0.15%	0.09%	0.14%	0.10%
5	Construction	0.31%	0.51%	-0.22%	-0.04%	-0.22%
6	Wholesale	0.18%	0.42%	0.15%	-0.02%	0.14%
7	Transport & Communication	0.05%	0.27%	0.00%	-0.03%	-0.01%
8	Accommodation	0.41%	0.65%	0.16%	-0.03%	0.16%
9	Entertainment	0.43%	0.61%	-0.20%	-0.02%	-0.19%
10	Other services	0.11%	0.29%	0.16%	-0.03%	0.16%

Source: Author's estimation from using the GEMPACK economic modelling software [Horridge et al. (2018)], GTAP model and GTAP database version 10.

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- However, the transition might not go smoothly and immediately in short term because the flow of job information is not well established and there is a learning curve for acquiring a more flexible skill.
- For skilled labor, the local job creation might not increase proportionately because the local labors have comparatively low skill and educational level. Foreign labor might fill the gap in short run.

Proposed Policy Focus

Proposed Policy Focus

1. Key supporting infrastructure is highly required to ensure efficient linkages between the LCEC and production/consumption areas. In this regard, promoting private sector involvement in building up key supporting infrastructure such as dry ports, production zones and connected roads should lessen government burden on financing such infrastructures.
2. Complementary policy reforms should be adopted to improve the business performance, investment environment, trade facilitation, economic adoption capacity and competitiveness.
3. A platform to provide market information and cooperation between foreign and local enterprises in accessing the neighboring markets is necessary.

Proposed Policy Focus

4. There is a need to urgently improve the competitiveness, productivity and value addition of the agriculture and manufacturing sector.
 - The export needs to be enhanced further through more dissemination of market information to people and local producers.
 - The study supports the national agenda to promote higher production in a more competitive way in order to substitute for imports.
5. The function of labor market should be enhanced to ensure smooth labor movement from one to another sector. Providing labor market information and trainings on adaptive skill are necessary to make labor market more flexible.

Proposed Policy Focus

6. A comprehensive regional development plan particularly in the Northern region should be studied and created to make the benefit of LCEC inclusive. Research institutes or universities in collaboration with local authorities and relevant agencies should play the role.

Reference

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Thank you



The unveiling ceremony for the first high-speed bullet train to serve the Laos-China railway at a rail station in Vientiane, October 16 (2021). Photo by Citizen journalist